The impact of COVID-19

NAVIGATING EU STATE AID

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The impact of COVID-19: Navigating EU State aid

INTRODUCTION

As the Coronavirus (COVID-19) emergency worsens, governments, businesses and individuals are scrambling to keep up with a host of unprecedented challenges. Almost all EU Member States are drawing on the State budget to urgently adopt important measures to support the national economy, public services and individuals. This briefing note sets out the EU State aid legislative framework within which EU Member States may have to have such aid approved by the European Commission (“Commission”) and what steps have been taken to expedite this process.

SUMMARY OF THE STATE AID RULES

Under EU State aid rules, EU Member States are generally prevented from granting financial support to undertakings in a way that distorts competition and inter-state trade within the EU. Measures qualifying as State aid may nonetheless be approved by the Commission if they are found to be compatible with the EU internal market under Article 107(2) and (3) TFEU. For further information on the EU State aid regime, see our State aid Quickguide.

In the context of the COVID-19 crisis, the Commission has taken a number of steps to ensure that Member States are sufficiently equipped to make full use of the flexibility foreseen under State aid rules in order to support undertakings or sectors affected by the outbreak. Following the issuance of a communication, which together with its annex, set out all the possibilities already available to Member States to mitigate the socio-economic impact of the COVID-19 outbreak, it has adopted an evolutive Temporary Framework which provides for several types of aids deemed to be compatible under Article 107(3)(b) TFEU. It also put in place a number of procedural facilitations to ensure a swifter approval process.

FINANCIAL SUPPORT MEASURES WHICH DO NOT NEED TO BE NOTIFIED

A number of measures do not fall under State aid control rules or are exempted and can therefore be put in place by Member States immediately, without prior notification to the Commission. These include:

- public support measures that are available to all companies, e.g. wage subsidies, suspension of payment of corporate and value added taxes or social contributions;
- public aids to health services or other public services. Compensation for public service obligations will not constitute State aid if they comply with the Altmark criteria. In guidance documents recently published on its website, the Commission has clarified the conditions under which public service compensations for Services of General Economic Interest (“SGEI”) in the air transport, land transport and maritime sectors do not constitute State aid under the exceptional circumstances created by the COVID-19 outbreak;
- economic transactions carried out by public entities that are compliant with the Market Economy Operator test. The Commission confirmed in the amended Temporary Framework that if Member States purchase existing shares of undertakings at market price or invest pari passu with private investors or provide undertaking, this does not constitute State aid;
- public financial support granted directly to consumers, e.g. for cancelled services or tickets that are not reimbursed by the operators concerned;
- public aids which fall under the de minimis Regulation, the period of application of which has recently been extended by three years (i.e. until 31 December 2023). This can include aid of up to EUR200,000 over three years in most sectors, subsidised loans of up to EUR1 million, and subsidised guarantees for loans of up to EUR1.5 million;
• public aids which fall under the General Block Exemption Regulation ("GBER"). This can include risk finance aid scheme in favour of Small and Medium Enterprises ("SMEs"), up to EUR15 million per eligible undertakings. By Regulation adopted on 2 July, the Commission relaxed the conditions of application of the GBER for undertakings in difficulty (previously unavailable for UIDs) and for regional aid. It also extended its period of application by three years, until 31 December 2023.

FINANCIAL SUPPORT MEASURES WHICH NEED TO BE APPROVED

Subject to the Commission’s prior approval, Member States can design a number of other measures which will be considered compatible under EU State aid rules. Depending on the type of measure envisaged, Member States can rely mainly on three different legal basis, namely:

• Article 107(2)(b);
• Article 107(3)(b) and the Temporary Framework adopted under this provision; and/ or
• Article 107(3)(c).

Compensation for the damage caused by the COVID-19 outbreak (Article 107(2)(b) TFEU)

The Commission has recognised that COVID-19 outbreak qualifies as an 'exceptional occurrence' under Article 107(2)(b) TFEU, as it is an extraordinary, unforeseeable event having a significant economic impact. As a result, Member States can adopt measures to compensate companies in sectors that have been particularly hard hit (e.g. transport, tourism and hospitality) as well as organisers of cancelled events for the damages suffered due to the outbreak.

