

Study Regarding State Aid Expenditure in EU

by

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Abstract: This paper aims to study all types of state aid expenditure from EU 27 between 2003 and 2012. We have used two sources of data: the European statistics database Eurostat and the database provided on the European Commission's web site. There are presented two big categories of aid Non-crisis and Crisis-related aid.

In the European Union, budgetary policy emphasizes the harmonization of tax systems in the Member States to diminish various tax obstacles, and eliminate harmful tax competition. Also we have to be noted the interest of Member States to reduce the level of state aid and better use them to avoid negative effects on competition.

This paper is including also a forecasting part. It was made for the main categories of aid: total state aid, non-crisis state aid, the horizontal state aid and sectorial state aid. We have calculated fixed based indices, chain based indices, share in total, minimum, maximum and the average for different types of aid. The most important components of horizontal aid is Regional development aid and Environmental protection and energy saving aid and the most important sectorial aids are Agriculture aid and Transport aid.

Key words: state aid, EU 27, non-crisis aid, crisis-related aid.

JEL classification:E6

1 Introduction¹

The purpose of this paper is to determine all types of State aid at E.U. level, to understand better each component and to try to forecast state aid. State aids and subsidies represent a significant amount of public funds and governments grant subsidies in a multiplicity of ways.

“State aid is defined as an advantage in any form whatsoever conferred on a selective basis. Therefore, subsidies granted to individuals or general measures open to all enterprises are not covered by this prohibition and do not constitute State aid (examples include general taxation measures or employment legislation).

To be State aid, a measure needs to have these features:

- there has been an intervention by the State or through State resources which can take a

variety of forms (e.g. grants, interest and tax reliefs, guarantees, government holdings of all or part of a company, or providing goods and services on preferential terms, etc.);

- the intervention gives the recipient an advantage on a selective basis, for example to specific companies or industry sectors, or to companies located in specific regions
- competition has been or may be distorted;
- the intervention is likely to affect trade between Member States.

Article 87. EC establishes the general rule that state aid is forbidden if (a) it is granted selectively to "certain undertakings or the production of certain goods", (b) it distorts competition or threatens to do so and (c) it affects trade between Member States. However, some aids of a social character and aid to make good damage caused by natural disasters are exempted from this prohibition. In addition, the Commission has the power to grant derogations in respect of aid for the following purposes:

- a) to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment;
- b) to promote the execution of an important project of common European interest or

¹http://ec.europa.eu/competition/state_aid/overview/index_en.html,http://www.researchgate.net/publication/46447579_The_economic_analysis_of_state_aid_Some_open_questions,http://www.fgdb.ro/uploads/publications/Marija%20Hrebac_State%20Aid%20SRM%20vs%20NRM%20latest.pdf,[http://eurlex.europa.eu/legalcontent/EN/TXT/?uri=CELEX:52014XC0628\(01\)](http://eurlex.europa.eu/legalcontent/EN/TXT/?uri=CELEX:52014XC0628(01))

to remedy a serious disturbance in the economy of a Member State;

c) to facilitate the development of certain economic activities or of certain economic areas, "where such aid does not adversely affect trading conditions to an extent contrary to the common interest";

d) to promote culture and heritage conservation "where such aid does not affect trading conditions

State aid is divided in two categories Non-crisis and Crisis-related aid. In the case of Non-crisis aid it is also divided in two, Horizontal aid and Sectorial aid."

In Romania state aid policy for 2007-2013 was regulated by Government Decision no. 561 in 2006. State aid are selective measures of public financial support, for general interest objectives including the development of SMEs. The overall objectives of state aid policy aimed at: increasing the competitiveness of economic operators; reducing disparities between the levels of development of the Romanian economy and community and reduce economic and social disparities between regions; effective targeting of resources by concentrating them towards national development goals; effective implementation of the *acquis communautaire* in the field of state aid.

2 Methodology

The aim of this paper is to analyze the trends in state aid in EU 27 in the period 2003-2012 and to present the forecasting for the following 5 years. As research method we have used data analysis. When analyzing the state aid, there will be take into consideration different types of aid. All the information is based on annual reports submitted by Member States, which includes all the expenditure granted through EU funds.

I have used two sources, the European statistics database Eurostat and the database provided on the European Commission's web site. After downloading the data in Microsoft Excel spreadsheets, we have calculated the indices, fixed based, chain based, share in total, minimum, maximum and the average. The next

step and the most important was to interpret the obtained data in order to prove and explain what happened in the EU27 during 2003 to 2012 in regards to the state aid by type of aid.

