Statistics in focus

ECONOMY AND FINANCE

125/2007

Government statistics

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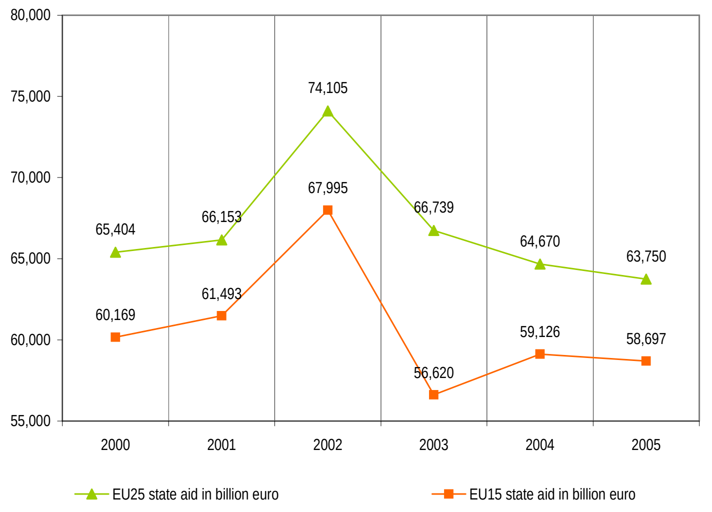
State aid in the European Union

€64 billion in 2005

Highlights

- Total State aid[1] granted by the Member States was estimated at €64 billion in 2005;
- In relative terms, State aid amounted to 0.6% of EU GDP in 2005;
- The share of State aid allocated to horizontal objectives as a percentage of total EU aid was 84% in 2005;
- The trend in the share of aid directed to horizontal objectives as a percentage of total aid has been increasing since 2002;
- Manufacturing was the favoured sector, receiving 58% of total State aid in 2005;
- Grants accounted for over 50% of total aid in the manufacturing and services sectors;
- A quarter of EU total aid in 2005 was earmarked for the least developed "a" regions.

Figure 1: EU25 and EU15 total State aid in euro million, from 2000 to 2005



Source: European Commission, DG Competition, State aid.

The objective of State aid control, as laid down in the founding Treaties of the European Communities, is to ensure that government interventions do not distort competition and intra-community trade. In this respect, State aid is defined as an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities. Therefore, subsidies granted to individuals or general measures open to all enterprises are not covered by Article 87 of the EC Treaty and do not constitute State aid.

The EC Treaty pronounces the general prohibition of State aid. The founders, however, saw of course that in some circumstances, government interventions are necessary for a well-functioning and equitable economy. Therefore, the Treaty leaves room for a number of policy objectives for which State aid can be considered compatible. By complementing the fundamental rules through a series of legislative acts that provide for a number of exemptions, the European Commission has established a unique system of rules under which State aid is monitored and assessed in the European Union. This legal framework is regularly reviewed to improve its efficiency and to respond to the call of the European Councils for less but better targeted State aid in order to boost the European economy.

[1] *Total aid does not include aid to railways.*

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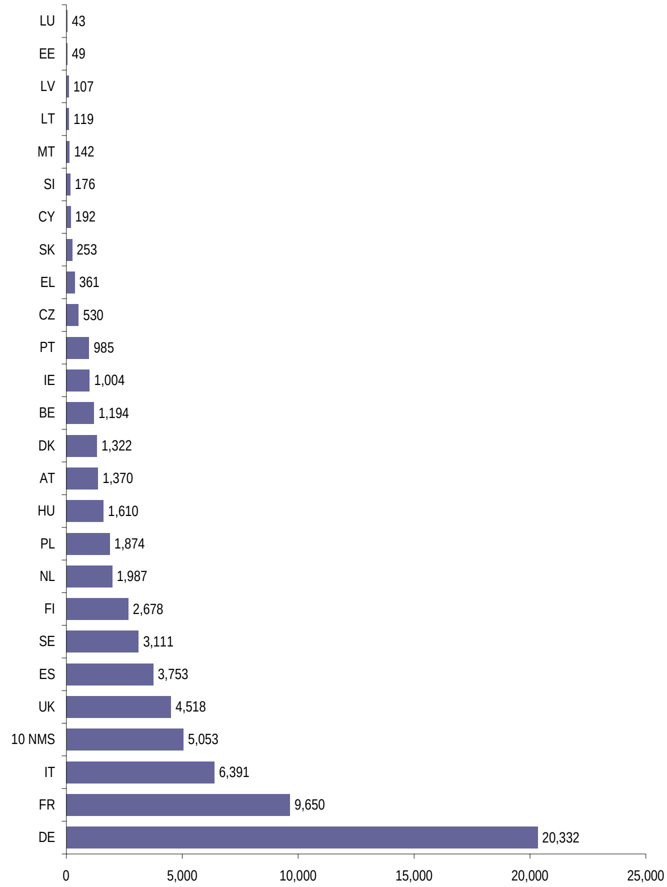
Manuscript completed on: 04.12.2007
Data extracted on: 10.08.2007
ISSN 1977-0316
Catalogue number: KS-SF-07-125-EN-N

Total State aid in the European Union

Total State aid granted by the Member States was estimated at €64 billion in 2005

In absolute terms, Germany granted the most aid (€20.3 billion) followed by France (€9.7 billion), Italy (€6.4 billion) and the United Kingdom (€4.5 billion).