To be compatible under this provision, any aid must be:

• directly linked to the damage caused by the COVID-19 outbreak; and
• proportionate, i.e. the compensation should not exceed what is necessary to make good the damage.

Where these conditions are satisfied, the Commission has no discretion but to declare the aid compatible with the internal market.

To assist Member States, the Commission published a template setting out the information to be provided in any notification made on this basis. This information aims in particular at:

• precisely assessing the damage; and
• ensuring that there is no overcompensation or compensation for difficulties unrelated to COVID-19.

In this respect, Member States are expected to make various commitments.1

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1 Undertakings, which have to temporarily or permanently lay off staff due to the outbreak, should not be deemed to have breached relocation commitments given before 31 December 2019 at the time of receiving regional aid.

2 The Commission recently specified that shall be considered as linked to the outbreak the damage directly caused by quarantine measures. By contrast, damage more generally caused by the economic downturn have to be addressed on the basis of Article 107(3)(b) and thus in principle on the basis of the Temporary Framework.

3 Including to claw back any payment exceeding the damage suffered; to deduct any amount recovered by insurance, litigation or arbitration; to not cumulate the scheme with other aid for the same eligible costs; to provide a report not later than one year after the Commission's decision.
Case study – Danish schemes to compensate event organisers

On 12 March, the Commission approved a EUR12 million Danish scheme to compensate event organisers for the damage caused by the cancellation and postponement of:

- large events with more than 1000 participants; or
- events targeted at designated risk groups, such as the elderly or vulnerable people (irrespective of the number of participants) due to concerns over the spread of COVID-19.

The scheme was considered proportionate since it only compensates direct income loss (to the exclusion of losses covered by insurance) and does not allow for net profits. Moreover, for deferred events, only additional costs due to cancellation, deferral or change in the conditions of the event organisation are covered. The Danish authorities can also request a report by an authorised accountant to ensure the absence of overcompensation.

Any scheme relating to the transport sector (e.g. airlines, airports, rail and bus companies) will be assessed on a case-by-case basis and should include the following additional information:

- identification of the additional costs, foregone revenues and costs not incurred as a result of the COVID-19 outbreak;
- definition of a reference period, when the situation was comparable to the situation that should have prevailed during the period of the spread of the COVID-19;
- reconstitution of damages caused by comparison of the situation during the period of spread of COVID-19 and the reference period (which should factor the change of important parameters such as the fall in price of fuel).

In this sector, Member States can also draw on experience from past practice to determine notably the reference period, proxies to determine economic loss or mechanisms to rule out overcompensation. For example, in the context of the Icelandic volcanic eruption and dust cloud in April 2010, the Commission authorised a support scheme in Slovenia to cover 60 per cent of the economic losses of airlines and airports (compared to a situation where the disaster would not have occurred) in the period following the disaster, until the companies could again operate normally.

Case studies – Aid measures to airlines

On 31 March, the Commission approved a French scheme deferring the payment by airlines of certain aeronautical taxes to compensate them for part of the damage suffered due to the coronavirus outbreak. The scheme, which is accessible to airlines with an operating licence in France, allows them:

- to defer the payment of certain taxes that would in principle be due between March and December 2020 to after 1 January 2021, and
- to pay the taxes over a period of up to 24 months.

Respectively on 15 and 24 April, the Commission approved a Danish and a Swedish public guarantee of up to EUR137 million to compensate SAS for the damage caused by the COVID-19 outbreak.

On 27 April, the Commission approved a EUR550 million German State-guaranteed loan to partly compensate Condor for the damage caused by the cancellation or re-scheduling of its flights as a result of the imposition of travel restrictions to limit the spread of the coronavirus. The aid was granted despite the fact that Condor received rescue aid last year.