Another important component of this paper is represented by the forecasting or prediction part. I have made the predictions for the next five years, starting with 2013 and ending with 2017. In doing the prediction I have used the existing data for the period analyzed 2003-2012, and I have used the Microsoft Excel Forecast function which starting from the previous results indicated the new possible results. After obtaining the needed predictions I have made charts for each in order to better explain the forecast obtained. The forecast was made for only the main categories, total state aid, non-crisis state aid, the horizontal state aid and sectorial state aid.

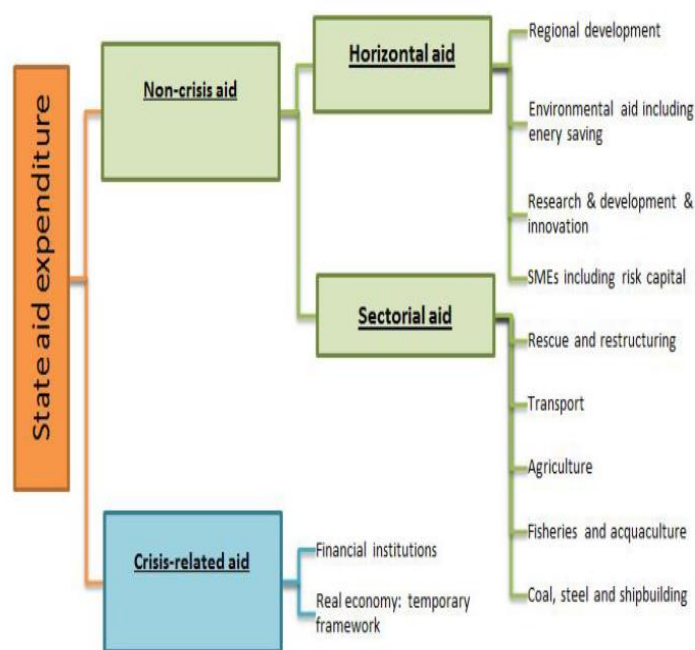


Figure 1 State aid expenditure. Source: own processing Eurostat

3 Crisis related aid

Financial crisis prompted European states to intervene. The way was intervened aid for financial institutions to avoid skidding. Other governments have taken measures were related aid and

representing guarantees, liquidity support. (Daianu D., Vrânceanu R., 2002: 25).

4 Non-crisis aid

This type of aid refers to expenditure by Member States for various horizontal objectives aid to economic sectors (eg. Transport, agriculture, fisheries), or the restructuring. We note that there are various benefits such as subsidies excluded railways, aid to the financial sector. (Chu, Ke-young; Hemming, R., 1991:67-80).

Total non-crisis State aid in EU in 2013

as GDP percentage
EU-28: 0.5 %

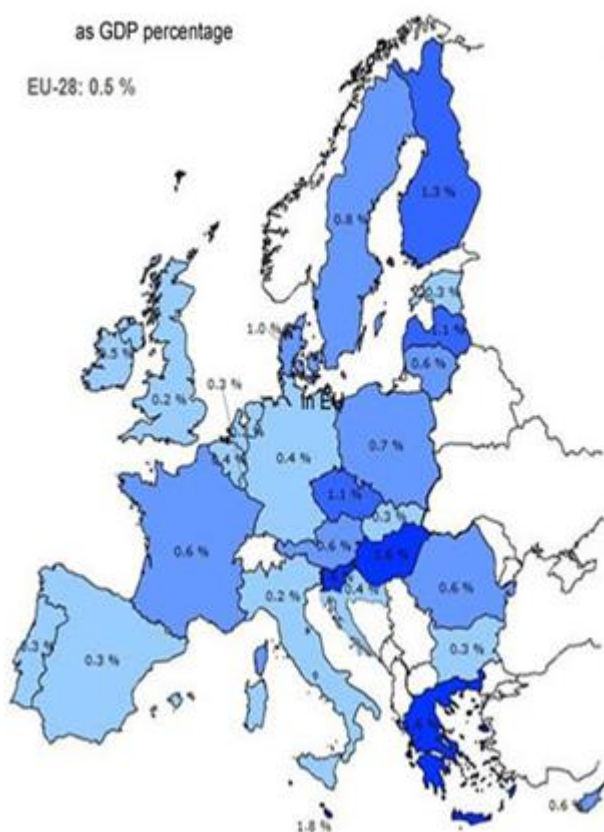


Figure 1. Source: own processing of data from Eurostat

Total state aid. In this graph, we can see the variations of the total state aid in percentage of GDP. The highest rate of state aid was in Malta during the economic boom in 2003 but this trend decreased year by year and the most dramatic decrease was in 2010 when this country was affected by the economic crisis. (Bergin, P.R.; Ghironi, F., 2013: 1-3).

