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ABSTRACT

STATE AID POLICY IN THE EUROPEAN UNION. CASE STUDY: GREAT BRITAIN

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Key words : *economic competition, state interventionism, state aid, market failure, European Commission, economic and financial crisis, Great Britain.*

Introduction

Considered as a complex political, economic, social and cultural reality, the European Union lies on a platform whose fundamental theoretical elements represent a synthesis of intergovernmental and supranational paradigm. This theoretical mixture represents an original aspect of the European construction process, whose outcome would be progressive achievements towards building a *European federation*, an idea which can be found along the entire European modern and contemporary history as an expression of the European cultural and spiritual unity.

The construction of this complex structure which represents the European Union is based on a set of factors of which emerges as predominant the economic factor. From this perspective, the European construction has its origins primarily in economic reasons, aiming to ensure real prosperity and common economic cooperation in the Community. Specific analysis of these integrative developments leads to the identification of two structures using two particular sets of instruments.¹

The first one is the institutional structure, where the competitive mechanisms of the Single Market are emerging as a result of cooperation between the Member States of the European Union. This is achieved by the decision-making transfer from the national institutional level to the supranational institutional one. The fundamental tools of these transformations were the common policies of the European Union, and in this context the main objective of competition policy is the integration of national firms into large European firms for an effective competition with the American and Asian firms on the international markets. In this process, the focus is on the enhancement of the external competitiveness, while the internal economic competition within the Member States is diminishing because it is promoted the consolidation of the „European economic nationalism” for building a strong regional economic union.

The second structure is defined by competition, which is based on the principle of „*laissez-faire*” and has a special role regarding the creation of the competition environment of the Single Market. According to the competition principle, firms are

¹ Mihaela Luțaș, *Uniunea Europeană. Mecanismul integrării*, Cluj Napoca, Editura Dacia, 2004, p.93.

constantly engaged in a competition process on the market and the supply and demand mechanism, characteristic to the market economy is the one that makes the effective differentiation between profitable firms, capable of meeting consumer requirements and adapting to the market changes and inefficient firms that will have to exit the market. The main consequence of this process is to increase the degree of competition between firms in Member States, with positive effects on the efficient use of resources and income distribution.

Historical framework of state aid policy

In the second half of the XXth century, the nature and use of state aid have undergone important changes, due to the fact that industrial policy has determined the support and the promotion of strategic companies for the national economies². In this context, trade liberalization has contributed to the use of state aid as an instrument of the industrial policy, for creating „national champions” in strategic sectors of the Member States’ economies³. In the context of the recession occurred with the oil crisis from 1973-1974, the economic and social context led to a redefinition of the importance and significance of state aid policy and its possible use as a positive instrument⁴. This perspective is confirmed by the possibility of state aid policy to help increase the mobility and efficiency of the production factors, facilitating the price stabilization process and the reduction of the inflationary pressures. On the other hand, there was the possibility that state aid could sustain the inflationary pressures if they are to ensure the survival of the companies or sectors unable to adapt and operate independently within the competitive structures. In these situations, there was the possibility of state aid to ensure a high level of immobilization for the production factors, stimulating the inflationary levers both

² P. Bianchi și S. Labory, *Empirical evidence on industrial policy using state aid data*, International Review of Applied Economics, vol. 20, 2006, p. 603-621.

³ M. J. Trebilcock, M. Chandler și R. Howse, *Trade and Transitions: A Comparative Analysis of Adjustment Policies*, Routledge, London and New York, 1990.

⁴ F. Andriessen, *The Role of Anti-Trust in the Face of Economic Recession: State Aids in the EEC*, European Competition Law Review, 1983, pp. 340-350.

directly, by artificially increasing the budgets and indirectly, by increasing the costs in fiscal terms in the sectors that are affected by these measures⁵.