In all these cases, the exact damage suffered by the beneficiary as a result of the outbreak will be quantified after the coronavirus crisis, based on its operating accounts for the year 2020, and following a method which will be subject to the Commission's prior approval. A claw-back mechanism will also be activated should the public support exceed the actual damage.
Aid to remedy a serious disturbance to the economy (Article 107(3)(b) TFEU and the Temporary Framework)

Article 107(3)(b) TFEU enables the Commission to approve national support measures to remedy a serious disturbance to the economy of a Member State.

To complement the existing possibilities described above, the Commission adopted on 19 March 2020 – as it did during the 2008 financial crisis – a State aid Temporary Framework on the basis of this provision. To date, this Temporary Framework has been amended and extended four times:

- on 3 April to support aid to accelerate research related to COVID-19, to protect jobs and to further support the economy during the crisis;
- on 8 May to ease further the access to capital and liquidity for undertakings affected by the crisis; and
- on 29 June to support micro and small companies and provide incentives for private investors to participate alongside the State in recapitalisations;
- on 13 October to prolong and expand Temporary Framework to further support companies facing significant turnover losses.

As at 20 October 2020, more than two hundred schemes in all Member States and the UK have been authorised by the Commission under the Temporary Framework. A tracker of the national measures approved under the Temporary Framework is available on the Commission’s website.

Types of aid under the Temporary Framework

It now provides for thirteen types of aid, namely:

- six types of aid that aim at ensuring that sufficient liquidity remains available to all companies:
  - aid in the form of direct grants, selective tax advantages, repayable advances or equity up to EUR 800,000 per company;⁴
  - State guarantees for loans taken by companies from banks;
  - aid in the form of subsidised interest rates for loans;
  - aid in the form of guarantees and loans which is not directly provided by the State but channelled through banks;⁵ and
  - aid in the form of short-term export credit insurance;⁶
  - aid in the form of support for uncovered fixed costs for companies facing a decline in turnover during the eligible period of at least 30% compared to the same period of 2019 due to outbreak.

- three types of aid that aim at accelerating research, testing and production of COVID-19 relevant products:
  - aid for COVID-19 related research and development (R&D);
  - aid for the construction and upgrade of testing and upscaling facilities required to develop, test and upscale, up to first industrial deployment prior to mass production, COVID-19 relevant products;

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⁴ Note that specific thresholds apply to aid granted to undertakings active in the agriculture, fishery and aquaculture sectors.

⁵ Such aid is still considered as direct aid to the undertakings, not to the banks themselves and should therefore not be assessed under the State aid rules applicable to the banking sector. To limit undue distortions to competition between banks, these are required, to the largest extent possible, to pass on the advantages of the public guarantee or subsidised interest rates on loans to the final beneficiaries.

⁶ Note that the Commission amended on 27 March 2020 its Short-term export-credit insurance Communication to further facilitate this type of aid.
For each of these types of aid, a higher maximum aid intensity will be allowed for projects supported by more than one Member State.

- two types of aid that aim at **protecting jobs** in sectors and regions severely hit:
  - aid in the form of deferrals of tax payments and/or suspensions of social security contributions;
  - aid in the form of wage subsidies for employees to avoid lay-offs during the COVID-19 outbreak.\(^7\)

- two types of aid that aim at addressing **long-term solvency issues**:
  - aid in the form of **recapitalisation measures** (in the form of equity or hybrid capital instruments) for non-financial undertakings. Such measures can be granted only if no other appropriate solution is available and, among other conditions, must give incentives for beneficiaries to buy out the shares acquired by the State in order to ensure the temporary nature of the State’s intervention. Other restrictions apply, for instance, in relation to management remuneration and distribution of dividends, but are softened or lifted in case of significant capital injection from private investors together with the State;
  - aid in the form of **subordinated debt** to undertakings at favourable terms.

