European Commission - Press release

State aid: Commission expands Temporary Framework to further support micro, small and start-up companies and incentivise private investments

Brussels, 29 June 2020

The European Commission has adopted a third amendment to extend the scope of the State aid Temporary Framework adopted on 19 March 2020 to support the economy in the context of the coronavirus outbreak. The Temporary Framework was first amended on 3 April 2020 to increase possibilities for public support to research, testing and production of products relevant to fight the coronavirus outbreak, to protect jobs and to further support the economy. On 8 May 2020, the Commission adopted a second amendment extending the scope of the Temporary Framework to recapitalisation and subordinated debt measures.

Executive Vice-President Margrethe **Vestager**, in charge of competition policy, said "*Micro, small and start-up companies are crucial for the economic recovery of the Union. They have been particularly affected by the liquidity shortage caused by the coronavirus outbreak, and face greater difficulties to access financing*. *Today, we have extended the Temporary Framework to enable Member States to support these companies further. We have also introduced conditions that provide incentives for private investors to participate alongside the State in recapitalisations, thus reducing the need for State aid and the risk of distortions to competition. Finally, we recall that State aid shall not be granted on the condition of the relocation of production or of another activity of the beneficiary from elsewhere in our Union – because the Single Market is our greatest asset. We continue to work closely with Member States to help European businesses weather this crisis and bounce back strongly, whilst maintaining a level playing field to the benefit of all European consumers and businesses."*

Support to support micro and small companies including start-ups

The main purpose of the Temporary Framework is to provide targeted support to otherwise viable companies that have entered into financial difficulty as a result of the coronavirus outbreak. Therefore, companies that were already in difficulty before 31 December 2019 are not eligible for aid under the Temporary Framework, but may benefit from aid under existing State aid rules, in particular the Rescue and Restructuring Guidelines. These Guidelines set clear conditions according to which such companies must define sound restructuring plans that will allow them to achieve long-term viability.

At the same time, micro and small companies (i.e. undertakings with less than 50 employees and less than EUR 10 million of annual turnover and/or annual balance sheet total)have been particularly affected by the liquidity shortage caused by the economic impact of the current coronavirus outbreak, exacerbating their existing difficulties to access financing compared to larger enterprises. If left unaddressed, these difficulties could lead to a large number of bankruptcies of micro and small companies, causing serious disturbances for the entire EU economy.

Today's amendment extends the Temporary Framework to enable Member States to provide public support under the Temporary Framework to all **micro and small companies**, even if they were already in financial difficulty on 31 December 2019.

This will apply, unless such companies are in insolvency proceedings, have received rescue aid that has not been repaid, or are subject to a restructuring plan under State aid rules. Given their limited size and involvement in cross-border transactions, temporary State aid to micro and small companies is less likely to distort competition in the Internal Market than State aid to larger companies.

This amendment also effectively increases the possibilities to support start-up companies, the vast majority of which fall within the micro and small companies cluster, especially innovative ones which may be loss-making in their high-growth phase, which are crucial for the economic recovery of the Union.

The Commission recalls further that all small and medium-sized enterprises that were in existence for less than three years on 31 December 2019 could already benefit from the aid measures laid down in the Temporary Framework provided they are not in insolvency proceedings or have received rescue aid that has not been repaid or are subject to a restructuring plan under State aid rules.

Incentives for private investors to participate in coronavirus-related recapitalisation aid measures

The Commission has also adapted the conditions for recapitalisation measures under the Temporary Framework for those cases where **private investors contribute to the capital increase of companies together with the State**.

These changes will encourage capital injections with significant private participation in companies, limiting the need for State aid and the risk of competition distortions. In particular, if the State decides to grant recapitalisation aid, but private investors contribute to the capital increase in a significant manner (in principle at least 30% of the new equity injected) at the same conditions as the State, the acquisition ban and the cap on the remuneration of the management are limited to three years. Furthermore, the dividend ban is lifted for the holders of the new shares as well as for existing shares, provided that the holders of those existing shares are altogether diluted to below 10% in the company.

This will increase the incentives for companies to seek market as well as State contributions to their capital needs, whilst maintaining safeguards to preserve effective competition in the Single Market.

Furthermore, in line with the principle of neutrality towards public or private ownership of the Treaty on the Functioning of the European Union, today's amendment will also enable companies with an existing State shareholding to raise capital from their shareholders similar to private companies. Where the conditions above as regards the participation of private investors in the capital increase are met and the State is an existing shareholder (*i.e.* was a shareholder already before the granting of recapitalisation aid) investing pro rata to its existing shareholding, the Commission does not consider it necessary to impose specific conditions as regards the State's exit.

Protection of the Single Market and ensuring a level playing field

With the amendment, the Commission has clarified that aid should not be conditioned on the **relocation** of the production activity or of another activity of the beneficiary from another country within the European Economic Area (EEA) to the territory of the Member State granting the aid, since such a condition would be particularly harmful for the internal market.

Background

On 19 March 2020, the Commission adopted a new State aid Temporary Framework to support the economy in the context of the coronavirus outbreak, based on Article 107(3)(b) of the Treaty on the Functioning of the European Union. The Temporary Framework was amended on 3 April and 8 May 2020. The Temporary Framework recognises that the entire EU economy is experiencing a serious disturbance. It enables Member States to use the full flexibility foreseen under State aid rules to support the economy, while limiting negative consequences to the level playing field in the Single Market.

On 13 March 2020, the Commission adopted a Communication on a Coordinated economic response to the COVID-19 outbreak setting out these possibilities. For example, Member States can make generally applicable changes in favour of businesses (e.g. deferring taxes, or subsidising short-time work across all sectors), which fall outside State Aid rules. They can also grant compensation to companies for damage suffered due to and directly caused by the coronavirus outbreak. This can be useful to support particularly impacted sectors, such as transport, tourism, hospitality and retail.

IP/20/1221

Press contacts:

Arianna PODESTA (+32 2 298 70 24)
Giulia ASTUTI (+32 2 295 53 44)
Maria TSONI (+32 2 299 05 26)

General public inquiries: Europe Direct by phone 00 800 67 89 10 11 or by email