

State Aid Granted by the European Union for the Recovery of the HORECA Sector

Ioana Claudia Dobre

"Ovidius" University of Constanta, Faculty of Economic Sciences, Romania
dobre_claudia@yahoo.com

Abstract

In this paper, I will analyze the state aid granted in the member countries for the recovery of accommodation and food services, severely affected by the pandemic, coming to the conclusion that in Romania the measures were applied later than in other countries.

Thus, through the "HoReCa Scheme", the beneficiary companies in Romania have received state aid recently, after almost 2 years of deep crisis. In the meantime, more than a third of companies have gone bankrupt.

Starting from the presentation of state aid in European legislation and the need for it to support economies, I will then draw attention to the major impact of the pandemic on the HORECA sector at European level.

Key words: state aid, subsidies, competition policy, horeca, pandemic

J.E.L. classification: D6, H25, L10, L52

1. Introduction

State aid is a form of state intervention used to promote a certain economic activity, resulting in more favourable treatment of certain economic sectors, regions or activities. By its nature, State aid distorts competition because:

- it does not have a positive effect on the economic environment and in particular on the beneficiaries either through incentives or coercion;
- it has an inhibiting effect on non-subsidised economic agents, as their contribution to economic and social progress can no longer be proportionately rewarded;
- supports loss-making activities and firms, which disadvantages consumers;
- generates or accelerates inequalities between economic agents on non-competitive or administrative grounds;
- it redistributes income and property, as public aid is derived from income taken from other economic agents;
- infringes the principle of economic competition, because the activities of the agents are no longer carried out on equal terms.

The pandemic has intensified the need for State aid in many areas of the economy. Among these, the HORECA sector was one of the most affected by the pandemic, which led to its prioritisation. The way aid was granted in member countries, including our country, is described in one of the sub-chapters. We will note the delay in the measures taken in our country compared to other countries.

2. Literature review

The subject touched upon in this paper has been little analysed in the literature, so we can bring to attention two studies, namely Latham & Watking, "Public finance support (STATE AID) granted to the hospitality sector", 2020 and Vestager, Margrethe, "Romania COVID-19: Framework scheme for State aid in the form of subsidised loans and guarantees on loans", 2020.

In first study, we can see the state aid situation for the Horeca sector in European Union member countries in May 2020 - 2 months after the outbreak of the pandemic. Of the 27 member countries, 12 have immediately applied measures in the Horeca sector, Romania not being among them.

In the second half of 2020, the European Commission approved the granting of state aid in the form of subsidised loans and guarantees on loans in Romania, for several sectors, including the HORECA sector.

3. Research methodology

We use the analysis as a research method, regarding the studies carried out so far on the implications of the measures adopted by the state in the field of state aid. We also call for a comparative analysis, between the countries that received this aids.

The main objective of our qualitative research is to understand the growing role of state aid in the new conditions caused by the pandemic. This method helps us in explaining the analyzed phenomenon. Is an observation-based research method that we used to understand a phenomenon in depth without using numerical data for it.

4. Findings

4.1. State aid - part of European competition policy

Why is there a European state aid policy? The starting point is that free and open markets force firms to compete on their own merits and become more efficient, productive and innovative. Fair competition means not only better positioning firms to compete globally, but also providing higher quality goods and services at a lower price for the benefit of consumers, and that is the most important thing.

State aid control is essential for maintaining a level playing field, which is a prerequisite for free and fair competition in the Single Market. State aid discipline exists to ensure that national governments do not engage in outdated policies - of using aid to protect their own companies from competition without doing anything to prepare them for competitiveness. National, regional and local governments must be made to think twice before engaging in bidding wars designed to protect and support national 'champions'. Such anachronistic policies can only lead to less global competition in the European market, to companies that are ill-prepared for such competition and to higher prices for citizens - taxpayers and consumers alike.

State aid in the European Union covers only those measures which involve a transfer of state resources, including in the notion of state - national, regional authorities, banks or public foundations. The ECJ ruled that this concept of state aid "includes not only positive benefits, such as subsidies, but also interventions which, in various forms, have tamed the charges which are normally included in the budget of an undertaking". Case C-39/94, (1996), ECR I-3547, in SFEI v La Poste

The State becomes suspect when it does not behave like a normal investor in the market. According to this, a subsidy, granted by the public authorities, which creates an economic advantage from which the undertaking would not have benefited under normal market conditions, is considered to infringe the competition rules. Such economic advantages can be: buying state property at below market price, selling private property to the state at above market price, obtaining privileged access to infrastructure without paying tax, etc.