### Safeguards to limit distortion to competition

The Temporary Framework includes a number of **safeguards** to limit the negative consequences to the level playing field within the EU internal market. For example:

- the granting of aid shall not be a pretext for requiring the relocation of an activity of the beneficiary from another country within the EEA to the territory of the Member State granting the aid, as such a condition would be harmful to the internal market;
- it links the subsidised loans or guarantees to businesses to the scale of their economic activity, by reference to their wage bill, turnover, or liquidity needs, and to the use of the public support for working or investment capital;
- only companies which were not in difficulty on 31 December 2019 are eligible,\(^8\) except for micro and small companies, which escape this condition provided that they are not in insolvency proceedings, have not received rescue aid that has not been repaid, or are not subject to a restructuring plan under State aid rules;
- the beneficiaries of COVID-19 related R&D aid have to commit to grant non-exclusive licences under non-discriminatory market conditions to third parties in the EEA;
- the testing and upscaling infrastructures have to be open to several users and be granted on a transparent and non-discriminatory basis;
- the recapitalisation measures go with strict limits on the acquisition of a stake in competitors or other operators – until at least 75% of the recapitalisation is redeemed, beneficiaries are in principle prevented from acquiring more than 10% in competitors or other operators in the same line of business, including upstream and downstream operations.

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\(^7\) The Commission confirmed that where those measures are of a general application and do not favour certain undertakings, or the production of certain goods, they do not fall within the scope of Article 107(1) TFEU and therefore do not need to be notified.

\(^8\) This condition does not apply to aids in the form of deferrals or wage subsidies, which correspond to sections 3.9 and 3.10 of the Temporary Framework.
Transparency requirements and temporal scope

Once a scheme has been approved under the Temporary Framework, Member States are not required to notify the Commission with individual aid, except where a recapitalisation measure for an individual beneficiary will exceed EUR 250 million. To ensure transparency, Member States will however have to publish certain information (including the name of the beneficiary and the aid amount) on significant individual aid granted on the basis of schemes approved by the Commission on the State aid website within 12 months from the moment of granting.9

The Temporary Framework will be in place at least until the end of June 2021, except recapitalisation measures for non-financial undertakings which will apply until the end of September 2021. It is not excluded that the Framework will be further prolonged and adapted to clarify certain metrics and/or to capture additional support measures envisaged by Member States.

Case studies – recapitalisation measures in the airline sector

On 10 June, the Commission approved a Finnish public contribution worth EUR285 million to recapitalise Finnair. The total capital increase is expected to be EUR500 million as the public contribution should be combined with a contribution from market investors, a private participation which was analysed as a positive signal by the Commission and strongly encouraged.

In assessing the compatibility of the measure, the Commission took into account the fact that the envisaged rights issue will involve the participation of a substantial number of private market investors in the airline on the same terms as the State and that the operation will not lead to an increase of the shareholding level of the State in Finnair.

This case is the first approval of a recapitalisation measure under the updated Temporary Framework.

On 25 June, the Commission approved a EUR9 billion bailout package in favour of Lufthansa, which includes a State guarantee on EUR3 billion loan and a EUR6 billion State contribution to its recapitalisation. The latter is mainly composed of silent participation, while the equity participation through the subscription of new shares by the State corresponds to 20% of Lufthansa's share capital.

Among other conditions, Lufthansa has undertaken commitments to preserve effective competition, consisting in the divestment of up to 24 slots/day at Frankfurt and Munich hub airports and of related additional assets to allow competing carriers to enable a viable entry or expansion of activities by other airlines at these airports.

Possibility to obtain aid directly under Article 107(3)(b) TFEU

Where all the conditions of the Framework are not satisfied or where the measure is not part of the Temporary Framework, the State can still obtain clearance directly under Article 107(3)(b) TFEU (see below the example of French support measures to Air France).

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9 This obligation does not concern individual aids granted in the form of deferrals or wage subsidies; in case of recapitalisation, Member States will have to publish this information within 3 months from the moment of the recapitalisation.
Case study in the airline sector – French support measures to Air France

On 4 May, the Commission approved a EUR7 billion French aid measure to provide urgent liquidity to the company in the context of the coronavirus outbreak, which consists of:

- a State guarantee on loans, assessed under the Temporary Framework. France submitted an individual notification because the guarantee provides greater loan coverage (90%) than under the French general guarantee scheme approved by the Commission on 21 March 2020 (70% loan coverage).
- a subordinated shareholder loan, assessed under Article 107(3)(b) as subordinated loans were not yet included in the Temporary Framework.