Until 2007 in Latvia, the state aid was low and after 2007, it went even lower. Hungary also

had different trends of state aid but these trends are not as radical as in the other countries. The highest rate of state aid was in 2008 at the beginning of the crisis and then we can notice an annually decrease of the aid.

Sectorial and ad hoc state aid in Malta reached its highest points during 2004-2005 when the country either was focused on developing specific sectors or had to face some unpredicted situations. If 2004-2005 was the peak, 2011 was the bottom of this type of aid in Malta. In the case of Romania, sectorial and state aid was very high in 2007 most probably due to its accession in the EU. The country's GDP had an important increase during 2006 when the economy of the country was flourishing. A high rate was maintained also in 2007 but in 2008, because of the economic depression, the GDP went really down.

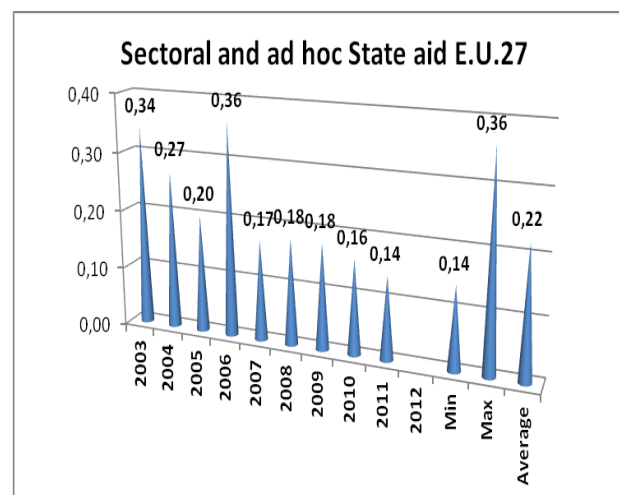


Figure 2. Source: own processing of data from Eurostat

Non-crisis state aid, excluding railways. In non-crisis period, state aid was high in Malta, especially in 2004. The second highest state aid was in Romania, in the same year. High values of state aid can also be noticed in 2005 in Malta as well as in 2007 in Latvia.

Comparing each year with the reference year 2003 it can be observed that Estonia had the highest fluctuation from all the EU countries and until 2012, it maintained the high position. In addition, increases can be seen in the case of Greece and Lithuania. After a high increase, in 2008 Latvia hit a minimum. Due to the crisis, the non-crisis state aid decreased.

Total horizontal aid.

It can be observed that the horizontal aid as percentage from GDP is more compact in between 2003 to 2008, during the economic boom. After 2008, it can be observed that the results are more spread. Major fluctuations can be seen in Latvia and Hungary. In Romania, an increase started in 2009 and it still has an ascending trend.

In Lithuania the horizontal state aid as percentage from GDP increased with 600 percentage points and it is still maintaining an ascending trend. In Latvia there was a gap between 2008 and 2011 but after 2011 a sudden increase occurred due to an easy come back in the economy. (Hardie, I., 2012: 123-130).