In terms of time, the recession has coincided with the decline of traditional sectors for the Member States' economies, such as steel and shipbuilding. Decreasing level of demand in these sectors, in addition to the existence of excess productive capacities confirm the manifestation of a structural crisis at the European and global level characterized by the intensification of competition, especially at the price level, while at the global level there is a transmutation of the power poles in these fields to the Asian area. In these conditions, it was found that Member States are tempted to increase the subsidization level of domestic industries to maintain a relatively constant level of employment, which has the disadvantage that, far from being a viable long-term solution, determines similar reactions from other Member States, being likely to cause overall negative effects⁶. With the state aid aimed at saving jobs having an upward trend, the Commission has stated that this is possible only in cases where it facilitates structural changes that allow the transition to modernized production forms⁷.

In fact, the main objectives of state aid policy have been undermined due to the fact that in the mid-1970s, the Commission has relaxed its position on state aid granting, in recognition of the need for national measures against unemployment and declining industrial sectors⁸, confirming the fact that, in the context of increasing pressures to subsidize domestic industries, its influence was exerted in a significant manner as a response to national initiatives in this area⁹. Therefore, it may reveal that undermining state aid policy principles and also inconsistencies related to its application have created a series of precedents and a bad example of an „ideological and moral crisis” in this area¹⁰.

⁵ Commission of the European Communities, *Second Report on Competition Policy*, Brussels – Luxembourg, April, 1973, p.76.

⁶ Commission of the European Communities, *Sixth Report on Competition Policy*, Brussels – Luxembourg, April, 1977, pp.110-135.

⁷ Commission of the European Communities, *Seventh Report on Competition Policy*, Brussels – Luxembourg, April, 1978, p.140.

⁸ R. Merkin și K. Williams, *Competition Law : Antitrust Policy in the UK and the EEC*, Sweet & Maxwell, London, 1984, p. 327.

⁹ Commission of the European Communities, *First Report on Competition Policy*, Brussels – Luxembourg, April 1972, p.115; Commission of the European Communities, *Eighth Report on Competition Policy*, Brussels – Luxembourg, April, 1979, p.125.

¹⁰ Michelle Cini, Lee McGowan, *Competition policy in the European Union*, second edition, Palgrave Macmillan, Macmillan Publishers Limited, 2009, p. 29.

This perspective of using state aid for specific national policy objectives has changed from the mid-1980s, following the emergence of new industrial policy attitudes, but also as a reaction to the success of the „neoliberal” revolution and to the measures related to the adoption of the Single Market Programme in 1992. The implementation of state aid policy, as part of the competition policy has developed according to the evolution of the European integration process. The transition from the Customs Union to the Single Market was accompanied by the increasing of the complexity level of specific instruments of the European common policies. Removing barriers from the movement of goods and production factors has also involved starting a more rigorous approach on Government instruments and mechanisms designed to support economic actors through state aid, which could create an artificial advantage in relation with other actors in the market.

Since the second half of the 1980s, the acceleration and diffusion of the economic integration effects on the global level, but also technological changes that accompanied this phenomenon favoured in a significant manner the failure of this kind of interventionist policies, causing a fundamental change of the European industrial policy paradigm. In this context, state aid policy reflects the gradual reduction of the degree of state intervention in the economy, which coincided with the imposition of horizontal policy instruments, in order to structure a favourable and competitive economic environment for all economic and social actors of the market.

The motivation for choosing this research topic

The progress of the economic integration was likely to contribute, especially since the second half of the XXth century, to the growing interest for investigating the principles and mechanisms of state aid policy. Therefore, one of the characteristic features of the literature concerned with investigating this area concerns both the complexity and the diversity of perspectives to address the role and importance of state aid in a market economy.

Despite these realities, it may be noted that so far, the establishment of multidisciplinary scientific projects dedicated to studying this area was done in a rather

limited extent, so that most scientific approaches did not manage to clarify in a satisfactory manner all issues under investigation. These scientific arguments, in addition to the actuality of this area of analysis constituted a major motivation for undertaking a research on state aid policy in the European Union.

