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The New Political Economy of EU State Aid Policy

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Abstract Despite its importance and singularity, the EU's state aid policy has attracted less scholarly attention than other elements of EU competition policy. Introducing the themes addressed by the special issue, this article briefly reviews the development of EU policy and highlights why the control of state aid matters. The Commission's response to the current economic crisis notably in banking and the car industry is a key concern, but the interests of the special issue go far beyond. They include: the role of the European Commission in the development of EU policy, the politics of state aid, and a clash between models of capitalism. The special issue also examines the impact of EU policy. It investigates how EU state aid decisions affect not only industrial policy at the national level (and therefore at the EU level), but the welfare state and territorial relations within federal member states, the external implications of EU action and the strategies pursued by the Commission to limit any potential disadvantage to European firms, and the conflict between the EU's expanding legal order and national.

Keywords state aid · European Union · European Commission · market regulation · Europeanization

JEL classification D73 · F53 · H83 · K20 · L32 · L38 · L44 · L88 · L98 · O52

1 Introduction

The European Union's regulation of state aid is inherently political. It restrains the ability of democratically elected governments to invest and subsidise as they wish. It is clearly

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economic. State aid has the ability to distort markets and undermine competition. It also produces legal clashes as the EU's evolving legal order confronts established national laws and historic policy settlements. Yet the control of state aid has long been the 'poor relative' of competition policy (Hansen et al. 2004: 182), a 'Cinderella' (Bishop 1995: 331) or 'ugly duckling' (Ahlborn and Berg 2004: 41) ignored by, or peripheralised in, the academic literature. It has been a blindspot for a number of social sciences. Thus, political scientists have typically regarded the EU's state aid policy as too technical,[1] legal scholars often do not regard the state aid rules as part of competition law,[2] and while economists have examined the justifications for industrial policy, they have only recently considered the regulation of state aid to be worthy of serious interest.[3]

For the European Commission, however, the control of state aid has long been an important policy instrument. The Commission's decisions in key industries, as well as the horizontal rules that it enforces, have had major consequences in policy sectors, old and new. More recently, the anxiety with which the response of 'Brussels' was awaited when governments proposed colossal bailouts following the financial crisis that engulfed the Western economies from 2007 served to highlight the central importance of the EU's powers over state aid in the member states.

The crisis also underlined the extraordinary character of EU powers.[4] The control of state aid is an exclusive and all-encompassing EU competence. It is an area where the Commission enjoys considerable freedom of action, subject only to the scrutiny of the European courts, exercises far-reaching powers, and where its actions have consequences beyond their immediate impact on governments and firms. Importantly, the control of state aid brings the market economy presumption of the Treaty into confrontation with measures calculated to achieve allocative efficiency or redistributive justice in the member states (Friederiszick et al. 2006).

This special issue proceeds from two assumptions: the first is that the control of state aid is a central issue in market regulation; and the second is that a full assessment of its impact requires multi- or interdisciplinary approach. As the following articles demonstrate, the effects of state aid regulation are felt at all levels of governance, from sub-

[1] With rare exceptions, such as Doern and Wilks (1998), the same has been true of political science and competition policy more generally (see Allen 1983). Lavdas and Mendrinou (1999: 3) observed two decades ago that as a result of their neglect political scientists had ignored the role played by competition policy in the organization of the European political economy, the forms and degrees of concentration of economic policy, and, at EU level, the relations between national political economies and European and global developments. The restrictions that EU rules impose on national policies and policy making, the power of EU institutions, the relationship between competition policies and policies in other domains, and inter- and intra-institutional interaction in competition policy have been similarly overlooked. Recent work by Wigger (2008), Karagiannis (2008, 2010), Blauberger (2008, 2009a, b), Cini and McGowan (2010), Buch-Hansen and Wigger (2011) suggest that political scientists are finally recognizing the importance and interest of this area.

[2] For example, number of the classic texts on EU competition law, make no mention of the control of state aid. We thank our colleague, Pinar Akman, for drawing this to our attention.

[3] Thus, Brander and Spencer (1985) show that a competitive subsidy race by national firms competing in a third party international market leads to a reduction in domestic social welfare, even if an individual country might gain from profit shifting if there was no retaliation. Collie (1998, 2002) demonstrates that when there are domestic consumers and the distortionary effect of taxation is sufficiently low, the subsidy can be beneficial by reducing the oligopoly distortion. As with subsidising monopolies, this is very much a second-best analysis, which takes the oligopolistic distortion as given. Subsidy games get more complex when there is investment such as R&D involved (Spencer and Brander 1983), depending on whether rivals respond by increasing their own investment levels or find it more profitable to cut back. Besley and Seabright (1999) offer an insightful review, while Dewatripont and Seabright (2006) use political economy approach to show that wasteful aid can be useful to politicians wanting to show commitment to supplying public goods.