Figure 2: Total State aid by country in euro million in 2005

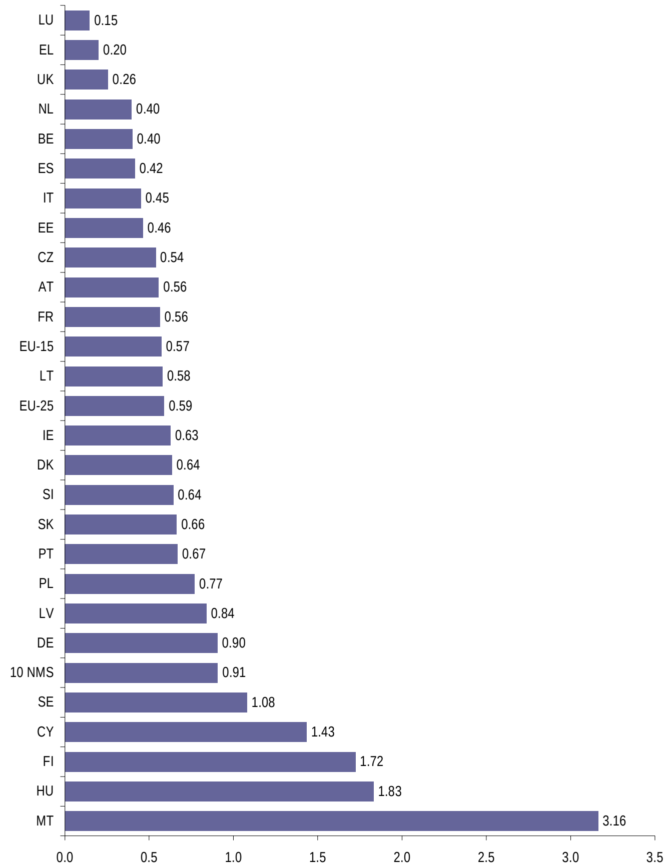


Source: European Commission, DG Competition, State aid.

In relative terms, State aid amounted to 0.6% of EU GDP in 2005

This average masks significant disparities between Member States: the ratio of total aid to GDP ranged from 0.4% or less in Belgium, Greece, Luxembourg, the Netherlands and the United Kingdom to 1.4% or more in Cyprus, Hungary, Malta, and Finland. The high proportion in some of the 10 new Member States is due largely to pre-accession measures that are either being phased out under transitional arrangements or are limited in time. In Finland the explanation can be found in the relatively large amount of aid to agriculture which represents more than 75% of total aid in this country. Indeed, due to the particularities associated with aid to agriculture and fisheries, it is worth looking at total aid excluding these sectors. This second indicator produces a rather different ranking of Member States. For example, such aid in Finland represents 0.38% of GDP, just below the EU-wide average of 0.42%.

Figure 3: Total State aid in % of GDP for the European Union and its Members in 2005



Source: European Commission, DG Competition, State aid.

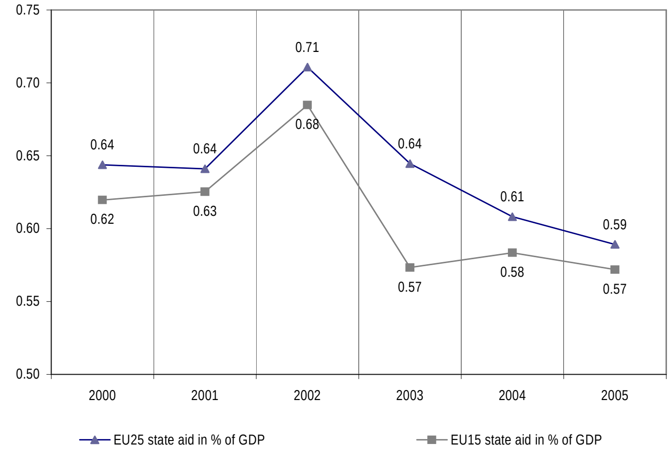
EU State aid in 2005 at its lowest in six years

In 2005 State Aid by EU Members amounted to almost €64 billion, the lowest value recorded for the entire reference period (see figure 1).

