

E.CA Economics

Ex-post assessment of the impact of state aid on competition: Comments

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Introductory comments

- Ex post evaluation: increasingly relevant in the state aid practice
 - GBER 2014: greater reliance on ex-post evaluation (for large aid schemes: annual budget > EUR 150 million)
 - Same for notifiable aid schemes
- EC Methodological Guidance Paper (2014)
 - Strong focus on measuring the effectiveness (incentive effect) of aid schemes
- The Oxera study is interesting (and specific) in that it focuses on
 - The impact of **individual** aid cases (vs. schemes)
 - It focuses on the effects on **competition** (**assuming** the aid had an incentive effect)
 - Useful development into a relatively unexplored area of research

Nexus between incentive effect and distortions

- Assessment of distortive effects of aid requires understanding of the **counterfactual**: what would the company do without aid?
- Close link to the question of the **incentive effect**
 - Without knowing whether the aid was effective/necessary to change the firm's behaviour, it is not possible to really appreciate the effects of the aid on the market

Either

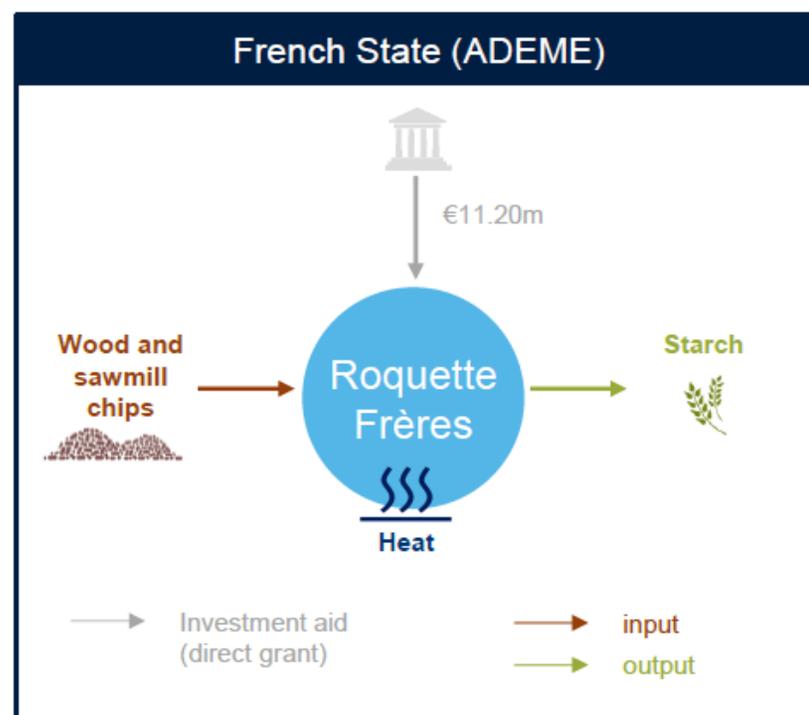
- Aid is effective in achieving in the stated objective (e.g. fostering R&D, energy savings, ...): direct effect on the market

or

- Aid is *not* effective: potential indirect effects
 - windfall profit to the firm: what impact?
 - aid is given to achieve "something else"? (concealed support to preserve jobs, investment, drive location choice...)

Case study – aid to Roquette Frères (2010)

- Aid for the construction of a wood fuelled biomass plant to aid to Roquette Frères, a large producer of starch and starch derivatives



Source: Oxera (2018)