The support is conditional upon Air France agreeing to slash domestic flights and make dramatic cuts to its carbon-dioxide emissions.

Moreover, in a recommendation adopted on 13 May 2020, the Commission made it clear that Member States can (and are even encouraged to) notify under Article 107(3)(b) TFEU guarantee schemes for vouchers to ensure that in the event of insolvency of the issuer of the voucher, passengers or travellers are reimbursed.10

Aid under Article 107(3)(c) TFEU

Rescue and restructuring aid

Member States can rely on the Rescue Aid and Restructuring Guidelines, which are based on article 107(3)(c) TFEU, to grant urgent and temporary assistance (e.g. in the form of loans or loan guarantees) to companies facing acute liquidity needs or bankruptcy due to the COVID-19 outbreak. Given the unprecedented circumstances, these rules can be applied with flexibility:

- the COVID-19 outbreak qualifies as an exceptional and unforeseen circumstance and therefore, companies that are not (yet) in difficulty can also receive support under this framework, if they face acute liquidity needs. Still, any aid measure has to comply with the relevant conditions, notably with regard to the level of remuneration that the beneficiary is required to pay for the State guarantee or loan;
- subject to an individual assessment by the Commission, companies that have already received such support in the past 10 years may exceptionally be eligible for further aid.

Case study in the airline sector – Portuguese rescue loan to TAP

On 10 June, the Commission approved a EUR1.2 billion Portuguese rescue loan to TAP, a major network airline operating in Portugal. The carrier has been facing difficulties before the COVID-19 outbreak (i.e. before 31 December 2019) so that it was not eligible to receive aid under the Temporary Framework. The measure was therefore assessed and authorised by the Commission under the Rescue Aid and Restructuring Guidelines.

The support is conditional upon TAP reimbursing the loan or submitting a restructuring plan within six months.

Under these rules, Member States can notably put in place dedicated support schemes for SMEs including to cover their liquidity needs for a period of up to 18 months. For example, in February 2019, the Commission approved a EUR400 million support scheme in Ireland to cover acute liquidity as well as rescue and restructuring needs of SMEs as a Brexit preparedness measure. The Irish authorities have now repurposed this measure to help companies cope with the COVID-19 outbreak. With respect to approved schemes for SMEs, the Commission announced that:

- Member States do not need to notify budget increases of less than 20% in view of the COVID-19 outbreak; and

10 A notification template for such schemes has been published on the Commission's website.
notifications of budget increases of more than 20% benefit from a simplified assessment procedure.

The Aviation Guidelines

The Aviation Guidelines – adopted in 2014 and recently prolonged until 2024 – set out general principles and compatibility conditions under Article 107(3)(c) TFEU for State aid to airports and airlines. They aim at ensuring good connections between regions and the mobility of EU citizens, while minimising distortions of competition in the EU’s single market.

These guidelines cover the compatibility conditions of both operating aid and investment aid and provide for more flexibility in case of exceptional circumstances, such as the COVID-19 outbreak, as recently confirmed by the Commission (see below).

Application of the Aviation Guidelines – State aid to Saarbrücken airport

On 12 May, the Commission approved a EUR 18.2 million operating aid for the Saarbrücken airport (in addition to an initial operating aid of EUR 12 million approved in 2017). Saarbrücken airport is a small regional airport located in the German federal state of Saarland.

The Commission assessed the compatibility of the measure under the rules on operating aid for small airports in the Aviation Guidelines and took the exceptional circumstances of coronavirus outbreak into account when assessing the proportionality of the measure.

The extension and temporary adaptation of several guidelines and communications

On 2 July, the Commission issued a Communication to extend the application period of several guidelines and communications until 202111 or 202312.