EU State aid amounted to 0.59% of GDP in 2005

EU State aid as a percentage of GDP followed the trend observed for the absolute numbers and the lowest ratio in six years was reported in 2005. In total, EU State aid amounted to 0.59% of GDP at the end of the reference period, which was a considerable reduction compared with its peak value of 0.71% in 2002.

Figure 4: Total European Union State aid in % of GDP, 2000 to 2005



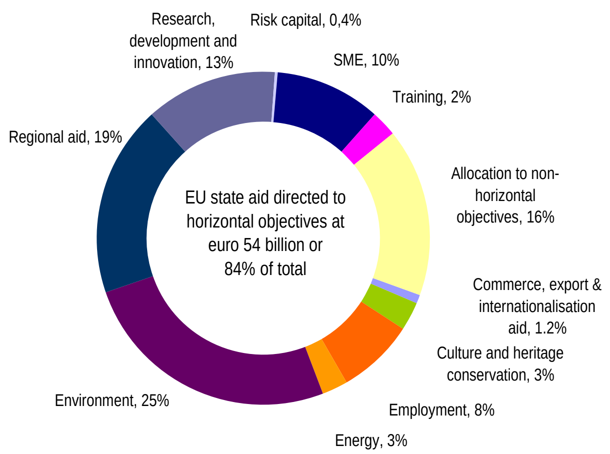
Source: European Commission, DG Competition, State aid.

State aid by horizontal objectives

EU share of State aid to horizontal objectives accounted for 84% of total aid in 2005

Cross-industry or “horizontal” rules set out the Commission’s position on particular categories of aid which are aimed at tackling problems which may arise in any industry and region[2].

Figure 5: Total State aid for the European Union by horizontal objectives in % total aid, in 2005



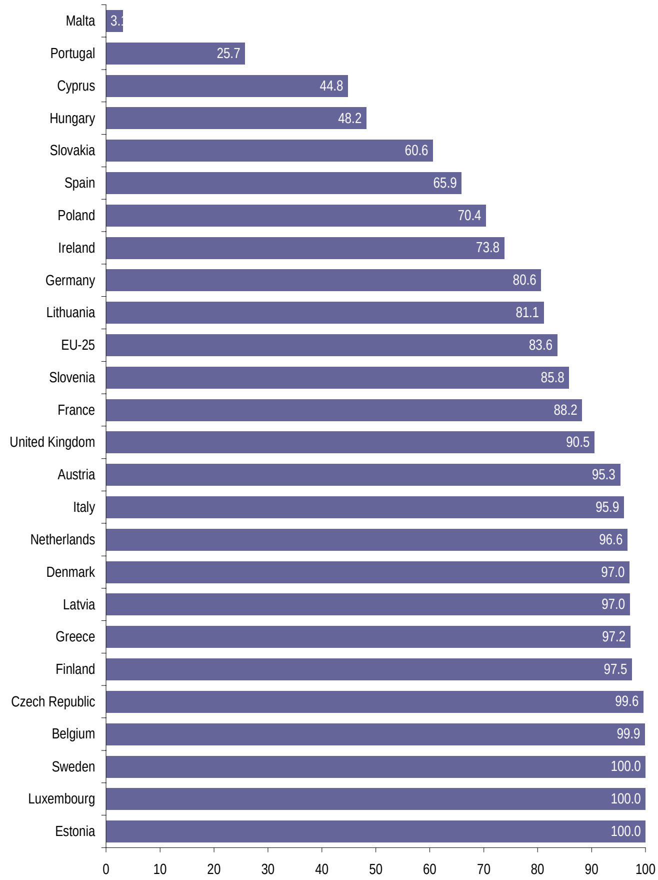
Source: European Commission, DG Competition, State aid.

On average, aid earmarked for horizontal objectives accounted for 84% of total aid less agriculture, fisheries and transport in 2005. The three main horizontal objectives were environment and energy saving (28% of total aid), regional economic development (19%) and R&D (13%). The remaining aid was mainly directed at SMEs (10%), employment (8%) and culture and heritage conservation (3%).

In thirteen Member states 90% or more of total aid was earmarked for horizontal objective in 2005

In thirteen Member States (Belgium, Czech Republic, Denmark, Estonia, Greece, Italy, Latvia, Luxembourg, the Netherlands, Austria, Finland, Sweden and the United Kingdom), more than 90% of all the aid awarded in 2005 was earmarked for horizontal objectives.

Figure 6: Share of total State aid allocated to horizontal objectives by country in 2005, in %



Source: European Commission, DG Competition, State aid. Total aid less agriculture, fisheries and transport.

