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Subject: State Aid SA.56794 (2020/N) – United Kingdom – Coronavirus Business Interruption Loan Scheme Grant (CBILS grant) under the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak

Dear Foreign Secretary,

1. PROCEDURE

- (1) By letter of 23 March 2020, registered by the Commission on the same day, the United Kingdom notified the above-mentioned scheme under the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak (the “Temporary Framework” or “TF COVID-19”)¹, in compliance with Article 108(3) TFEU².

¹ Communication from the Commission - Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak, 19 March 2020, C(2020) 1863 final. https://ec.europa.eu/competition/state_aid/what_is_new/sa_covid19_temporary-framework.pdf

² Pursuant to Article 131 of the Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community, during the transition period the Commission continues having the powers conferred upon it by Article 108 TFEU and by Council Regulation (EU) 2015/1589 of 13 July 2015, laying down detailed rules for the application of Article 108 TFEU, in relation to the United Kingdom.

The Rt Hon Dominic Raab
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2. DETAILED DESCRIPTION OF THE MEASURE

2.1. The nature and form of aid

- (2) In the context of the COVID-19 latest developments in the United Kingdom (hereinafter referred to as the “UK”), the UK authorities designed the “Coronavirus Business Interruption Loan Scheme Grant” (or “CBILS grant”), which aims at supporting SMEs³ affected by the economic repercussions of COVID-19 and having temporary financial difficulties. These difficulties must be linked to the repercussions of the outbreak of COVID-19. The measure provides aid in the form of a grant (“CBILS grant”) to the borrowing SME, with purpose to fund SMEs’ finance costs incurred in the first 12 months in relation to loans backed by a CBILS Guarantee⁴.

2.1. Duration

- (3) The aid may not be granted before the Commission has adopted a decision declaring the above-mentioned measure compatible with the internal market. The aid may be granted no later than 31 December 2020.

2.2. Budget

- (4) The estimated budget is GBP 600 million.

2.3. Beneficiaries

- (5) The beneficiaries of the measure are all SMEs affected by the economic repercussions of COVID-19 and having temporary financial difficulties. The UK authorities estimate that there will be 5.9 million beneficiaries.
- (6) The beneficiaries are SMEs active in all market sectors including agricultural, fisheries and aquaculture sectors.
- (7) Only borrowers that obtain the CBILS Guarantees are eligible to apply for CBILS Grants.
- (8) The eligible SMEs must not have been in difficulty within the meaning of the General Block Exemption Regulation (“GBER”)⁵ prior to 31 December 2019 and must face difficulties linked to the COVID-19 outbreak.

³ According to the definition used by the UK authorities, SMEs are companies with a turnover up to GBP 45 million.

⁴ The guarantee scheme is a measure subject to a separate notification (SA.56792) under the Temporary Framework for State aid measures to support the economy in the current COVID-19 outbreak.

⁵ As defined in Article 2 (18) of the Commission Regulation (EU) No 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty, OJ L 187 of 26.6.2014, p. 1, Article 2 (14) of the Commission Regulation (EU) No 702/2014 of 25 June 2014 declaring certain categories of aid in the agricultural and forestry sectors and in rural areas compatible with the internal market in application of Articles 107 and 108 of the Treaty, OJ L 193 of 1.7.2014, p.1, and Article 3 (5) of the Commission Regulation (EU) No 1388/2014 of 16 December 2014 declaring certain categories of aid to undertakings active in the production,

2.4. Legal basis

- (9) The legal basis for the notified measure is Section 8 of the Industrial Development Act 1982.

2.5. Eligible costs, aid intensity and modalities for support

- (10) Eligible costs are the finance costs incurred in the first 12 months in relation to loans backed by a CBILS Guarantee. The total amount of the grant is equal to the value of any interest and fees payable in this period.
- (11) The value of the CBILS Grant does not exceed EUR 800 000 per SME on a gross basis. By way of derogation, the CBILS Grant does not exceed EUR 120 000 per SME active in the fishery and aquaculture sector ⁶ or EUR 100 000 per SME active in the primary production of agricultural products⁷.
- (12) The support shall take the form of a direct grant payable in one or more instalments.