[4] For a review, see European Commission (2011).

national authorities in the member states to global regulation in the WTO, and across a broad range of policy domains from social policy to macroeconomic stability. At the same time, action on the part of the EU or its institutions fails routinely to attract interest beyond a small community of experts. Nor are there many attempts in the literature to track the long-term effects of EU action, even though decisions taken in Brussels or Luxembourg can have far-reaching effects on established national policy and law, member state decision making, and third country governments and firms.

Assessing the impact of the EU's control of state aid, domestic and international, is the first objective of this special issue. In examining the impact of EU actions on policy, policy making, and territorial relations in the member states, the articles that follow seek to contribute to closing an important gap in the scholarly literature. A second aim is to assess the European Commission's response to the financial and economic crisis. Governments came under strong political and economic pressure to provide state support for firms in distress. The pressure was especially intense in regard to banks, which have systemic importance in the national economy, but it applied also to other sectors, traditionally considered strategic and symbolic, such as the automobile industry. Of particular interest is how the Commission reacted to member governments' resort to protectionist measures that threatened to undermine the single market.[5] An evaluation of levels and trends in state aid is a third ambition. Particularly important in this regard are identification of the conditions under which governments are likely to grant aid and how effective the European Commission's efforts to control it.[6]

2 A short history of EU state aid policy

Although the key provisions governing the control of state aid were set out in the 1957 Treaty of Rome and their content (though not their numbering) has remained largely unchanged, the development of EU control of state aid has been a long and difficult process.[7] In contrast to the competition rules governing private actors, where a 'workable, if challenged framework' (Lavdas and Mendrinou 1999: 18) was established early in the existence of the European Communities, a robust system for the control of state aid took close to four decades to develop. Five main reasons account for why the process was so prolonged.

First, the control of state aid is politically sensitive, as the reaction (positive and negative) of affected parties to decisions laid down by the Commission bear eloquent testimony. It necessitates the close scrutiny by an outside party of transactions that have historically been the exclusive preserve of sovereign states. It involves the intervention by an extraterritorial authority in the intimate relationship between the state and the companies in which the state has been, and in some member states continues to be, a major stakeholder, and the supranational adjudication of an instrument that has historically been used by governments to pursue key strategic economic, social and territorial goals.

Second, the control of state aid was, at the time that the Treaty of Rome was signed, and largely remains today, a novel aim. While the regulation of anti-competitive behaviour on

[5] The crisis coincided with the completion of a long process of rationalisation of EU policy. To paraphrase the comments of one observer, the Commission began to allow the rescue of UK banks, when not so long ago it had condemned Polish shipyards.

[6] This is the theme that is most advanced in the previous literature (see, e.g. Dewatripont and Seabright 2006).

[7] See Lavdas and Mendrinou (1999) for an excellent discussion of the evolution of EU state aid policy.

the part of private actors had a long history, the control and prohibition of state action to support domestic companies or promote particular sectors was unknown. Unlike other areas of competition policy, there was no comparable system to provide a reference point or model for Community policy (Ehlermann and Goyette 2006),[8] nor an established legal tradition from which it could draw authority or legitimacy.

Third, the treaty provisions governing state aid are complex. They explicitly exempt certain types of aid from the general prohibition and specify additional categories where it is open to the Commission to decide whether aid is permissible. The treaty gives explicit recognition to the principle that control of state aid can be traded off against other goals or policy objectives, but does not offer any indication of how the goal of undistorted competition should be balanced against 'the development of certain economic activities or certain economic areas' (Blauberger 2009a: 722) in general, or industrial policy or regional policy in particular. Member states, EU institutions, and the Commission have unsurprisingly taken quite different views on the relative weight that should be accorded to these considerations, and Commission services have often found themselves on opposing sides.

Fourth, the provisions of the treaty do not impose rules at the national level. There was 'no attempt to harmonize national rules governing the award of state aid. [Rather] EC intervention is largely negative in nature' (Blauberger 2009a, Quigley 2003: 2, cited in Blauberger 2008: 14). In general terms, the treaty seeks to achieve a 'balance between the liberal vision of an integrated market and the Member States' prerogative to intervene in their own economies' (Immenga and Mestmäcker 2007: 834 *et ff*, cited in Blauberger 2008: 22). However, it offers little guidance on the terms of this trade-off and, since the treaty requires member states, the Commission could not simply impose its preferred formula.

Finally, member governments were unwilling either to cooperate in operationalizing the provisions of the Rome Treaty or to comply with the obligations it imposed. For reasons outlined above, they did not want their freedom of action to be restricted, nor did they welcome the possible threat to existing policy or political embarrassment that acceptance of the control of state aid by the EU implied. Governments wanted to retain their capacity 'to promote individual industries, firms or regions as a necessary and legitimate objective of economic or social policies' (von der Groeben 1987: 64). Thus, the Council repeatedly rejected the Commission's overtures and national governments contested the Commission's assertion of its treaty-given authority.