In another group of six Member States (Germany, France, Ireland, Lithuania, Poland and Slovenia) the share of horizontal aid was between 70% and 90% while in some the share was significantly lower: Hungary (48%), Cyprus (45%), Portugal (26%) and Malta (3%). The low share of horizontal aid (and thus relatively high share of sectoral aid) in Malta can be explained by a tax relief measure under the Business Promotion Act[3], while in Portugal it is due to a large regional aid tax scheme in Madeira which in practice benefits a limited number of sectors. In 2005, Hungary granted sectoral aid mainly through an Investment tax benefit scheme, while Cyprus granted sectoral aid mainly through tax relief under the International Business Enterprises Act.

[2] *Source : Vademecum Community rules on state aid (15/02 2007). http:ec.europa.eu/competition/state_aid/overview/index_en.cfm*

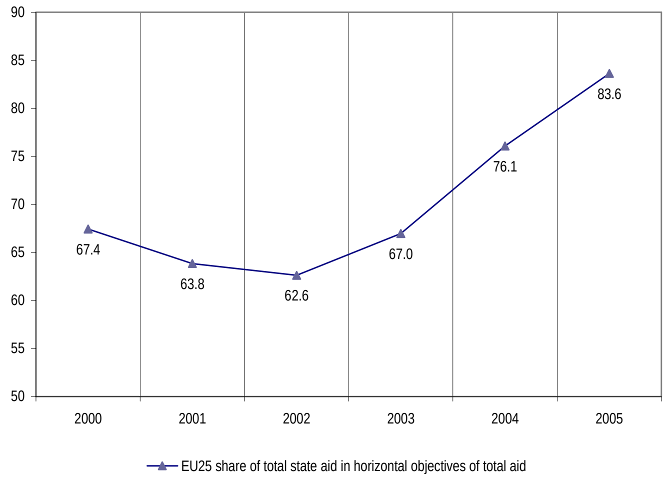
[3] *State aid case number - MT/6/2002.*

The share of aid directed to horizontal objectives as a percentage of total aid continuously increasing since 2002

In the mid-1990s, when State aid levels were much higher, the share of total aid granted for horizontal objectives was around 50%. In line with the commitments undertaken at the various European Councils, Member States have however continued to redirect aid towards such horizontal objectives; all 10 new Member States have progressively redirected aid towards horizontal objectives. The share of horizontal objectives in total aid less agriculture, fisheries and transport increased by 11 percentage points between 2001-2003 and 2003-2005. This upward trend was almost exclusively the result of a significant increase in aid for environmental and energy saving objectives (+8 points) and employment aid (+2 points) as well as a reduction in sectoral aid, particularly services (including financial services) (-8 points) and coal (-3 points), for some Member States.

The positive trend was observed, to varying degrees, in the majority of Member States. The share of horizontal aid increased more than the average (+11 points) in six countries: Latvia (+44 points), Lithuania (+33 points), Ireland (+20 points), the Czech Republic (+16 points), Germany (+15 points) and Spain (+11 points).

Figure 7: EU share of total State aid allocated to horizontal objectives, 2000 to 2005, in %

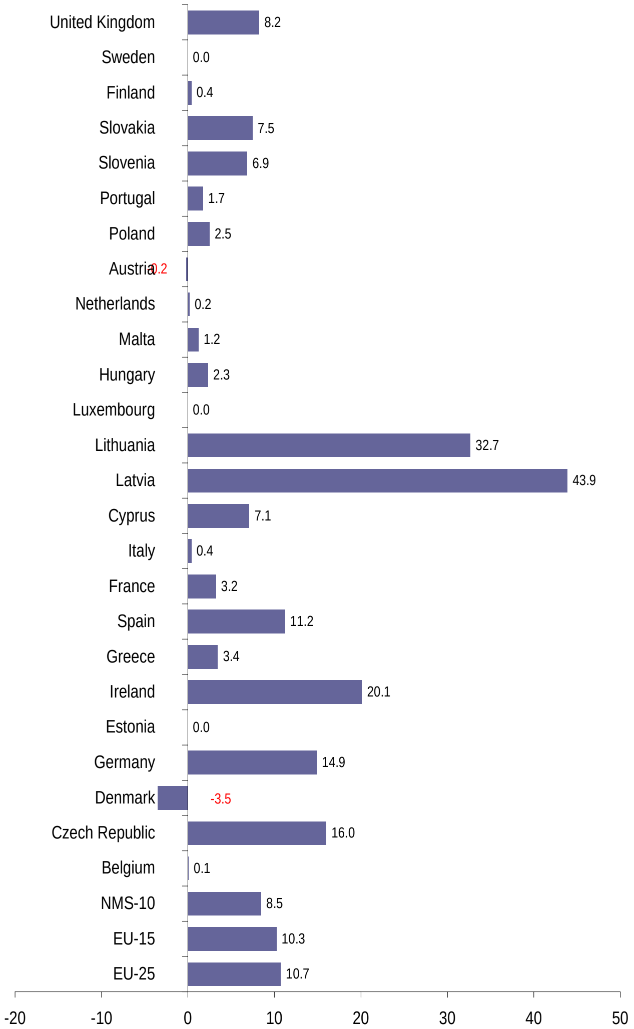


Source: European Commission, DG Competition, State aid.