2.6. Cumulation

- (13) The aid under the above-mentioned scheme cannot be cumulated in respect of the same eligible costs with other aid, if the cumulated amount would exceed the most favourable amount of aid provided for by the applicable schemes, subject to point (20) of the Temporary Framework.

2.7. Monitoring and reporting

- (14) The UK authorities will respect the monitoring and reporting obligations laid down in Section 4 of the Temporary Framework.

3. ASSESSMENT OF THE MEASURE

3.1. Legality of the measure

- (15) The UK authorities have fulfilled their obligation according to Article 108(3) TFEU⁸ by notifying the aid measure before putting it into effect. The Commission takes note of the fact that the scheme will enter into force only after approval by the Commission.

processing and marketing of fishery and aquaculture products compatible with the internal market in application of Articles 107 and 108 of the Treaty, OJ L 369 of 24 December 2014, p. 37.

⁶ Products listed in Annex I to Regulation No 1379/2013 of the European Parliament and of the Council of 11 December 2013 on the common organisation of the markets in fishery and aquaculture products, amending Council Regulations (EC) No 1184/2006 and (EC) No 1224/2009 and repealing Council Regulation (EC) No 104/2000, OJ L 354, 28.12.2013, p. 1.

⁷ All products listed in Annex I to the TFEU with the exception of the products of the fisheries and aquaculture sector, cf. previous footnote 3.

⁸ As applicable under Article 131 of the Agreement on the withdrawal of the United Kingdom of Great Britain and Northern Ireland from the European Union and the European Atomic Energy Community.

3.2. Existence of aid within the meaning of Article 107(1) TFEU

- (16) Article 107(1) TFEU defines State aid as ‘any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods [...], in so far as it affects trade between Member States’.
- (17) The qualification of a measure as aid within the meaning of this provision therefore requires that the following cumulative conditions be met: (i) the measure must be imputable to the State and financed through State resources; (ii) it must confer an advantage on its recipient; (iii) that advantage must be selective; and (iv) the measure must distort or threaten to distort competition and affect trade between Member States.
- (18) The temporary support envisaged by the UK authorities is provided through State resources within the meaning of Article 107(1) TFEU since it will be paid from the State budget. The measure is imputable to the State. Since the support will relieve the beneficiaries from finance costs they would otherwise have had to bear as a result of their business and will not be granted to all operators but is reserved for SMEs only, the measure is selective and confers an advantage, which may distort or threaten to distort competition. As the scheme covers sectors and undertakings involved in trade between Member States, there is a risk that the aid could affect such trade.
- (19) The measure therefore constitutes State aid within the meaning of Article 107(1) TFEU.

3.3. Compatibility assessment

- (20) The COVID-19 outbreak is a severe public health emergency, which has caused a major shock to global economies and financial markets, and has had a particularly detrimental impact on liquidity.
- (21) The extent of the impact of the outbreak of COVID-19 on the UK economy is highly uncertain but it is already clear that it will be significant. There will be direct economic impacts driven by health-related factors, the extent of which will depend on how many people are infected and the persistence of the pandemic. Disruptions caused by temporary absences from work and interruptions to global supply chains will constrain the UK’s productive capacity for a period. In addition, the economy is likely to be affected by demand-side impacts, such as through a reduction in consumer spending, and lower business investment and exports. These temporary, but significant, disruptions to supply chains and weaker economic activity could challenge companies’ cash flows and increase their demand for working capital.
- (22) SMEs have lower cash reserves than large companies and, therefore, they are particularly vulnerable in such a situation. Existing market failures in the finance market such as information asymmetries will be exacerbated, as lenders will be unable adequately to assess the capacity an SME has to have to recover from the crisis. SMEs also play a vital role towards delivering economic growth both at the national level and across the EU. There were 5.9 million SMEs in the UK in 2019, which accounted for over 99% of all businesses. Access to adequate finance will be

vital for supporting SMEs to survive the economic harm caused by the COVID-19 outbreak and to save jobs.

