European Commission - Statement

Statement by Executive Vice-President Margrethe Vestager on a draft proposal for a State aid Temporary Framework to support the economy in the context of the COVID-19 outbreak

Brussels, 17 March 2020

Last night, the European Commission has sent to Member States for consultation a draft proposal for a State aid Temporary Framework to support the economy in the context of the COVID-19 outbreak, based on Article 107(3)(b) TFEU to remedy a serious disturbance across the EU economy.

Executive Vice-President Margrethe **Vestager** said:

"*Managing the economic impact of the COVID-19 outbreak requires decisive action. We need to act fast. We need to act in a coordinated manner. EU State aid rules provide a toolbox for Member States to take swift and effective action. We have two common goals:*

First, that businesses have the liquidity to keep operating, or to put a temporary freeze on their activities, if need be, and that support reaches the businesses that need it. Second, that support for businesses in one Member State does not undermine the unity that Europe needs, especially during a crisis. Because we have to be able to rely on the European single market, to help our economy weather the outbreak, and bounce back strongly afterwards.

With this in mind, the Commission will enable Member States to use the full flexibility foreseen under State aid rules to tackle this unprecedented situation.

On Friday, the Commission adopted a Communication setting out the many possibilities that already exist. I also announced that we are working on a new Temporary Framework, to complement existing possibilities. This is based on Article 107(3)(b) TFEU to remedy a serious disturbance in the economy.

Since Friday, the measures that Member States have had to take, to slow down the spread of the COVID-19 outbreak, have made this work even more urgent and necessary. We have therefore accelerated our work and have last night sent a draft proposal to seek the views of Member States to make sure that it is fit for purpose. It will apply across the entire Union.

Our aim is to have the new Temporary Framework in place in the next few days. For comparison, during the financial crisis it took three weeks from the launch of the internal consultation of the framework until adoption. We are able to act even faster today than we did in response to the financial crisis a decade ago because we are building on the experience gained from the 2009 framework.

The new Temporary Framework will enable Member States to (i) set up schemes direct grants (or tax advantages) up to €500,000 to a company, (ii) give subsidised State guarantees on bank loans, (iii) enable public and private loans with subsidised interest rates. Finally (iv), the new Temporary Framework will recognise the important role of the banking sector to deal with the economic effects of the COVID-19 outbreak, namely to channel aid to final customers, in particular small and medium-sized enterprises. The Temporary Framework makes clear that such aid is direct aid to the banks' customers, not to the banks themselves. And it gives guidance on how to minimise any undue residual aid to the banks in line with EU rules.

The new Framework does not replace but complements the toolbox with many other possibilities already available to Member States in line with State aid rules – be it general measures to provide wage subsidies and suspension of tax payments for all companies, or providing compensation to companies for damages suffered due to the COVID-19 outbreak. Compensation can in particular be useful to support sectors that were hit particularly hard.

To give one important example: if we want to minimise permanent layoffs and damage to the European aviation sector, urgent action is necessary. The Commission is ready to work with Member States immediately to find workable solutions that preserve this important part of our economy, using the full flexibility under State aid rules. For example, compensation can be granted to airlines under Article 107(2)(b) TFEU for damages suffered due to the COVID-19 outbreak, even if they have received rescue aid in the last ten years. In other words, the "one time last time" principle does not apply.

Finally, the Commission is also working on templates to facilitate the work to design measures to tackle the impact of the COVID-19 outbreak. The first one on how to compensate companies for damages will *be put online today. We have set up a mailbox and a dedicated phone line for Member States, which is open seven days a week. And most importantly, we have made sure that our decisions can be taken very fast.*

All of this to say: the European Commission will continue to provide the necessary support to governments and citizens."

Background

The proposed newTemporary Framework will enable four types of aid: i) direct grants and selective tax advantages, ii) State guarantees for loans taken by companies from banks, iii) subsidised public loans to companies, and iv) safeguards for banks that channel support to the real economy.

The following proposal has been sent to Member States for consultation of their views:

- **Aid in the form of direct grant or tax advantage:** Member States would be able to set up schemes to grant up to €500,000 to a company to address its urgent liquidity needs. This can be done through a direct grant or a tax advantage.
- **Aid in the form of subsidised guarantees on bank loans:** Member States can grant State guarantees or set up guarantee schemes supporting bank loans taken out by companies. These would have subsidised premiums, with reductions on the estimated market rate for annual premiums for new guarantees for SMEs and non-SMEs. There are some limits foreseen on the maximum loan amount, which are based on the operating needs of the companies (established on the basis of the wage bills or liquidity needs). The guarantees may relate to both investment and working capital loans.
- **Aid in the form of subsidised interest rates:** Member States can enable public and private loans to companies with subsidised interest rates. These loans must be granted at an interest rate, which is at least equal to the base rate applicable on 1 January 2020 plus the credit risk premium corresponding to the risk profile of the recipient, with different rates for SMEs and non-SMEs. The base rate is fixed in order to provide more certainty on the financing conditions in this volatile context. As with the possibility to provide subsidised guarantees, the are some limits regarding the maximum loan amount, which are based on the operating needs of the companies (established on the basis of the wage bills or liquidity needs). The loans may relate to both investment and working capital needs.
- The fourth and final measure recognises the important role of the **banking sector** and other financial intermediaries to deal with the economic effects of the COVID-19 outbreak. The Temporary Framework makes clear that, if Member States decide to channel aid to the real economy via banks, this is direct aid to the banks' customers, not to the banks themselves. It also gives guidance on how to minimise any undue residual aid to banks and to make sure that the aid is passed on, to the largest extent possible, to the final beneficiaries in the form of higher volumes of financing, riskier portfolios, lower collateral requirements, lower guarantee premiums or lower interest rates.
- Should direct aid to banks become necessary under Article 107(2)(b) TFEU to compensate for damages resulting directly from the COVID-19 outbreak, such aid would not be considered as extraordinary public support under State aid rules. Similarly, this would also apply to any residual indirect aid granted to banks under the Temporary Framework.
- **General features for all above measures** include that companies that entered into difficulty after 31 December 2019 are eligible for aid under this Temporary Framework. This is to ensure that the Temporary Framework is not used for taxpayer support unrelated to the COVID-19 outbreak. Furthermore, the Temporary Framework also foresees general transparency obligations.

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