In contrast, the share of horizontal aid in total aid decreased in Denmark (-3.5 points), due to the large amount of aid awarded to the broadcasting sector[4] in 2004. Over the period under review, there were significant increases in the share of total aid for environmental and energy saving objectives in Sweden (+26 points), Germany (+16 points) and Finland (+11 points). For the Union as a whole, there was no significant change in the share of aid for other horizontal objectives such as R&D and training.

[4] *N 313/2004 Recapitalization of TV2 Denmark.*

Figure 8: Change in share of aid allocated to horizontal objectives, between 2001 and 2005, in %



Source: European Commission, DG Competition, State aid.

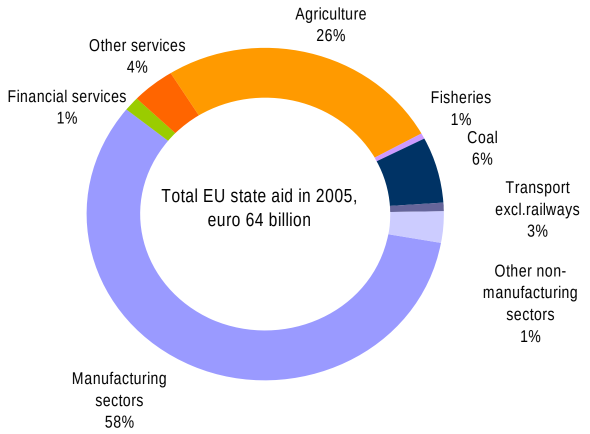
State aid by sector

Manufacturing favoured sector, receiving 58% of total State aid in 2005

Although the data do not provide an accurate picture of the final recipients of the aid, they nevertheless give some indication as to which sectors are favoured by each Member State. In 2005, around 63% of State aid in the Member States was earmarked for the manufacturing (58%) and service sectors (5%). A further 26% was directed towards agriculture and fisheries, 6% to coal and 3% to the transport (excluding railways) sector and the remaining 1% went to other non-manufacturing sectors[5]. There are significant differences between Member States in the sectors to which they direct aid. Aid directed at the manufacturing and service sectors represented 80% or more of overall aid in Luxembourg, Slovakia, Portugal, Sweden, Italy, Malta and Denmark. Aid to the agricultural and fisheries sectors accounted for 60% or more of total aid in Lithuania, Finland and Estonia while the share of aid to the coal industry was relatively high in Spain (29%), Germany (13%) and Poland (12%).

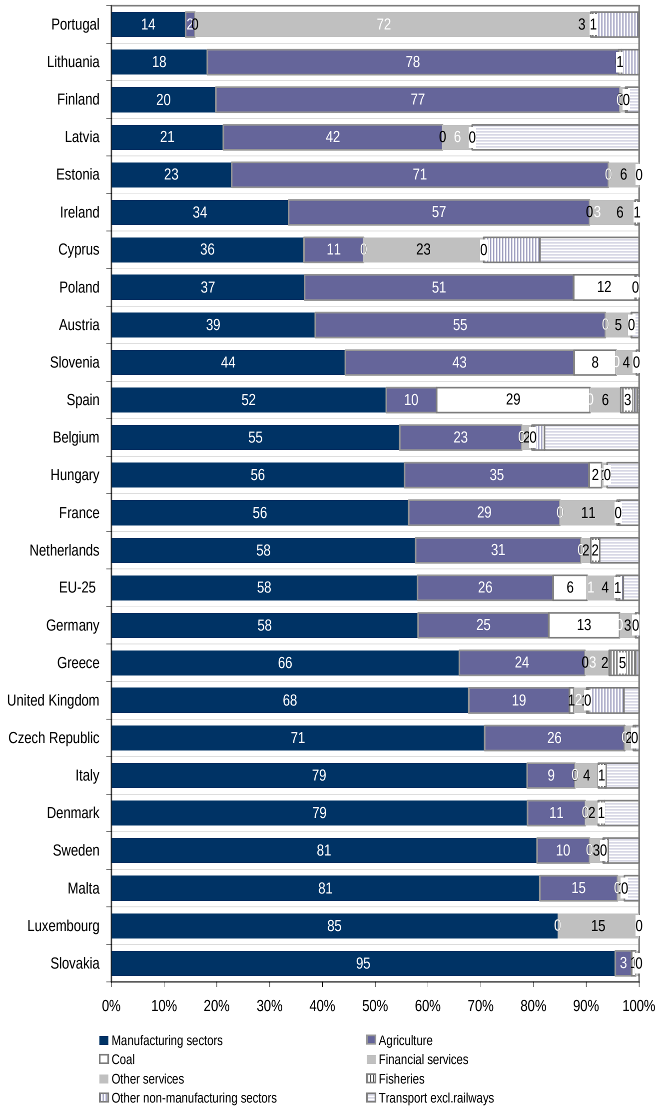
[5] *Other non-manufacturing includes aid for mining and quarrying, oil and gas extraction, aid for electricity gas and water supply and aid for construction.*

Figure 9: EU total State aid by sector as a share of total aid in 2005



Source: European Commission, DG Competition, State aid.