Horizontal aid - % of total State aid – Regional Development

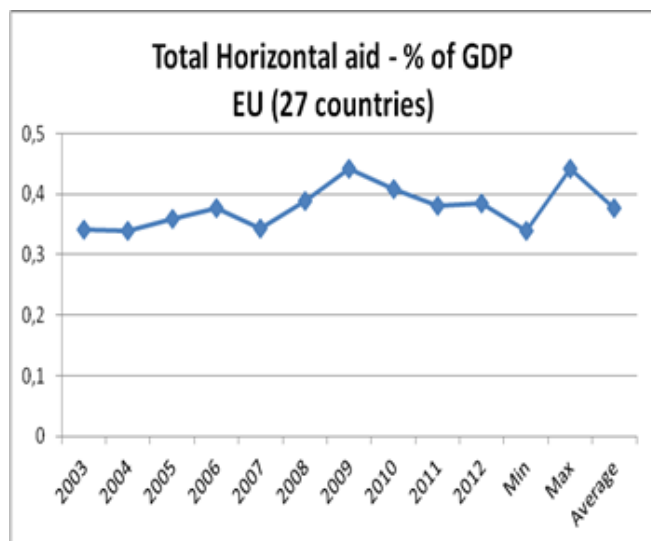


Figure 3. Total Horizontal Aid. Source: own processing of data from Eurostat

Regional development is increasing during the economic crisis and this can be explained due to the fact that Romania is subject to the convergence criteria for regional development and the need to pump funds in Romanian economy arises from there, hence an increase in regional development funds is only a sign that the position of Romania was not that stable in the period 2009-2011. For the period 2011-2012 Romania shows signs of improvement in all areas, the regional development fund decreasing

depicts that Romania is going towards a good direction in local economic development.

In terms of regional development, the biggest state aid was given in 2004 to Slovakia and Lithuania because the countries were in the middle of an economic boom. Significant state aid for regional development was also granted to Romania and Bulgaria in 2006 since both countries were getting ready to enter EU. (Spencer B., 1985: 25-27).

The state aid for research and development.

State aid for research and development has an interesting evolution. This type of aid we consider paramount in developing economies of EU Member States. The highest amounts were allocated to Belgium and Luxembourg in 2009, and the lowest in Hungary and Slovakia. From the analysis we conclude that countries less affected by the crisis could give due importance to the sector, while several countries affected by the crisis has greatly reduced these expenses.

Horizontal aid - % of total State aid – Environmental protection and energy saving.

Both in crisis and non-crisis time, Sweden has the greatest state aid for environmental protection and energy saving out of the 27 EU Member States. Having strong environmentalist policies and being less affected by the crisis, Sweden was able to maintain the level of the state aid in this field more or less at the same values. Germany and Netherlands also had a significant state aid in this field in 2006 but by 2007 it decreased slowly. (Chevallier, J., 2011: 557-567).

Horizontal aid - % of total State aid – Small and medium enterprises SMEs.

Latvia is the country that in 2007 gave the biggest state aid to small and medium enterprises. On the second and third place, in the same year there are Italy and Portugal respectively which also offered an important financial support to their SMEs. In all EU 27 Member States, a downturn occurred in terms of state aid for SMEs starting with 2008, the year when the recession began.

Sectorial aid as a % of total State aid. Until 2008, Malta offered the highest sectorial state aid in the whole EU. Romania also reached an impressive level of this type of aid in 2007, the

year of its accession in the EU. After 2008 a dramatic decrease in this trend is visible in Malta, Portugal and Poland. Even using fixed based indices it can be observed that in all the EU countries there was a decrease. The impact of the crisis is very visible all over the European countries. It can be observed that there are a lot of ups and downs for all the countries. These are caused by each country's budget and the needs for each year with respect to sectorial aid.

Agricultural aid is part of the sectorial aid and we can observe here that the countries which are already developed have a high level of state aid with respect to agriculture. (Diamond, 2000:13-20). Here we can see France, Finland, Germany, and Ireland as the leaders. Romania is among the last countries regarding the allocations for this sector.

Fisheries aid. We can observe that the general trend when it comes to fisheries aid is a descending one. Even the countries which have easy access to sea or ocean have decreased their aid with respect to fisheries. Spain is the best example here and it can be seen that in 2007 their aid was 191.2 million Euros whereas in 2012 was only 5.5 million Euros. This proves the impact that the crisis had on Spain.

The **transport aid** excepting railways is and it was for all the EU countries at a level between 0 and 500 million Euros. The only exception was in the case of France where in 2006 they reached 23739.7 million. This exception raised the EU 27 average pretty well. This increase was caused by some projects that France implemented in order the help this sector. (Steiner, P.O., 1974:120-140).

Coal, steel, shipbuilding aid. When it comes to coal, steel and shipbuilding it can be seen from the above chart, that more than half of the EU countries have no aid settled for coal, steel and shipbuilding. I can be observed that the leader is Germany which is a country that has a lot of companies which exploit, distribute and sell coal. The aid aims to help these companies in doing their job. Countries like Bulgaria, France, Hungary, Slovakia and United Kingdom decreased their state aid regarding coal and steel after the crisis struck reaching zero. (Borio, C., 2014: 182-198).

5 Predictions

Total state aid % of GDP – Predictions. The prediction of the state aid as percentage of GDP shows all types of patterns. In the case of Greece, Slovenia and Ireland, they will have an ascending trend while at the other end we can find Romania and Malta.

