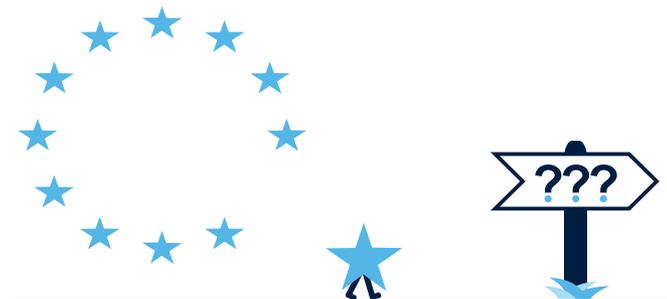

State aid beyond the EU: the impact of Brexit

Prepared for Chillin' Competition's State Aid workshop

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Overview

1

Have state aid rules been a constraint in the UK?

2

State aid rules and industrial strategy

3

CMA-enforced rules and the nations within the UK

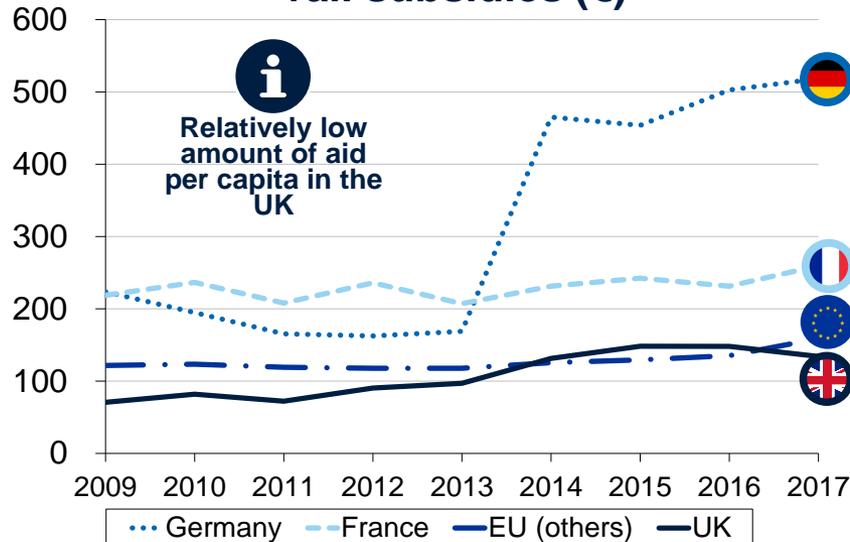
4

How could CMA enforcement differ?

Have state aid rules been a constraint in the UK? (I)

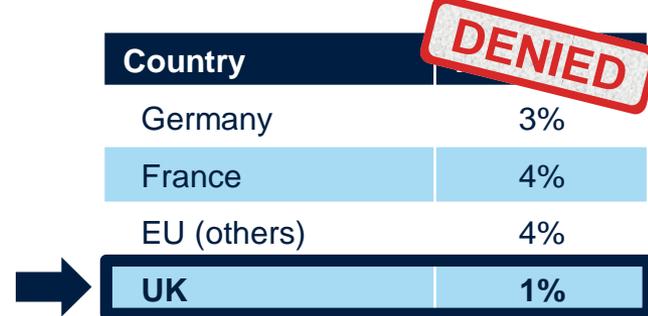
Simply read, the data does not directly support the claim...

State aid per capita, excluding rail subsidies (€)



Source: Oxera analysis, based on the Commission's State aid scoreboard.

Proportion of negative state aid decisions between 2009 and 2018



Source: Oxera analysis, based on a Commission case search.

the UK is known as a supporter of state aid rules

State aid rules

Have state aid rules been a constraint in the UK? (II)

... but does the data show all there is to it?

A number of potential 'constraining effects' would not be shown by the data

- 1 Even if the data shows a constraint, it only shows **an average**
→ asymmetries in the effect of Brexit / perceived desirability of intervention
- 2 Low proportion of **negative decisions** may just indicate high level of risk aversion
- 3 Aid amounts awarded may have been determined by thresholds set in **Guidelines** and **GBER**, and could be higher if rules were relaxed

State aid rules and industrial strategy (I)

Current debates on the restrictive nature of state aid rules

It is possible a push for public intervention would occur in the UK

The 2017 Industrial Strategy

- government announced '**Sector Deals**'
- some measures under **remit of existing state aid rules**
- **8 deals agreed**, 44 more in discussion



Project After: UK government officials working on a plan to 'kick-start' the economy if no deal

“ Civil servants are particularly concerned with staving off economic damage to the sectors and regions most exposed to a no-deal Brexit such as the agriculture, automotive and pharmaceuticals industries and parts of the country including the North East and the Midlands.

Financial Times, 02/19 ”

What about potential changes in government?



State aid rules and industrial strategy (II)

The example of British Steel's collapse



- placed in compulsory liquidation in late May 2019
- 5,000 direct jobs, more in the supply chain
- support from government had been sought

“The government can only act within the law, which requires any financial support to a steel company to be on a commercial basis. I have been advised that it would be unlawful to provide a guarantee or loan on the terms of any proposals that the company or any other party has made.

Theresa May, in the House of Commons, May 2019”



National
debate on
state aid rules



CMA-enforced rules and the nations within the UK

State aid rules and increased devolution

- increased devolution within the UK = increased scope for local economic policies
 - devolved administrations have their own industrial strategies
 - calls for 'free zones' and additional 'enterprise zones' to boost the economy after Brexit
- it is likely the CMA would have some form of enforcement powers



Independent, national
control entity with
legal standing

=

mechanism to
incentivise strict
enforcement at the
local level

?

How could CMA enforcement differ?

Considerations within an existing framework

If Commission influence over CMA decisions limited



Potential scope for **national specificities** in enforcement

Example: weight given to distortions to competition and trade in **compatibility assessments**



- positive effects of aid weighed against distortions to trade and competition
- distortions assessed using economic analysis akin to antitrust and mergers
- open question (within the current framework):

? How large is 'too large'?



Conclusions



The data may suggest that state aid has not been a constraint, but it does not tell the full story

Relatively low amounts of aid per capita in UK compared with other European countries



There seems to be a push for further intervention, which could intensify after Brexit, depending on the disposition of any future government towards intervention

Industrial Policy and Sector Deals
Project After
British Steel example



There remain open questions around how enforcement would be carried out, even with similar rules

In particular, how to deal with:

- measures by devolved vs national entities
- interpretation of framework

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