Figure 10: EU total State aid by country and sector as a share of total aid in 2005



Source: European Commission, DG Competition, State aid.

Trends in share of State aid by sector

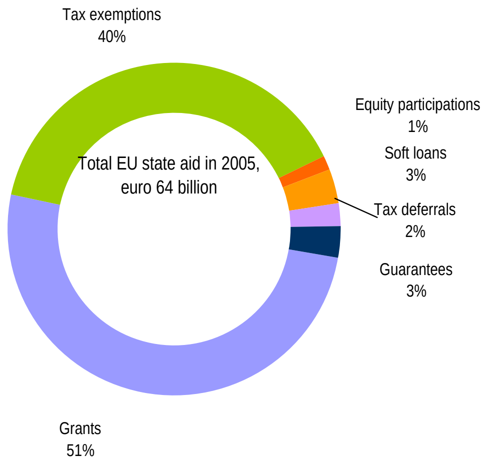
State aid to manufacturing sectors as a percentage of total aid has increased in the period 2003-2005 compared to the previous period 2001-2003, by almost five percent, and aid to agriculture increased by three percent. In contrast, aid to the financial services sector and coal has decreased in the periods under review by six and three percent respectively.

State aid by instrument

Grants accounted for over 50% of total aid in manufacturing and services sectors

During the period 2003-2005, grants accounted for more than 50% of total aid in the manufacturing and services sectors for the EU Members. In addition to aid awarded through the budget, other aid is paid through alleviation from the tax or social security system. Tax exemptions made up 40% of the total (Figure 11).

Figure 11: EU total State aid, by aid instrument, in percentage of total aid, in average from 2003 to 2005

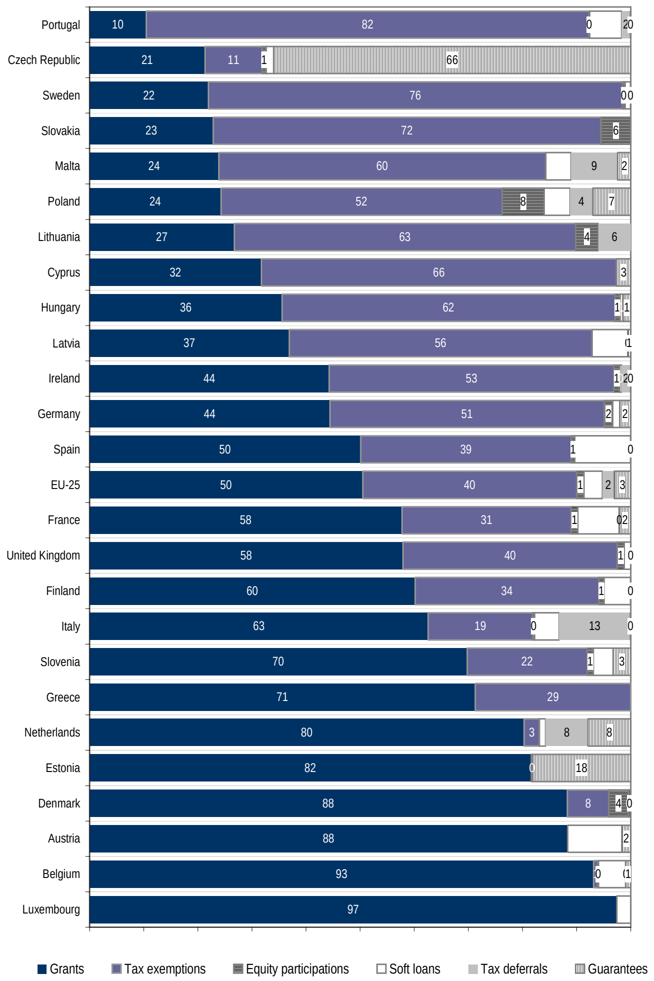


Source: European Commission, DG Competition, State aid.

Use of grants varied strongly across countries from 10% to 97%

Belgium, Denmark, Luxembourg and Austria provided at least 85% of their aid in the form of grants; Other Member States tended to make greater use of tax exemptions; accounting for 70% or more of total aid in Portugal, Slovakia and Sweden (Figure 12). A similar instrument is a tax deferral which was used by twelve Member States during the period under review. Tax deferrals accounted for 13% of all aid in Italy compared with an EU average of 2%.

