

State aid control and competition impact assessment

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The role of economic analysis in the assessment of State aid

- **All recent developments in State aid policy originate in the 2005 State Aid Action Plan (SAAP), the document in which the Commission suggests a more refined economic approach in State aid in order to “ensure a proper and more transparent evaluation of the distortions to competition and trade associated with state aid measures.”**
- **However in SAAP, instead of suggesting a more thorough analysis of the market where the aid is or will be producing its effects and of the distortions originating from State aid, the Commission suggests to use economic analysis to identify market failures that are meant to be overcome by the aid.**
- **And the analysis of the market failure is not done thoroughly, by considering all possible policies to overcome it and choosing the most effective solution, but simply by considering whether State aid is an improvement.**

The counterfactual in State aid control

- **The counterfactual in State aid is the absence of the aid and the analysis is meant to show that the aid overcomes a market failure. Any benefit originating from the aid is than compared to the distortions of competition originating from it. If the net result is positive the aid is authorized.**
- **An aid scheme which is within the terms of a block exemption is compatible with the EU Treaty, but adopting an aid scheme is it always an optimal public policy?**
- **This question should be asked by member States before deciding to introduce a compatible aid scheme**

What is competition impact assessment?

- **Competition impact assessment is a technique meant to make sure that adopted regulation is the least restrictive of competition possible.**
- **The following questions are asked when considering whether to adopt a new regulation:**
 - **Is the regulation restricting the number of possible competitors?**
 - **Is the regulation restricting the type of activities competitors are authorized to undertake?**
 - **Is the regulation distorting the incentives of competitors to compete?**
- **If the answer to any of these questions is yes than the proposed regulation is compared with alternatives assessing their respective costs and benefits. The alternative that assures the highest net benefits is then chosen.**
- **Since 2009 the OECD councils recommends member countries to adopt a system of competition impact assessment.**

The proposed revision of the OECD recommendation

- **In the process underway at the OECD whether to strengthen the recommendation, the Competition Committee is considering whether to clarify that the recommendation also applies to State aid.**
- **This would be a very welcome addition because State aid is not generally considered as an alternative to regulation, as the EU procedure also shows.**
- **The counterfactual to any proposed aid scheme should be a comparison with all possible regulations that achieve the same objective. The choice should then be, the regulation that achieves a given objective introducing the lower distortions on the economy.**
- **This means that also compatible aid may not be optimal.**

An example with environmental aid

- **Competition impact assessment of compatible State aid is to be performed by member States also on *de minimis* aid.**
- **For example aid for renewable energy is block exempted. However is it optimal to subsidize renewables?**
- **Many academic studies suggest that instead of subsidizing renewables, carbon emissions should be taxed on a per unit basis. Furthermore the tax should be a consumption tax not a production tax, so as to avoid environmental dumping and achieve the objective of controlling global climate change.**
- **Such an analysis could not be performed within the paradigm of State aid control, but could well be part of a thorough competition impact assessment.**

Ex post evaluation

- **Once a policy has been chosen through a process of competition impact assessment, it becomes natural for it to be subject to ex-post evaluation.**
- **The EU system of block exemptions (including the de minimis rule) leads member States to consider State Aid as optimal when authorized by the Commission.**
- **The efforts to promote the evaluation of State aid are welcome.**
- **Competition impact assessment should be the prerequisite, not just the balancing test. Only through competition impact assessment the results of ex-post evaluation can feed back into ex-ante appraisal.**