Counterfactual / potential impact

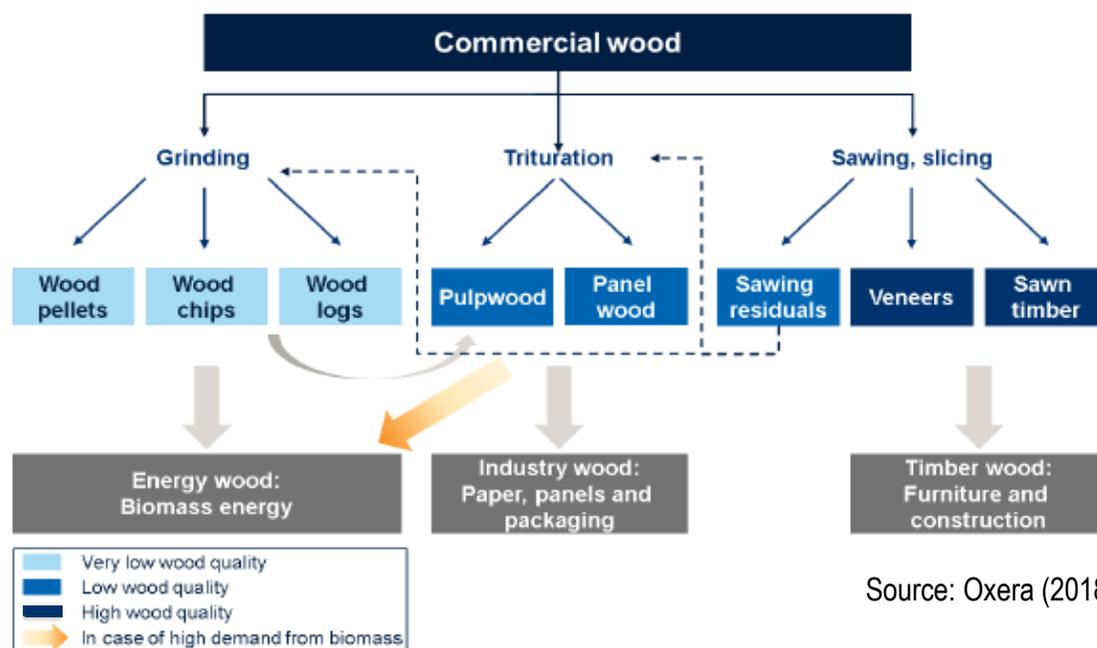
- Counterfactual used in the study = the Commission's counterfactual
 - “in the absence of the aid, RF would not have constructed the biomass plant, as the expected return would have been below the level required. Therefore, RF would have supplied its own heat using natural gas.”
- Various potential impacts on competition considered
 - Output side:
 - Starch & starch derivatives → *Study calculates small effect on total cost levels. (But variable costs likely to matter more?)*
 - Heat production
 - Electricity production
 - Input side
 - Wood and sawmill chips → *Main focus of the study: any impact on*
 - (i) *prices (i.e. price increases) in this input market*
 - (ii) *available volumes for competing buyers of inputs (e.g. paper, packaging and panel producers) and/or*
 - (iii) *their performance?*
 - Natural gas

Market definition / wood

- Correct initial focus on energy wood
- Some demand & supply substitution with (low grade) industrial wood

• In this case market definition exercise similar to antitrust:

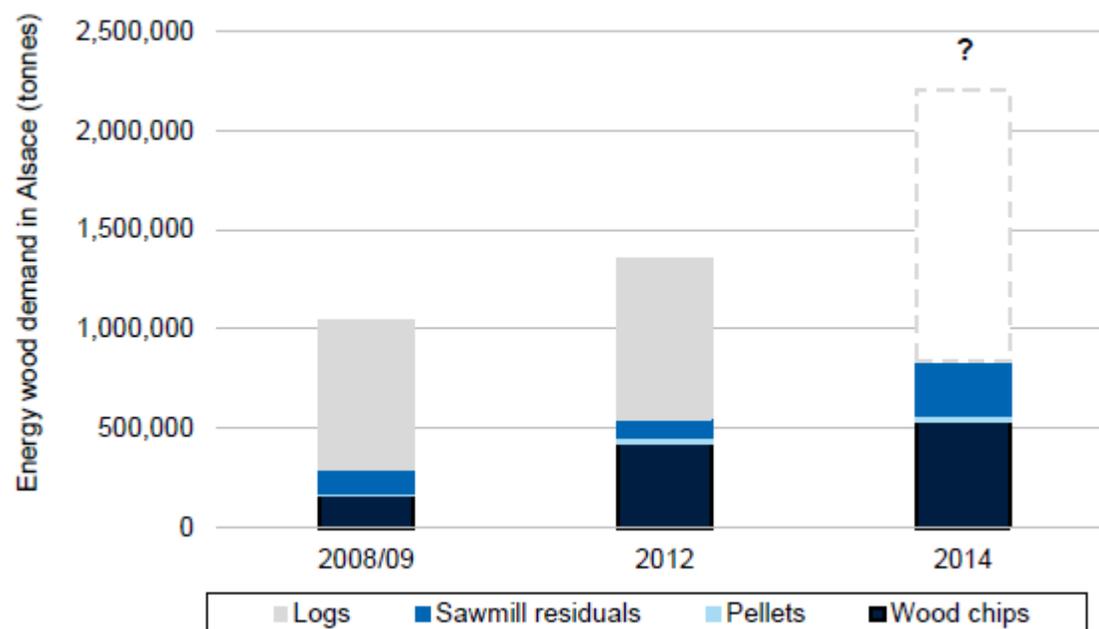
- In the face of potential price **increases** (due to the increase in demand), what are the alternative options for buyers? (SSNIP logic applies)
- Often in state aid cases, the primary focus is on which firms are affected when prices **decrease** (due to the subsidy)