Figure 12: EU total State aid by country and aid instrument, in average from 2003 to 2005



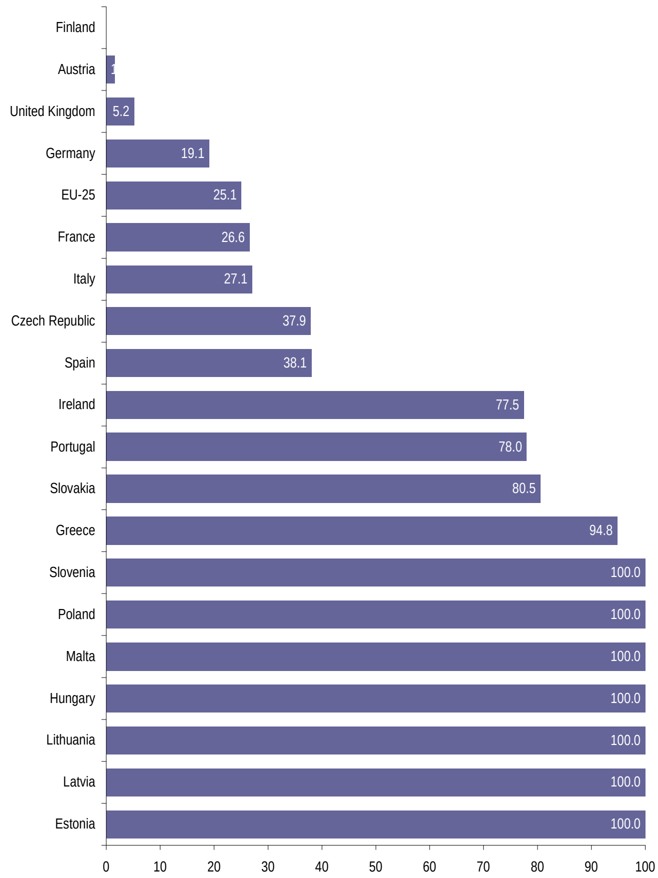
Source: European Commission, DG Competition, State aid.

State aid to less developed regions

A quarter of EU total aid was earmarked for least developed 'a' regions, in 2005

Each Member State targets part of its State aid towards the least developed regions, the so-called 'assisted regions'. For the Union as a whole, an estimated €11.3 billion of aid[6] was earmarked exclusively for assisted 'a' regions[7] in 2005. With the exception of Cyprus, and the cities of Prague and Bratislava which qualify for assistance at 'c' level, the entire territories of the 10 new Member States are eligible at 'a' level. Although a number of aid measures in these countries are not earmarked for a specific region, the aid is thus deemed to be 'reserved for' assisted regions. The EU-wide figure of €11.3 billion represented 25% of total aid (less agriculture, fisheries and transport for which a regional breakdown is not available). Disparities between the Member States in the levels of aid reserved for assisted 'a' regions reflect not only differences in regional policy but also the size of each country's eligible population as well as the extent to which each Member State grants aid at a sub-central level.

Figure 13: Share of total State aid earmarked for least developed (assisted, 'a') regions, by country, in 2005

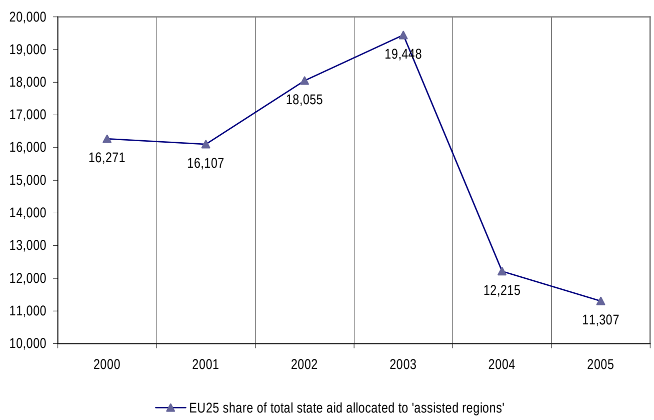


Source: European Commission, DG Competition, State aid.

State aid towards earmarked regions are decreasing

Each Member State targets part of its State aid towards the least developed regions, the so-called 'assisted regions'. Over the reference period this aid has dropped considerably.

Figure 14: EU total State aid allocated to 'assisted regions', in euro million, from 2000 to 2005



Source: European Commission, DG Competition, State aid.

[6] *This figure includes all aid specifically earmarked for assisted 'a' regions regardless of the overall objective of the aid. However, due to an absence of data on the final beneficiaries of the aid, it is not possible to quantify the amount of aid granted through nation-wide schemes from which assisted regions will also clearly benefit.*

[7] *Article 87(3)(a) provides that aid "to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment" may be considered compatible with the common market. The 'a' regions are largely identical to the Objective 1 regions under the EU Structural Funds.*

➢ ESSENTIAL INFORMATION – METHODOLOGICAL NOTES

This box gives some background explanation on State aid. More exhaustive information and data can be found on Eurostat's homepage in the section dedicated to Government finance statistics.