Research objectives

This scientific approach proposes as *fundamental objective*, without claim of completeness, to present an *interdisciplinary approach* of state aid policy, as part of the European Union competition policy. According to this perspective, the paper aims to pursue several *specific objectives* :

a) the presentation of the conceptual framework of the „economic competition”, which contains the definitions of the literature and the development of this concept from the perspective of economic theory, as well as the analysis of the forms involved by economic competition in the market economy;

b) the critical analysis of the role, importance and significance of state aid according to the perspectives provided by the main components of the literature in this field (strategic trade theory and policy, public finance, economic geography, comparative political economy);

c) the analysis of the state aid policy legal framework, in order to highlight the necessary conditions that must be met by Government measures to be considered state aids, as well as an overview of the types of state aid that can be considered compatible with the Common Market;

d) the economic analysis of state aid rationales, in terms of their ability to correct or compensate for „market failures” and objectives considered by state aid policy in terms of maintaining an undistorted competition and the possibility of achieving a balance between increasing the economic efficiency and maintaining a satisfactory level of economic and social cohesion;

e) the analysis of the state aid policy institutional framework, focusing on the rationales of a supranational control in this field by the European Commission, as well as

the specific role of the European Court of Justice, the European Parliament and the EU Council;

f) the empirical analysis of state aid granted by the Member States of the European Union in the period 1992-2010;

g) the analysis of the economic and financial crisis impact on state aid in terms of the possibility of emergence and development of protectionist manifestations in the context of the international trade and European economy;

h) the establishment of a case study on state aid in the Great Britain. It proposes the presentation of the economic processes and phenomena in a chronological perspective and, in addition, an empirical analysis in order to test the possibility of shaping a model of state interventionism in the economy through state aid;

Research methodology

In order to achieve these objectives, our research aimed at using an appropriate methodological apparatus in order to capture the development of the economic processes and phenomena and to explain them in a comprehensive manner. Throughout the paper, this is represented at **the theoretical level** especially by the historical method, the comparative method, the case study method, analysis and synthesis, induction and deduction.

Historical method was used to highlight the evolution of different aspects of state aid policy in the context of the European construction development. This research method was also used in *the case study*, which was conducted in the context of the particularization of the research to highlight the characteristic features of state interventionism through state aid in Great Britain. In this regard, the methodological apparatus was enriched by using *the comparative method* for studying aspects of the European Union state aid policy and, respectively, the particular situation of Great Britain in this area.

The analysis is one of the most important methods of the economic research and was used during the research for the study of different state aid aspects. Specifically, it is found in the form of *economic analysis* that was used throughout the scientific approach

and in the form of *econometric analysis*, that was used to test the assumption according to which state aid may be influenced to varying degrees by macroeconomic factors and therefore is used by governments in response to changes in the macroeconomic level. Different aspects of the analysis were reunited through *synthesis*, which integrated the component parts into a unified whole, which was completed by the expression of personal view on economic phenomena and processes studied.

On the one hand, *induction* involves expanding the area of study from the particular level to the general level, and on the other hand, *deduction* involves the reverse phenomenon, from the general level to the particular level. For example, the study of the conceptual framework of the economic competition was performed in the first stage at the general level, presenting its characteristic features, while afterwards the study was extended to the level of the competition forms (perfect competition, imperfect competition and monopolistic competition) in accordance with the results provided by the literature. Besides, the analysis of the institutional capacity of the European Commission was performed both by critical study of various theoretical doctrines concerned with the institutional interactions from the European Union (intergovernmentalism, historical, sociological institutionalism, rational choice supranationalism etc.) and by a general manner, by highlighting the role of the European Commission within the European institutional architecture.

At the empirical level, one of the most important issues that we have encountered in realizing this paper refers to the discontinuous and sometimes incomplete nature of data provided by the European Commission. For this reason, we chose to limit the object of the empirical research to state aid to industry and services.

According to the methodology used by the European Commission, the concept of „industry” refers to manufacturing sectors and contains, in structural terms, horizontal aid, regional aid and sectoral aid (except steel and coal, which are regulated by the ECSC Treaty). Therefore, the empirical study do not systematically refers to state aid to agriculture, fisheries and transport, due to the fact that they represent the object of the common policies of the European Union, which have significant powers to regulate the relations in the Member States, as well as between Member States and in their relations

with third parties and therefore between economic actors at the European or national level.

State aid has been analyzed from multiple perspectives in order to capture in a comprehensive manner its role as an economic subsidization phenomenon. From this perspective, we have analyzed state aid in absolute terms (million EUR), but due to the obvious limits involved by this form of expression, we chose the additional data presentation and analysis in relative terms : state aid as a percentage of GDP; state aid as a percentage of value added and state aid as ECU (EUR)/ person employed.

