

ZEW policy brief

by Laura Grigolon, University of Leuven; Nina Leheyda, ZEW;
and Frank Verboven, University of Leuven and C.E.P.R. (London)

Public Support to the European Auto Industry: An Integrated Analysis



Research Question
and Relevance

Essential Issues

Public intervention in the automotive industry has a long, global history. In Europe, both, individual member states and the European Union (EU), often allocate public resources to automobile manufacturers through a wide variety of instruments and institutions. This willingness to offer support to the automotive industry was especially evident during the financial and economic crisis of 2009 when this sector was particularly hard hit. Against this backdrop, a recent study funded jointly by ZEW's SEEK Research Programme and the Finance Programme at the University of Leuven outlines and quantifies the different forms that public support to the European auto industry has taken over the past decade.

Key Messages

The European Commission recognises that economic analysis plays an important role in controlling publicly financed aid to the auto industry, and that this aid can exert a distorting effect on competition and trade. However, the relative stringency applied in these economic assessments to determine whether aid may be allocated or not varies from case to case, and it also varies with respect to the particular form that public support will take. In fact, state aid regulations appear to have been relaxed during the 2009 crisis.

Furthermore, the EU does not apply the same principles of economic analysis to so-called “scraping schemes,” nor to loans provided by the European Investment Bank (EIB) — measures frequently applied in response to the 2009 crisis — as it does to its state aid decisions.

● As for quantifying public support to the European auto industry, our lower bound estimate of state aid suggests that the aid declined throughout the pre-crisis period, though it peaked in response to the crisis in 2009.

Moreover, state aid was supplemented by an unprecedented amount of other forms of public support, such as scraping schemes and EIB loans. Taking only state aid into account could significantly underestimate the extent of public intervention in the European auto industry during the 2009 financial and economic crisis.

● We recommend more clarity and transparency on the side of the European Commission concerning ex-ante notification of public support measures, the way they are assessed, as well as their ex-post reporting and monitoring by the Commission.

Economic Assessment of Different Instruments

Quantification of Public Support to the Auto Industry

Public Intervention in the Auto Industry Poses Difficult Questions

Key Messages

We find that the European Commission's economic analysis on the control of state aid to the European auto sector clearly identifies the objectives, incentives as well as the distortionary effects of aid on competition and trade. The stringency of economic assessment, however, varies across different forms of public support and individual state aid cases.

- Moreover, despite its recognition of the fact that aid to the auto sector may distort the market, the Temporary Framework established in 2008 has in effect implied a relaxation on state aid regulation. Large amounts of aid were granted to auto makers without the usual notification and individual assessment requirements.
- Furthermore, France, Germany, Italy, Spain, and the United Kingdom granted an unprecedented amount of public funding to auto manufacturers making use of scrapping schemes during the 2009 crisis. These schemes are subject to technical assessment by the Commission only while still in draft stage, and the outcomes are not disclosed.
- Lastly, EIB loan disbursements increased Europe-wide in response to the crisis. These loans were to ensure that auto-makers would continue to make long-term "green" investments. These loans are subject exclusively to the opinion of the Commission. A substantial assessment of the projects has not yet been published.

Our lower bound estimate of state aid suggests that aid declined throughout the pre-crisis period, though it peaked at EUR 1.2 billion in response to the crisis in 2009. This state aid was then combined with an unprecedented amount of public funding from scrapping schemes amounting to at least EUR 4.0 billion; add to that EIB loans totalling EUR 2.8 billion. After the crisis peaked in 2009, state aid in the two years following fell to below average pre-crisis levels.

Research Question and Relevance

Historically, a good deal of public funds at both the EU and member-state levels have been granted to the European automotive industry. Public authorities view this industry as very important for overall economic welfare. Therefore, the industry tends to receive special protection, especially in times of economic recession.

- Public intervention in the automotive industry, during the 2009 financial and economic crisis nonetheless poses some difficult questions. Does it, for instance, prevent a radical and necessary restructuring of the industry? Or does it effectively facilitate structural adjustments meant to address the diversity of market failures affecting this sector of the economy? Furthermore, even if specific market failures are correctly identified, are they being addressed using the most appropriate instruments?
- In our study we first identify those instruments of public support most relevant to the European auto industry and review the types of economic assessment applied to each. Second, we quantify the amount of public support via these different instruments.

Database

We have collected a unique dataset detailing public transfers to the auto sector in Western European countries — namely Belgium, France, Germany, Italy, the Netherlands, Portugal, Spain, Sweden, and the United Kingdom — for the period 2000-2011, which is based on the Commission's state aid register, the EIB project database, and other European and national sources.

Research Results in Detail

First, our overview of the different channels through which public support is granted (see Table 1) suggests that the European Commission clearly recognises an important role that economic analysis plays in controlling publicly financed aid to the auto industry. On the one hand, market failures affecting the auto industry are well identified and constitute a justification of aid in tandem with equity considerations. On the other hand, the Commission has grown increasingly aware of the distorting effect that aid can have on competition and trade, especially when the aid granted to the auto industry is allocated for regional development or training purposes.