Source: Oxera (2018)

Impact on quantities

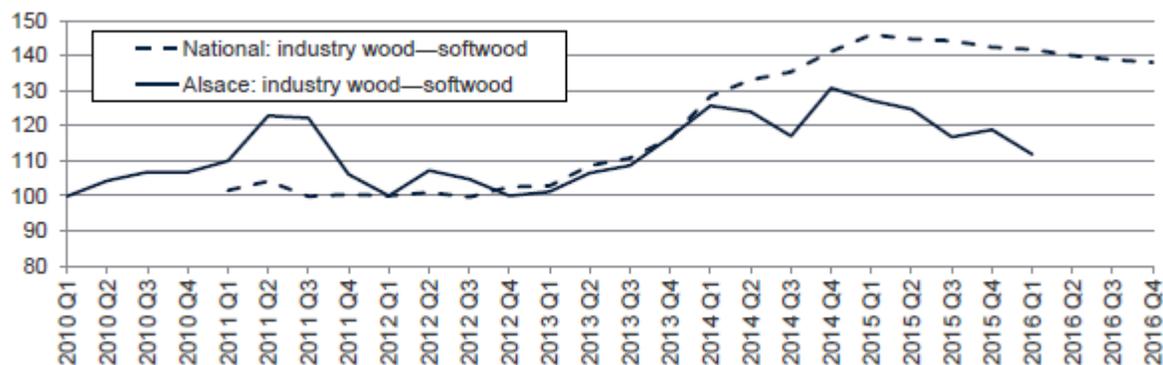
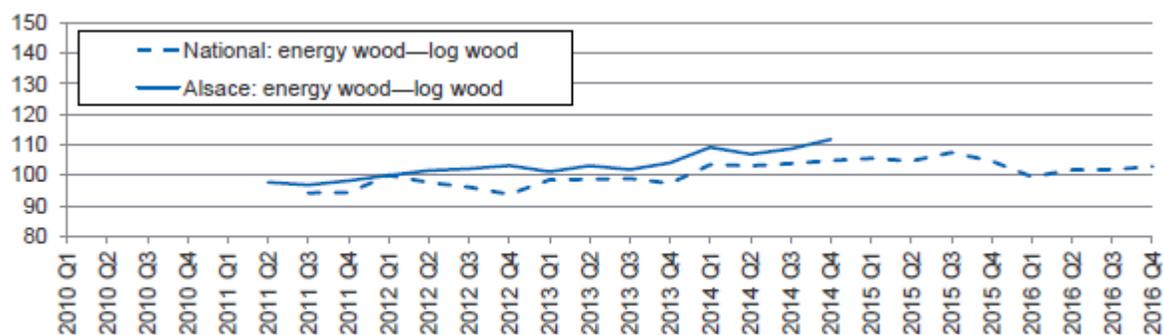
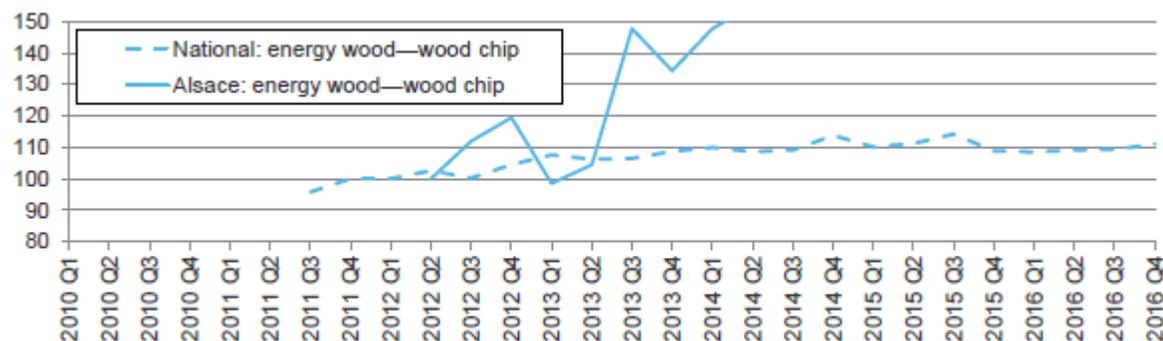
- Demand increase in the Alsace region
 - Additional consumption by RF project approx. 150000 tonnes, but not in itself deemed so relevant (?)
 - Study emphasizes potential cumulative impact with other similar projects
- Less/no data available for regional supply of wood, but understood to be lower growth (inelastic supply)