- (23) By adopting the Temporary Framework, the Commission has acknowledged the severe public health emergency for citizens and societies and the major shock the pandemic represents to the global and Union's economies.
- (24) The Commission considers that temporary State aid measures to remedy the serious disturbance in the economy of a Member State can be found compatible with the internal market on the basis of Article 107(3)(b) TFEU. The TF COVID-19 sets out the compatibility conditions under which the necessity, appropriateness and proportionality of these aid measures will be assessed.
- (25) The measure is one of several measures conceived by the UK authorities to remedy a serious disturbance in their economy.
- (26) The measure notified by the UK meets all the conditions provided for by the TF COVID-19 for 'temporary limited amounts of aid' in the form of direct grants:
- i. The maximum aid amount per undertaking in the notified scheme, with the exception of undertakings in the fishery and aquaculture sector and active in the primary production of agriculture products, will not exceed EUR 800 000 as laid down in point 22(a) TF COVID-19;
 - ii. The measure is granted on the basis of an aid scheme with an estimated budget of GBP 600 million, hence the condition set out in point 22(b) TF COVID-19 is met;
 - iii. The measure will only be granted to undertakings which were not in difficulty on 31 December 2019; the measure therefore complies with point 22(c) of the Temporary Framework;
 - iv. The measure will be granted no later than 31 December 2020, hence the measure complies with point 22(d) TF COVID-19;
 - v. The measure granted to SMEs active in the processing and marketing of agricultural products is conditional on not being partly or entirely passed on to primary producers and is not fixed on the basis of the price or quantity of products purchased from primary producers or put on the market by the SMEs concerned, hence the measure complies with point 22(e) TF COVID-19;
 - vi. The maximum aid does not exceed EUR 120 000 per undertaking active in the fishery and aquaculture sector or EUR 100 000 per undertaking active in the primary production of agricultural products as laid down in point 23(a) TF COVID-19;
 - vii. Aid to SMEs active in the primary production of agricultural products will not be fixed on the basis of the price or quantity of products put on the market, hence the measure complies with point 23(b) TF COVID-19;
 - viii. Aid to undertakings active in the fishery and aquaculture does not concern any of the categories of aid referred to in Article 1, paragraph (1) (a) to (k), of Commission Regulation (EU) No 717/201420, hence the measure complies with point 23(c) TF COVID-19;

- ix. Where a SME is active in several sectors to which different maximum amounts apply in accordance with points 22(a) and 23(a) of TF COVID-19, the UK committed to ensure, by appropriate means such as separation of accounts, that for each of these activities the relevant ceiling is respected and that the highest possible amount is not exceeded in total; hence the condition set out in point 23(d) TF COVID-19 is met;
- x. All other conditions set out in point 22 TF COVID-19, which are not expressly derogated by point 23 of the TF COVID 19, apply to SMEs active in the agriculture, fisheries and aquaculture sectors, hence the condition set out in point 23(e) is met;
- xi. The UK authorities committed to comply with all the monitoring and reporting obligations laid down in Section 4 of the TF COVID-19.

(27) The Commission considers therefore that the measure is necessary, appropriate and proportionate to remedy the serious disturbance in the economy of the UK caused by the COVID-19 outbreak and meets all the relevant conditions of the TF COVID-19.

4. CONCLUSION

The Commission has accordingly decided not to raise objections to the aid on the grounds that it is compatible with the internal market pursuant to Article 107(3)(b) TFEU.

If this letter contains confidential information which should not be disclosed to third parties, please inform the Commission within fifteen working days of the date of receipt. If the Commission does not receive a reasoned request by that deadline, you will be deemed to agree to the disclosure to third parties and to the publication of the full text of the letter in the authentic language on the Internet site:

<http://ec.europa.eu/competition/elojade/isef/index.cfm>.

Your request should be sent electronically to the following address:

European Commission,
Directorate-General Competition
State Aid Greffe
B-1049 Brussels
Stateaidgreffe@ec.europa.eu

Yours faithfully,

For the Commission

Margrethe VESTAGER
Executive Vice-President