In order to study state aid in terms of the economic size of the granting state, we have designed an index which relates the relative share of the national expenditure in the total European Union state aid to the contribution of Member States to the aggregated level of GDP¹¹. This method of quantifying the relative importance of state aid in the economy was extended for horizontal and sectoral state aid in order to evaluate differences in subsidization at the national level.

In conducting the empirical research we started from *the assumption* that they can be influenced by the action of several indicators of which the most representative are: the level of GDP, the level of GDP per capita, the unemployment rate, the inflation rate and the budget deficit as a percentage of GDP. The estimation of a possible relationship between state aid and macroeconomic factors was conducted from the perspective of a regression function that tests the possibility of a correlation between the variables analyzed both statically and dynamically. This analysis method was made because we believe that state aid, as an economic policy instrument, is influenced in varying degrees by changes at the macroeconomic level.

¹¹ The methodology for calculating the index of the relative importance of state aid is based on the work P. Nicolaides and Bilal S., *An Appraisal of the State Aid Rules of the European Community: Do They Promote Efficiency?*, Journal of World Trade, 33 (2) , 1999, pp. 97-124; the calculation of the index in the Member States for the period 1992-2010, average values, standard deviations and the extension of the methodology for calculating horizontal and sectoral state aid represent personal contribution.

Structure of the paper

Chapter 1. Economic competition – from a theoretical and conceptual framework to the reality in the European Union

The first chapter deals with the evolution of economic competition from the conceptual clarifications of the modern and contemporary economic theory to the establishment of the European Union competition policy. Although so far no single or universally accepted definition has been shaped concerning what economic competition represents, it may be noted that it has an important place in the evolution of economic theory, which demonstrates the great complexity and dynamics of changes and transformations that have occurred in time. In this context, one of the most significant contributions of the economic theory refers to the use of different forms of competition as reference models for transposition in the empirical reality.

The perfect competition model has been repeatedly used as a benchmark for analyzing possible practical deviations from the standards imposed by it, but we believe that this approach has some inconvenients because perfect competition is mainly theoretical in nature, therefore we consider of higher utility the use of other reference models, closer to the practical functioning of the market economy principles, such as the „workable competition” model.

The introduction of competition as a fundamental principle of economic policies was favoured by the progress of the European construction process. Most important component of the European Union common policies, competition policy had appeared for the first time in an integrated form in the *acquis communautaire* in the Treaty of Rome (1957) and had a significant contribution to the economic development and welfare maximization in the Community, being correctly considered as „*one of the success stories of the European integration process*”¹².

¹² Michelle Cini, Lee McGowan, *Competition policy in the European Union*, Palgrave Macmillan, Macmillan Publishers Limited, (second edition), 2009, p.1.

Chapter 2. State aid literature review

State aid represented the object of study for numerous areas of investigative of economics (strategic trade theory and policy, public finance, economic geography, comparative political economy), which explained in a different manner their role and importance, as instruments of state interventionism in the economy.

In the context of state intervention through state aid being generally criticized by economic theory due to the negative impact on resource distribution process, one of the significant contributions of the literature refers to the comparative analysis of possible negative consequences caused by state aid against their potential benefits, suggesting that their overall significance can be achieved as a result of a cost-benefit analysis.

Chapter 3. Analysis of state aid policy legal framework

In accordance with the analysis of the legal framework, it can be considered that in order to meet the character of „state aid”, a measure must fulfill the following conditions: state aid should be granted from state resources; state aid should distort competition and affect intra-Community trade; state aid should favour certain firms or the production of certain goods; the recipients of the support incorporated in state aid should enjoy a certain advantage which would not be available in other market conditions.

The operating conditions of the Commission designed to designate the existence of state aid were considered by the literature as being ambiguous in economic terms. According to its results, the prohibition covers theoretically all state aid schemes, since it is very hard to find in practice state aid that does not have a real or potential effect on competition or trade in the Community. Therefore, in practice, the Commission has a significant level of discretion that may be exercised to authorize state aid, which is only partially confined by operational criteria, which do not take into account all state aid effects.