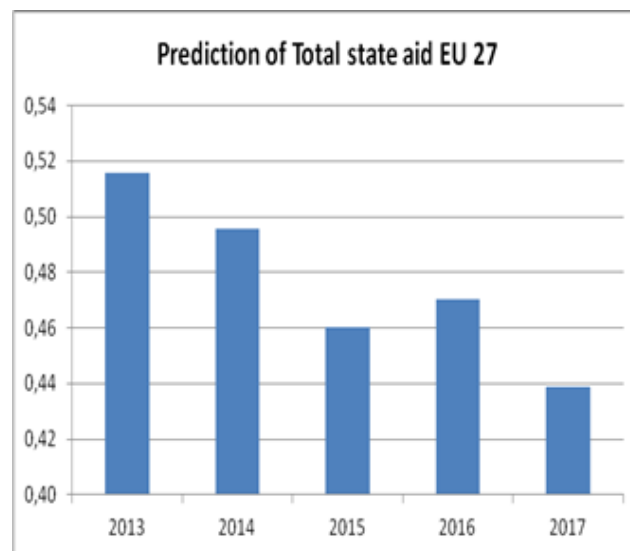


Figure 4. Prediction of Total state aid. Source: own processing of data from Eurostat

Malta will have a descending trend until 2016 when according to these predictions they will hit ground zero. For Romania, the predictions are worse. For the following period, our country will be at zero.

Non-crisis state aid, excluding railways as % of GDP – Predictions. The prediction for non-crisis state aid excluding the railways as percentage of GDP shows that Romania had a decrease from 2012 to 2013, year in which it will hit the point zero. The prediction does not show any improvements in the following years. In addition, Malta's prediction shows that the country is on a downwards slope, its descent being even higher than the one of Romania's. Greece, Finland and Slovenia are moving in to opposite direction with an ascending trend.

Total Horizontal aid as % of GDP – Predictions.

This prediction with respect to horizontal aid is a positive one. Almost all the countries will have an increase in this type of aid.

Sectorial and ad hoc State aid as % in GDP – Predictions. In the case of Sectorial and ad hoc state aid, things look a bit different than in the case of horizontal aid. Here we can see again that Romania will be at zero. The same thing will happen with Malta in the following years. We can observe that none of the EU 27 countries will have an increase, there are either constant or will encounter a decrease.

6 Conclusions

We can say that the evolution and the percentage in GDP and also in million Euros of the state aid by type of aid had lots of ups and downs during those ten years analyzed. It can be seen throughout the paper that the crisis had a remarkable impact in all the countries and in all the fields.

At the EU level the accent and the most important types of the state aid is the horizontal one and more specific environmental aid including energy saving and research, development and innovation. In the case of our country, we should put the accent on the sectorial aid, in essence agricultural aid and transport aid due to the fact that we have the necessary land and skilled people.

The results of the predictions showed the state aid will have a descending trend over the next five years, and we could only hope that the things will get better than what was predicted.

According to the European commission the main objective for Member States is 2020 Europe Strategy and the fulfillment of the three priorities emerging from this strategy that the smart increasing of European economy, sustainable and inclusive growth (high rate of employment). Thus, for the next period, the authorities involved in initiating and state aid must consider the following issues:

- State aid for research, development and innovation should be a very important one in the European Union
- The guidelines C.E. about the aid for environmental protection encourages Member

- States to support the production of renewable energy and efficient cogeneration, allowing this
- grant operating aid to renewable energy companies (combined heat and electrical);
- State aid for environmental protection may be state aid for rapid adaptation to EU standards, aid for conducting environmental studies, for central heating, for better energy saving, for waste management etc.
- Creation of new jobs, especially because the period 2007-2010 have not been granted state aid for this purpose, and developing employee skills through permanently training.
- As Grosu R.M. and Săseanu A.S. mentioned a very developed entrepreneurial spirit helped them to overcome a series of problems faced during the economic crisis.
- In the tourism sector, central and local public authorities should promote aid schemes much more efficient, ways to finance various supporting agro-tourism, ecotourism and small pensions during this period of economic crisis.²

Member States should clearly identify which geographic areas will be covered by the support measure in question. Effective application of state aid policy, and Community rules regarding State aid plays an important role in regulating the functioning market economy mechanisms. State aid is a European reality and appear to be a barometer of the economic situation of each of the 10 new members, Romania it constitute any exception.

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² International Finance and Banking Conference. Session III. Public Finance 2005

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