To be prohibited, state aid must be selective and affect competition and trade between Member States. Where the State confers an advantage, even a small one, on a particular undertaking operating in a sector characterised by intense competition, there is a distortion of competition or a risk of such distortion (Case C-5/2001 Belgium v Commission).

Even aid to support foreign direct investment may affect trade between Member States. It is possible that competitors of the aided undertaking may try to increase their market share in those third countries without receiving any aid. This is a position that the Commission confirmed when it

issued a negative final decision in the first notified case of aid granted to foreign direct investment in favour of a large undertaking (Case C-5/2001, Belgium v Commission).

The subsidy can be used as an instrument of industrial policy and for the purpose of developing activities characterised by new technologies in order to establish a national champion capable of defending domestic markets and winning export markets. The industrial policies currently pursued by the European Union are less interventionist and competition policy is seen as complementary to them (European Commission, 1991).

Of course, some aid is justified for social or regional policy reasons, while other aid is necessary to guide companies through the restructuring and adaptation processes that are needed at an acceptable social cost to survive in the single market. Perhaps the biggest mistake in the competition culture that has developed in the European Union is the continuing tendency of Member States to provide financial support to local firms. Such support undermines public confidence in a 'level playing field', essential for European integration.

EU law does not prohibit all state aid. However, it subjects such policy instruments to the requirements of the Community legal order. National industrial policy is not prohibited, but it must not be applied in a way that discriminates on the basis of nationality or raises unlawful barriers to trade. In order to ensure that state aid is properly scrutinised in the light of the requirements of Community law, there is a special mechanism whereby the Commission must be notified of the granting of such aid in order to establish its compatibility with Treaty rules. These mechanisms provide the basis for a high level of cooperation between Community institutions and national authorities.

With the signing of the Treaty of Rome (1957), state aid policy became an integral part of competition policy. The legal basis consists of Articles 87-89 EC Treaty and Articles 4, 56, 95, ECSC Treaty (Art. 107 TFEU).

In the context of the modernisation process of state aid at European level, the Romanian authorities have started the process of adjusting the national legislation governing, from a procedural point of view, the preparation, granting, monitoring and control of state and/or de minimis aid granted in Romania. In this respect, a first step has been the modification of national procedures in the field of state aid. Thus, as of 1 January 2015, Emergency Ordinance no. 77 of 3 December 2014 on national procedures in the field of state aid and for the amendment and completion of Competition Law no. 21/1996, amended and supplemented by Law no. 20/2015, which provides the general national framework to meet EU requirements for granting state aid, came into force (Mihaela Marinescu and Lucian Stroe, 2020).

4.2. European Union Tourism Recovery Strategy

The situation of the hospitality sector during the pandemic period can be briefly presented using two graphs, which show, at EU level, the decrease in turnover in this sector compared to other sectors of the economy, as well as the decrease in the number of tourists in the first year after the outbreak of the pandemic.

Accommodation and food services have been hit particularly hard by the crisis, with double-digit declining rates of change in all quarters since Q1 2020 except Q3 2020. Turnover in these services is currently just over half of Q1 2020.

According to Eurostat 2022, the tourism sector covers a wide range of economic activities that provide goods and services required by visitors to support, directly or indirectly, their tourism activity: transport services facilitating the movement of people, travel agents and tour operators; accommodation services; restaurant and catering services; cultural, sporting and recreational facilities; and local tourism goods and services.