In addition, the Commission enabled undertakings which entered in financial difficulty after 31 December 2019 to be eligible for aid under certain guidelines13 and adapted Environmental Protection and Energy State aid Guidelines in order to avoid electro-intensive companies losing eligibility for targeted reductions in the funding of support for energy from renewable sources, despite the sharp decline of electricity prices.

PROCEDURAL FACILITATIONS

To enable a swift approval process, the Commission has put in place all necessary procedural facilitations:

- it committed to decide on State aid notifications relating to COVID-19 within days of receiving a complete State aid notification;
- it set up a dedicated contact point to assist Member States with any queries they have;
- when notifying schemes, Member States are asked to sign a waiver authorising the Commission to adopt and notify its decisions in English.

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12 For Guidelines on State aid for rescuing and restructuring non-financial undertakings in difficulty.

13 Under the Regional State Aid Guidelines, the Environmental Protection and Energy State aid Guidelines, the Communication on Compatibility criteria of State Aid to Promote the Execution of Important Projects of Common European Interest, and the Framework for State aid for research and development and innovation.
MORE STATE AID DEVELOPMENTS TO BE EXPECTED IN THE NEAR FUTURE

Support measures to flagship companies and possible discrimination issues

Several national schemes to provide specific support for sectors hard hit by the outbreak, including the aviation, rail and automobile sectors as well as targeted measures to certain flagship companies are contemplated or have already been approved by the Commission\(^\text{14}\). These measures require a specific and thorough compatibility assessment by the Commission, taking account of the situation of these companies before the COVID-19 crisis\(^\text{15}\). They may also raise questions of possible discriminations within a particular sector or even between sectors, which may lead to an increased number of complaints to the Commission. For instance, Ryanair accuses the state aid measures granted to flagship airline companies to be discriminatory and has already brought an appeal before the EU General Court against \textit{inter alia} the Swedish airline loan guarantee scheme, the French COVID-19 airline tax deferral scheme, SAS loan guarantees from Denmark and Sweden; and the Portuguese rescue loan to TAP.

\textbf{Green conditions}

In the wake of the conditions imposed by the French government on Air France, other Member States are likely to make their financial support subject to compliance with certain \textit{green} conditions. While Commissioner Vestager stated on 4 May 2020 before the European Parliament’s Internal Market and Consumer Protection Committee that these conditions cannot be legally imposed by the Commission under state aid rules, the latest version of the Temporary Framework expressly encourages Member States to "\textit{keep in mind the importance of meeting the green and digital twin transitions in accordance with EU objectives}" when designing financial support measures. Moreover, large undertakings benefitting of recapitalisation measures are required under the amended Temporary Framework to report on how the aid received supports their activities in line with EU objectives and national obligations linked to the green and digital transformation, including the EU objective of climate neutrality by 2050.

\textbf{EU Recovery plan}

On 27 May 2020, the Commission put forward its proposal for a Recovery plan, which has been subject to strong oppositions during the first discussions with leaders. It proposes to create a new recovery instrument ("\textit{Next Generation EU}"") which consists of EUR 750 billion – borrowed on behalf of the Union through the issuance of bonds – as well as targeted reinforcement to the long-term EU Budget for 2021-2027. The funds would be invested across three pillars:

- supporting Member states in their recovery;
- kick-starting the economy by incentivising private investments; and
- addressing the lessons of the crisis.

The funds should also contribute to the promotion of the European Green Deal and the development of the Digital Single Market.

On 21 July 2020, the EU leaders agreed on this recovery plan and the multiannual financial framework for 2021-2027. The EU parliament and the EU Counsel are now working on the adoption of the necessary legal acts.

\(^\text{14}\) For instance, the Commission has approved aid to Air France, to Finnair, to Lufthansa and to Renault under the Temporary Framework and Article 107(3)(b). It has also approved aid to Condor, Alitalia and SAS under Article 107(2)(b).

\(^\text{15}\) The Portuguese rescue loan to TAP, which was already in financial difficulties before the outbreak, was analysed under the Rescue Aid and Restructuring Guidelines.