Economic Assessment of Different Instruments

Table 1: Summary of public support measures to the European auto industry

Public support instrument	Level	State aid	Assessment	Assessment type
1. GBER aid*	National	Yes	No	No
2. Regional aid	National	Yes	Yes	Standard/Detailed
3. Training aid	National	Yes	Yes	Standard/Detailed
4. R&D&I aid	National	Yes	Yes	Standard/Detailed
5. R&R aid	National	Yes	Yes	Standard/Detailed
6. Temporary Framework	National	Yes	Yes	Standard
7. EIB loans	European	No	Yes	Opinion
8. Social public support	European/National	No	Yes	No/Standard/Detailed
9. Scrapping schemes	National	No	Yes	Technical

* GBER aid is aid granted under the General Block Exemption Regulation.

Source: own presentation

Second, the legislative framework governing state aid is open to derogation and interpretation. The most glaring derogation is that established by the Temporary Framework in 2008. While the Framework was intended de jure to ameliorate the financial and economic crisis, it de facto implied a relaxation of regulations on state aid. The Framework lacked clearly defined objectives and rules. Notably, there was no formal control over individual state aid.

Third, in response to the crisis, member states granted an unprecedented amount of public support in the form of scrapping schemes. These schemes do not qualify as state aid since ex-ante the measure is assumed not to be selective — i.e. the measure is granted without discrimination, for instance with regard to the origin of the product in question. The Commission assesses the schemes' compatibility with technical regulations and their potential distortionary effect on trade. However, there is no formal compatibility assessment of the schemes with respect to state aid, and no official decision has yet been published.

Fourth, at the European level, loans granted by the EIB constitute a considerable source of support to the auto industry, and these loans are subject to the opinion of the Commission. No substantial assessment of those projects has yet been published, and the Commission is not entitled to request additional information from the granting authority as it would otherwise be in the case of regular state aid grants. The question as to whether the Commission managed to coordinate the instruments for public support of the auto industry within the European Union itself still remains unanswered. We do however recognise the role of the Commission in limiting subsidy races between individual member countries.

Our lower bound estimate of state aid (see Table 2) suggests that state aid to the auto industry declined over the last decade, though it peaked in response to the crisis in 2009. Following this peak, aid in 2010 and 2011 declined to an average that was even lower than pre-crisis level. However, total state aid granted to the European auto industry at the peak of the crisis in 2009 was still less than public support granted through scrapping schemes, EIB loans, and social funds.

Quantification of Public Support to the Auto Industry

Table 2: Quantification of public support to the European auto industry (EUR million)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	Total
State aid instrument													
GBER aid										3.8			3.8
Regional aid	46.0	303.0	590.1	78.5	26.5	106.4	7.4			89.3	15.8	51.4	1314.4
Training aid		19.7	2.7	54.6	4.6	14.2	5.6	23.2	14.7			17.1	156.2
R&R aid						6.5							6.5
Temporary Framework										1125.0	96.8		1221.8
Total state aid	46.0	322.6	592.8	133.1	31.1	127.1	13.0	23.2	14.7	1214.3	112.6	68.5	2698.9
Public support instrument (that does not entail state aid)													
EIB loans	525.0	845.0	400.0	580.0	550.0	245.0	697.0	750.0	650.0	2800.0	2822.0	1195.0	12059.0
– “aid element”	78.8	126.8	60.0	87.0	82.5	36.8	104.6	112.5	97.5	420.0	423.3	179.3	1808.9
EGF support								4.8		15.1	4.3	52.5	76.7
Scrapping schemes									19.2	4057.2	1334.9	12.0	5423.3

Source: own estimations

In conclusion, it is essential to take a broader view of public support rather than limiting assessments to state aid alone, in order to obtain a more comprehensive as well as revealing picture of the nature and effect of public interventions and to evaluate the extent to which protectionism might characterize economic recessions.

Project Profile

Research Team

- **Laura Grigolon**, University of Leuven
- **Dr. Nina Leheyda**, Centre for European Economic Research (ZEW)
- **Professor Frank Verboven, Ph.D.**, University of Leuven and C.E.P.R. (London)

Contact

Dr. Nina Leheyda, e-mail nina.leheyda@kuleuven.be

This policy brief is based on research work done while Nina Leheyda was a researcher at the ZEW. After the completion of this project Nina Leheyda joined the University of Leuven.

Funding

The research programme “Strengthening Efficiency and Competitiveness in the European Knowledge Economies (SEEK)” is funded by the German state of Baden-Württemberg. We also gratefully acknowledge the financial support from University of Leuven Programme Financing, Center of Excellence “Governments and Markets: Regulation and Institutions for a Changing World”.

Publications

Grigolon, Laura, Nina Leheyda and Frank Verboven (2012), “Public Support for the European Car Industry: An Integrated Analysis”, ZEW Discussion Paper No. 12-077, Mannheim.

ZEW

Zentrum für Europäische
Wirtschaftsforschung GmbH
Centre for European
Economic Research

ZEW policy brief series

Publisher: Centre for European Economic Research (ZEW), Mannheim
L 7, 1 · 68161 Mannheim · P.O. Box 10 34 43 · 68034 Mannheim · Germany · Internet: www.zew.de · www.zew.eu
President: Prof. Dr. Clemens Fuest · **Director of Business and Administration:** Thomas Kohl

Editorial responsibility: Prof. Dr. Clemens Fuest

Quotes from the text: Excerpts of the text may be quoted in the original language without explicit permission, provided that the source is acknowledged.

© Zentrum für Europäische Wirtschaftsforschung GmbH (ZEW), Mannheim, 2013