Figure no. 1
EU development of services turnover, Q1 2020 - Q2 2021

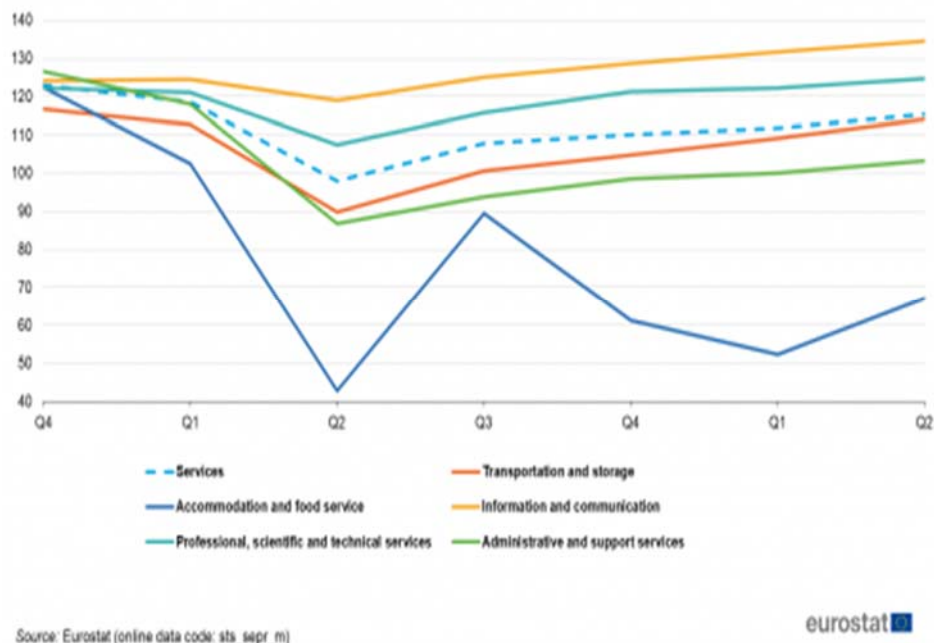
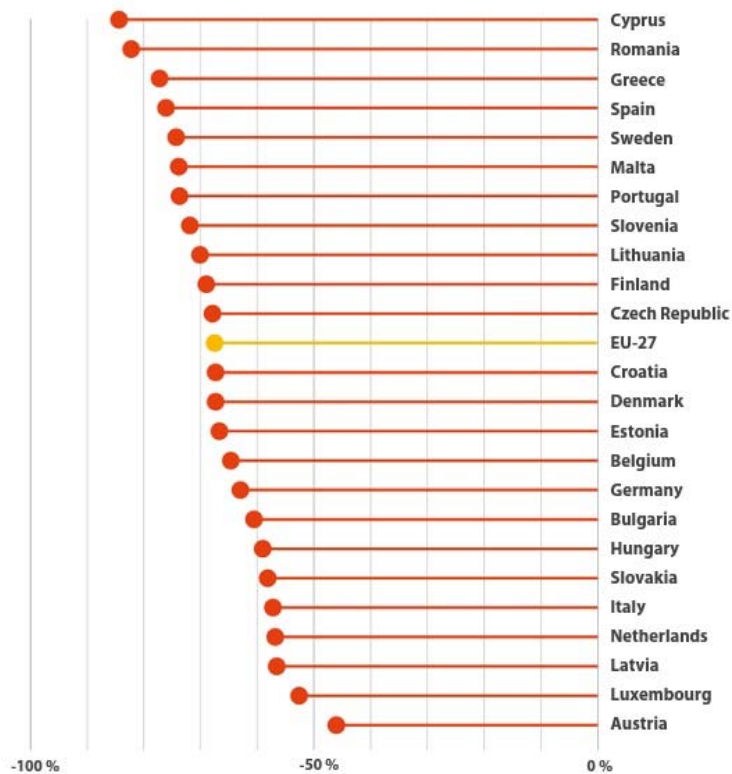


Figure no. 2 Number of foreign tourists in the EU, evolution observed for the period January-September 2019 compared to the same period of 2020



We see in the graph above that our country was among the most affected on the decrease in the number of tourists in the period January-September 2020 compared to 2019. The decrease was more than 80%, which shows us that the Horeca sector in our country has been hit hard by the pandemic.

The tourism industry, in the pandemic period and beyond, has benefited from support in European countries that have taken measures in this direction. Recovery strategies were implemented effectively and immediately in countries such as: Austria, France, Portugal and Spain. Countries such as Romania, Slovenia and Slovakia implemented the strategies with considerable delay, allocating the lowest amounts in the EU to aid schemes. (Latham and Watking, 2020)

For example, Austria has implemented an aid scheme for companies that experienced drastic decreases in turnover during the pandemic period compared to 2019. By applying this scheme, these companies can cover up to 90% of their fixed costs.

France has set up a solidarity fund to support small businesses. This solidarity fund consists of a limited amount of money, exempt from taxes and contributions.

The French government has adopted more than 9 measures to support companies active in the hotel, catering, café, tourism, events, sports and cultural and related sectors, which have experienced a significant downturn in their business activity.

In the UK, hospitality businesses are entitled to a one-off cash grant of up to £25,000 from the local council in the area where they operate. In August 2020, the Eat out to Help out scheme was also implemented, which aimed to help businesses in the HoReCa industry re-open after the pandemic lock-in, with the UK government offering a 50% discount on the cost of food and/or non-alcoholic drinks consumed at participating businesses across the country.