Source: Oxera (2018)

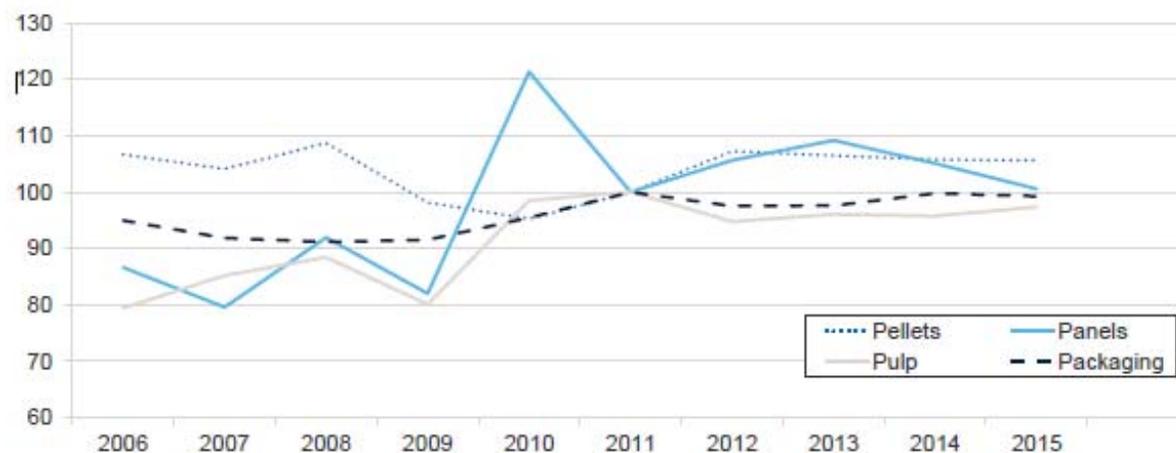
Impact on wood prices

- Some differential price impact observed, esp. on wood chips
 - Suggests regional markets
 - But not possible to distinguish impact of RF vs. other projects
 - Less clear for log wood: explanation?
- Increase in (low quality) industrial wood prices also associated to increased demand for energy wood
 - Not clear in the data (and different explanations possible)
- Data availability issue



Impact on performance/activities other wood buyers

- Evolution of the share of raw material costs relative to buyers' revenues (index = 100)
 - Impact (correctly) viewed as not very significant
 - Limited pass-on possibilities



Source: Oxera (2018)

- Also no visible impact on other indicators (EBITDA, employment), but data availability limited

Further considerations

- Distortions may occur not only in product markets and specific input markets, but also in terms of location
 - E.g. subsidies to avoid relocation
 - Ex-post state aid evaluation (both of schemes and individual cases) may only give partial answers on the impact of subsidies on competition
 - The overall impact on competition also depends on the presence of subsidy schemes in other countries, and on potential reactions (countermeasures)
 - Subsidy races may develop between countries/regions
- wider equilibrium perspective may be relevant (but difficult to measure)

Thank you!

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