Chapter 4. Analysis of state aid policy rationales and objectives

According to the literature review in state aid area, one of the most important rationales that can justify state aid granting refers to the possibility to correct or compensate for inefficient results in the functioning of the markets („market failures”). The existence of market failures does not guarantee that state aid helps eliminate imperfections and enhance economic and social welfare, therefore market failure is a necessary, but not a sufficient condition to provide state aid. In this context, the most advantageous policy response would be the direct addressing of the market failure, while state aid would have to be considered only as the second best option considered by decision makers when direct measures are not possible.

We believe that when the proposed state aid measures are not general in nature, government authorities providing support should identify the primary source of market imperfection or failure, should evaluate in quantitative but also in qualitative terms the positive and negative effects of state aid implementation and thus demonstrate the manner in which the proposed measures correct the existing imperfections in the market. It is therefore very unlikely that state aid granted to particular companies or sectors represents the best way to correct general market failures and should be, in this case, prohibited, even if authorities that propose providing the measures demonstrate that they have the ability to continue their activities in the absence of government support.

From a theoretical perspective, literature mentions as main objectives envisaged by state aid policy : maintaining an undistorted competition in the Community, increasing efficiency and economic competitiveness, as well as promoting economic and social cohesion. However, the main objective which was explicitly confirmed by the European legal framework is the undistorted competition in the Community. This does not generate Paretian optimum situations in all existing situations, so it is very unlikely to exist an identical utility for state aid control that operates both at Community and at national level, which can be relevant when analyzing states in transition to a market economy, whose specific situation can cause particular aspects regarding the achievement of state aid policy objectives.

On the other hand, in the context of attempts to achieve welfare in society, government interventions may consider the efficiency or equity level of state aid measures, which requires a compromise between the two fundamental objectives, because it is generally not possible to pursue both perspectives equally.

Although the operation of market mechanisms represents, undoubtedly, a factor of progress and at the same time the most appropriate means of distribution of the production factors, it should be noted that there are situations where it is not possible to achieve these goals without causing significant social costs, which requires the use of external interventions to appropriately balance economic and social outcomes. In these cases, interventions through state aid can be used as structural instruments for the management of public policies designed to ensure reintegration of subsidized sectors in a functional competition circuit, while reducing the social costs of these transformations.

In this context, we appreciate that economic efficiency is not the only value that should be considered, given the legitimacy of multiple values at the social level, such as distributive equity or economic and social opportunities, paving the way for broader questionings of the rationales that may justify government intervention through state aid.

Chapter 5. Analysis of state aid policy in an institutional context

One of the most significant characteristic features is the fact that in this area there are not national authorities related to the rule formulation and enforcement, due to the fact that the European institution with such powers, the European Commission, shows supranational powers.

The relatively small role of the Council and the European Parliament in state aid policy management expresses the fact that institutional relations between the Commission and the European Court of Justice substitute the typical European institutional interactions between the Commission, Parliament and Council. From this perspective, European literature was constantly preoccupied by the theoretical study of institutional interactions belonging to different administrative levels, which were analyzed from several perspectives belonging to different doctrinal areas.

According to one of the most relevant such models („principal-agent model”), relations between Member States and the Commission are analyzed from the perspective of the authority delegation process to supranational forms of representation, thus establishing a specific interaction framework characterized by an ongoing process of negotiation between political and economic actors at national and Community level. The institutional analysis was supplemented by an empirical study on decision making process of the European Commission on state aid, which revealed the fact that, from a temporal perspective, relations between the Commission and Member States have been registering a rising level of predictability, although there have been significant fluctuations concerning the situations when the Commission had raised no objections or had adopted negative decisions regarding the authorization of the schemes proposed by Member States. Also, one can see some fluctuations concerning the notified state aid by Member States, which shows that, despite tangible progress on the process of notification, Member States continue to use the economic subsidization according to specific economic and social factors.