In Portugal, aid in the form of EUR 3 billion was granted through four guarantee schemes, including aid to businesses operating in the tourism sector, restaurants and similar businesses.

In Slovakia, companies operating in all sectors directly affected by the COVID-19 outbreak, under measures adopted by the Slovak authorities, were able to benefit from a €200 million scheme. Among the beneficiaries of this measure are restaurants and hotels. The measure was open to all sectors except the financial sector and will cover part of the rental costs of the period during which the tenant was forced to close or exclude the public from the establishment. The rental agreements had to have come into force before 12 March 2020. The aid provided consists of a grant equal to the rent reduction negotiated by the tenants with the landlord, but is limited to a maximum of 50% of the original rent.

4.3. Tourism Recovery Strategy in Romania - HoReCa Scheme

The HoReCa scheme was launched in 2021 to compensate businesses in the tourism, catering and event organisation sector whose activity was affected in the context of the COVID 19 pandemic, through aid in the form of grants amounting to 20% of the difference between the turnover obtained from eligible activity for 2019 and 2020, but not more than the equivalent in RON of the sum of €800,000/single business.

We remind you that by 31.12.2021 payments have been made for all contracted beneficiaries, at a first prorated rate of 46.87%, totaling the budget allocated for last year in the amount of 999,926,000 lei. On 20 January 2022, the Ministry of Entrepreneurship and Tourism transferred funds amounting to 1,133,477,030 lei for the payment of the second pro rata, 53.13%, related to the HoReCa state aid scheme. (Ministerul Antreprenoriatului și Turismului, 2022)

5. Conclusions

From the analysis undertaken in this paper, we have observed that state aid has been granted to the Horeca sector by each country but has been implemented differently. The countries that adopted the most measures and the fastest were France, Spain and Portugal, while in Romania, the Romanian Government adopted the HoReCa scheme late, almost 2 years after the outbreak of the pandemic and the crisis that severely hit this sector.

State aid is a very important support for the economic recovery of beneficiary companies, but it is necessary that this aid is granted as quickly as possible in order to be effective. In the first year of the pandemic alone, 1/3 of Romanian firms in the HORECA sector went bankrupt. If state aid had been granted from the first year, these firms would have been saved.

6. References

- European Commission, 1991. *XII Report on Competition Policy*, [online] Available at: https://ec.europa.eu/competition/publications/annual_report/ar_1982_en.pdf
- European Court of Auditors, 2021. *EU Support to tourism Need for a fresh strategic orientation and a better funding approach*, [online] Available at: https://www.eca.europa.eu/Lists/ECADocuments/SR21_27/SR_EU-invest-tourism_EN.pdf
- Eurostat, 2022. *Impact of Covid-19 crisis on services*, [online] Available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Impact_of_Covid-19_crisis_on_services
- Latham and Watking, 2020. *Public finance support (STATE AID) granted to the hospitality sector*, [online] Available at: <https://www.lw.com/thoughtLeadership/COVID-19-EU-State-Aid-Granted-to-the-Hospitality-Sector>
- Marinescu, M., Stroe, L. 2020. *Ghid privind ajutorul de stat [State aid guidelines]*, [online] Available at: https://efaidnbmnnnibpcajpcglclefindmkaj/http://www.ajutordestat.ro/wp-content/uploads/2020/02/GHID-PRIVIND-AJUTORUL-DE-STAT_1140ro.pdf
- Ministry of Entrepreneurship and Tourism, 2022. *Vești bune pentru beneficiarii schemei de ajutor de stat horeca: au început plățile pentru a doua prorată!* [Good news for the beneficiaries of the horeca state aid scheme: payments for the second pro-rata have started!] [online] Available at: <http://turism.gov.ro/web/2022/01/20/vesti-bune-pentru-beneficiarii-schemei-de-ajutor-de-stat-horeca-au-inceput-platile-pentru-a-doua-prorata/>
- Vestager, M., 2020. *Romania COVID-19: Framework scheme for State aid in the form of subsidised loans and guarantees on loans*, [online] Available at: https://ec.europa.eu/competition/state_aid/cases1/202033/286652_2179984_96_2.pdf
- * * * Case C-39/94, (1996), ECR I-3547, SFEI versus La Poste
- * * * Case C-5/2001, Belgia versus Comisie
- * * * Case C-5/2001, Belgia versus Comisie