WHAT IS STATE AID?
A company which receives government support obtains an advantage over its competitors. Therefore, the EC Treaty generally prohibits State aid unless it is justified by reasons of general economic development. To ensure that this prohibition is respected and exemptions are applied equally across the European Union, the European Commission is in charge of watching over the compliance of State aid with EU rules.

As a first step, it has to determine whether a company has received State aid, which is the case if the support meets the following criteria:

- 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 the provision of goods and services on preferential terms, etc.);
- the intervention confers an advantage to the recipient on a selective basis, for example to specific companies or sectors of the industry, or to companies located in specific regions;
- competition has been or may be distorted;
- the intervention is likely to affect trade between Member States.

By contrast, general measures are not regarded as State aid because they are not selective and apply to all companies regardless of their size, location or sector. Examples include general taxation measures or employment legislation.

STATE AID AND THE LEGAL FRAMEWORK
The objective of State aid control is, as laid down in the founding Treaties of the European Communities, to ensure that government interventions do not distort competition and intra-community trade. In this respect, State aid is defined as an advantage in any form whatsoever conferred on a selective basis to undertakings by national public authorities. Therefore, subsidies granted to individuals or general measures open to all enterprises are not covered by Article 87 of the EC Treaty and do not constitute State aid.

The EC Treaty pronounces the general prohibition of State aid. The founders, however, saw of course that in some circumstances, government interventions are necessary for a well-functioning and equitable economy. Therefore, the Treaty leaves room for a number of policy objectives for which State aid can be considered compatible. By complementing the fundamental rules through a series of legislative acts that provide for a number of exemptions, the European Commission has established a unique system of rules under which State aid is monitored and assessed in the European Union. This legal framework is regularly reviewed to improve its efficiency and to respond to the call of the European Councils for less but better targeted State aid in order to boost the European economy.

ABBREVIATIONS

EU or EU-25 (European Union of 25 Member States): BE (Belgium), CZ (Czech Republic), DK (Denmark), DE (Germany), EE (Estonia), IE (Ireland), EL (Greece), ES (Spain), FR (France), IT (Italy), CY (Cyprus), LV (Latvia), LT (Lithuania), LU (Luxembourg), HU (Hungary), MT (Malta), NL (Netherlands), AT (Austria), PL (Poland), PT (Portugal), SI (Slovenia), SK (Slovakia), FI (Finland), SE (Sweden), and the UK (United Kingdom).

EU-15 (European Union of 15 Member States): BE (Belgium), DK (Denmark), DE (Germany), IE (Ireland), EL (Greece), ES (Spain), FR (France), IT (Italy), LU (Luxembourg), NL (Netherlands), AT (Austria), PT (Portugal), FI (Finland), SE (Sweden), and the UK (United Kingdom).

10 NMS (The 10 New European Union Member States): CZ (Czech Republic), EE (Estonia), CY (Cyprus), LV (Latvia), LT (Lithuania), HU (Hungary), MT (Malta), PL (Poland), SI (Slovenia), and SK (Slovakia).

MORE DATA

Data used in this report is collected from the Member States, by the European Commission. More data can be found on Eurostat's homepage under the theme Economy and finance, or on the DG Competition's web page. Since data is available up to 2005, this analysis is limited to the EU-25 and EU-15..

DEFINITIONS

For more information about concepts and definitions used in this report please consult the 'Vademecum Community rules on State aid (15/02 2007)'.

TEXT

Some of the text used in this report is taken from the State aid scoreboard (autumn 2006 update), published by the European Commission, DG Competition.

MORE REPORTS AND ANALYSIS ON STATE AID

More reports and studies can be found on DG Competition web site dedicated to State aid.

Further information:

Data: EUROSTAT Website/Home page/Data

Economy and finance

Government statistics

Journalists can contact the media support service:

Bech Building Office A4/125
L - 2920 Luxembourg

Tel. (352) 4301 33408
Fax (352) 4301 35349

E-mail: eurostat-mediasupport@ec.europa.eu

European Statistical Data Support:

Eurostat set up with the members of the 'European statistical system' a network of support centres, which will exist in nearly all Member States as well as in some EFTA countries.

Their mission is to provide help and guidance to Internet users of European statistical data.

Contact details for this support network can be found on our Internet site: http://ec.europa.eu/eurostat/

A list of worldwide sales outlets is available at the:

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Text written in collaboration with Sverre Dommersnes. Many thanks to Piotr Papieski from DG Competition for his useful comments and co-operation.