In this context, we believe that the principal-agent model is a meaningful instrument for interpreting institutional relations at European level, but on the other hand, relations between the Commission and Member States should be regarded as the result of complex interdependent processes where the outcome of negotiations at various levels of government should essentially be of a cooperative nature, while theoretical doctrines studying these interactions should provide complementary explanations on the functioning of the European institutional architecture.

Chapter 6. Empirical analysis of state aid in a macroeconomic context

According to empirical analysis of state aid, one can confirm the existence of a general decreasing trend of state aid granted by Member States, although there are still variable differences related to the operation of this process according to the interdependent action of multiple economic, political and social factors.

On the other hand, the present analysis does not allow us to observe a systematic shift in state aid from horizontal objectives towards sectoral objectives, due to the fact

that Member States granting policies express the existence of heterogeneous models with strong specificity depending on particular national situations. This can mean that state aid is granted in certain situations also for the achievement of specific goals, appropriate to the economic and social particularities of Member States, indicating that national traditions are in many cases an important factor in shaping state aid development in the European Union.

One of the personal contributions of this study refers to the empirical analysis of state aid in a macroeconomic context, which aimed at testing the relationships between state aid, on the one hand, and macroeconomic indicators, on the other hand. Using data provided by the European Commission for the period 1992-2010, we can say that the process of economic growth (as measured by the evolution of the level of GDP) has a significant influence on the granting of state aid, although the data used for this analysis does not confirm in all cases the existence of a direct relationship between the size of Member State's economy and its ability to provide state aid proportional to the size of its economy.

In general, correlations between state aid and macroeconomic variables considered do not reveal the shaping of uniform features concerning the states using this instrument, which suggests that the granting of state aid represents to a significant extent an autonomous power of national governments.

Chapter 7. State aid in the context of the economic and financial crisis

The economic and financial crisis has led to an increase in state aid granted by Member States, due to the fact that they have considered primarily preserving the economic and financial stability and less the objective of maintaining an undistorted competition in the Community. The manifestation of the economic and financial crisis has substantially contributed to the transformation of the role and use of state aid, while the long-term impact of these changes will depend on many factors, of which we believe it is worth stressing the political will of the European Commission and to what extent the cooperation between European institutions and Member States will determine efficient operation and implementation of state aid policy mechanisms.

The theoretical and economic policy reconsiderations that accompanied the transformations of the economic and financial crisis have situated state aid, as part of the competition policy, at the interface between the trends of liberalization and deregulation, on the one hand, and interventionist manifestations of keynesist nature, reaching even forms of protectionism, on the other hand. The success of neoliberalism, as a philosophy of the European economic construction, has imposed the competition policy as a „cornerstone of European micro-economic policy”¹³, leading, over time, to the increasing of the competition principles of the market economy both for reasons of economic efficiency, aiming at the correction of inherent market failures and as a result of the need to increase the international competitiveness of the European economy. This progress of liberalization and deregulation in the economic field has been marked by a „split” due to the emergence of the financial and economic crisis, that has produced mutations and even interrogations on how to use state aid, so that the principles of undistorted competition were subordinated, at least temporarily, to the rescue and restructuring of the Member States’ economies.

Chapter 8. Case study. Great Britain

The evolution of the British economy in the postwar period has shown that state aid did not have the desired effect to help increase employment and economic growth. Therefore, literature was critical in relation to the British experience in state aid area, but this perspective refers in a significant manner to the fundamental economic goal setting. One of the main characteristics encountered by the British economy and society since the postwar period was reaching a high unemployment level, so that one of the goals envisaged by state aid policy aimed at increasing employment and economic recovery in regions affected by industrial decline.

In parallel, the phasing out of projects for the support of sector investment has been accompanied by a substantial transformation of government economic policies from supporting regions and firms in difficulty to support state aid for research and

¹³ Stephen Wilks, *Competition Policy in the Recession : industrial crisis and implications for the economic constitution*, Paper for EUSA, Los Angeles, April 2009.

development, as well as a wide range of services to promote forms of horizontal financial assistance. This marked a paradigmatic transformation of government intervention in favour of state aid forms that have a major role on the establishment of productive and allocative efficiency in the market.

Conclusions and proposals

Summarizing, we can say that the role and importance of state aid policy were major in establishing and strengthening the mechanisms of European integration. State aid policy has emerged as a consequence of the founding states of the Treaty of Rome to build the functioning of the European economy on rules to allow the increasing of economic efficiency, but also on economic and social cohesion in the Member States. To achieve this, the European Commission has repeatedly emphasized the importance of economic analysis for the rigorous establishment of state aid decisions. Therefore, taking into account the necessity to increase transparency and efficiency in the process of authorizing state aid, we consider of major importance **to propose several measures designed to improve the economic analysis** undertaken by the European Commission on state aid cases (individual cases of state aid schemes):

a) *studying state aid objectives*; in our view, the economic analysis of possible distortions of competition must focus to a significant extent on the modalities state aid is directed to address „market failures”. In line with this objective, we consider of practical use highlighting some **recommendations**:

- the development by the European Commission, in close cooperation with Member States, of a systematic assessment of the history of state aid implementation by Member States, in order to evaluate the performance of state aid concerning the achievement of the objectives set by them; this process should lead to a regular updating of the criteria for assessing state aid, which should be published to increase dissemination of the methodological apparatus used by the Commission to the interested public;

- Control in state aid area should refer in a greater extent to the identification, in an explicit manner, of the „market failures” that are tracked by granting state aid; the

precise identification of imperfections addressed can lead to a comparative analysis of costs and benefits involved by state aid;

- The need to quantify, to the extent that this is possible, the costs and benefits involved by state aid to facilitate the process of evaluating them in terms of cost-benefit analysis, although we are aware of the difficulties involved by such an approach, we consider that this may be important in terms of credibility of state aid schemes proposed by Member States;

b) *studying the degree of correspondence between state aid and the objectives considered by their implementation*; in our view, to achieve this goal, we appreciate the following **recommendations** to be helpful:

- the (quantitative) dimension of state aid must be adjusted to the „market failures” that are addressed and to the specific instruments by which state aid is granted; in this sense, we believe that state aid quantitative reduction criterion should not be necessarily used, but rather we believe that state aid dimension should be adapted to different types of „market failures” and to various types of state aid instruments;

- the assessment carried out by the European Commission should explicitly take into account the relevance of state aid instruments, which has direct implications on the capacity to adequately address „market failures”;

- the need for the existence of a systematic analysis of the correlation between state aid instruments and the economic activity or sector subsidized by state aid;

- state aid schemes should be accessible to all interested firms and the funds allocation process should be based on transparent and economically efficient procedures;

c) *using a „counterfactual analysis”* through comparative assessment of the situation „with aid” and „no aid”, which we consider that may help in assessing costs and benefits involved by state aid; in this context, we make the following possible **recommendations**:

- the use of market characteristics (e.g. measurement the concentration level of the industry where state aid is granted) to evaluate the consequences on granting state aid on the possibility to distort the competition (e.g. for a given reduction in the price as a

result of state aid, a higher level of concentration involves, theoretically, negative effects on competitors and positive effects on consumer welfare);

- the use of the recipient firm characteristics in order to quantify the impact of state aid on competition; in this case, due to the diversity of possible situations, a particular analysis of the characteristics acquired by the beneficiary company is necessary in each situation;

As far as we are concerned, we believe that proposing these measures to improve the economic analysis conducted by the European Commission can significantly contribute to increasing the institutional predictability and the efficiency of the authorization mechanisms of state aid. Also, we believe that, in some cases, European companies may be disadvantaged in the global market by European regulations being too „rigid” on the state aid authorization, which can have a negative impact on the overall competitiveness level of the European Union.

In this context, state aid policy must adapt to the continuously dynamic requirements in the global economy and serve in a substantial manner to the European Union’s objective of becoming a true „model” on the ability to become a smart, sustainable and favorable to the competitiveness economy, but also to the inclusion and economic and social cohesion. To achieve this goal, we believe that the consolidation of the principles and competition mechanisms, on the one hand, and the growth of the European Union economic competitiveness at international level, on the other hand, do not represent two divergent realities that may come into contradiction and need to be adjusted to achieve a possible „compromise”, but should be considered in a complementary manner by policy makers to target sustainable economic and social development of the European Union in the XXIst century.

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