Against this background, the Commission struggled to develop a robust policy. For the first 30 years of the Community — termed by Leigh Hancher (2009) 'the Dark Ages' of EU state aid control — the Commission could do little more than improvise with limited resources. Unsurprisingly, under these circumstances, the framework it evolved was uneven and difficult to administer, but nevertheless it succeeded in laying down important markers. Surviving into the 1980s and 1990s, the policy that resulted from the Commission's pragmatic approach was replaced only after the Single European Act was agreed, a change that amounted to nothing less than a 'reformation' (Hancher 2009). EU state aid policy was extended and strengthened, and a new emphasis placed on compliance. However, it was not until the eve of what turned out to be the financial crisis that EU state aid policy finally entered the 'age of reason' (Hancher 2009). The adoption of the State Aid Action Programme (SAAP) in 2006 marked the beginning of this new era. The brief outline offered below starts with the terms of the treaty then proceeds to examine the three ages of state aid policy development.

[8] Hence Cini and McGowan's description of state aid control as 'the most original of the EU's competition policies' (1988: 135).

2.1 State aid under the EEC treaty

The state aid provisions reflected the central role granted to competition policy in creating and sustaining a common market.[9] As Hans von der Groeben, an author of the Treaty of Rome and the first Commissioner for competition policy observed: 'without rules on competition and an active competition policy, even the customs union would cease to exist' (1987: 60).[10] Although restricting anti-competitive behaviour on the part of private actors was central, it was not in itself sufficient to create a level playing field. Distortions caused by action on the part of public authorities, such as the granting of aid to particular firms or sectors, or preferential treatment, was also necessary. Otherwise, as customs barriers were removed and competition intensified, some member states 'would not be able to resist temptation to grant applications for aid' (von der Groeben 1987: 63–54).

Although the formal Treaty provisions on state aid have been unchanged over the years, they have been renumbered. See Table 1 for equivalent numbers. To avoid confusion, the latest numbering is used below even in discussion of earlier periods. The substantive prohibition of state aid that distorts competition and the conditions that allow for exemption are given in Article 107, which is reproduced in Box 1.

Box 1 Article 107 TFEU

1. Save as otherwise provided in the Treaties, any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market.
2. The following shall be compatible with the internal market:
(a) aid having a social character, granted to individual consumers, provided that such aid is granted without discrimination related to the origin of the products concerned;
(b) aid to make good the damage caused by natural disasters or exceptional occurrences;
(c) aid granted to the economy of certain areas of the Federal Republic of Germany affected by the division of Germany, in so far as such aid is required in order to compensate for the economic disadvantages caused by that division. Five years after the entry into force of the Treaty of Lisbon, the Council, acting on a proposal from the Commission, may adopt a decision repealing this point.
3. The following may be considered to be compatible with the internal market:
(a) aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment, and of the regions referred to in Article 349, in view of their structural, economic and social situation;
(b) aid to promote the execution of an important project of common European interest or to remedy a serious disturbance in the economy of a Member State;
(c) aid to facilitate the development of certain economic activities or of certain economic areas, where such aid does not adversely affect trading conditions to an extent contrary to the common interest;
(d) aid to promote culture and heritage conservation where such aid does not affect trading conditions and competition in the Union to an extent that is contrary to the common interest;
(e) such other categories of aid as may be specified by decision of the Council on a proposal from the Commission.

[9] For discussion of the Treaty provisions, see Blauberger (2008, 2009a), Hancher et al. (2006), Buts et al. (2013).

[10] 'Within a common market', he continued, 'competition policy is more extensive, more complex and more necessary than in single markets where single economic area, single economic policy, one legal system, and a common legal procedure. Common market forged out of separate national markets. To prevent distortion of competition and to avoid unequal starting conditions, competition must create circumstances similar to those present in national markets.'

Table 1 Numbering of key state aid provisions in European Treaties

Signed	Rome, 1957	Maastricht, 1992	Lisbon, 2007
Treaty acronym	TEEC	TEC	TFEU
Numbering	92	87	107
	93	88	108
	94	89	109

As with the provisions relating to other aspects of competition, the treaty granted the Community exclusive competence over the control of state aid and entrusted far-reaching decision-making and enforcement powers to the Commission. It also allowed the latter considerable discretion in exercising these powers. Although state aid and measures with equivalent effect are subject to a general prohibition (Article 107 (1) ex 92 (1)), the EEC Treaty does not follow the example of the ECSC Treaty, which declared state aid to be automatically illegal. The EEC Treaty, by contrast, specifically exempts three categories of aid, which it declares to be 'compatible with the internal market'. These are: 'aid of a social character, granted to individual consumers' (107 2(a)), 'aid to make good the damage caused by natural disasters or exceptional occurrences' (107 2(b)), and (added following unification) 'aid granted to the economy of certain areas of the Federal Republic of Germany affected by the division of Germany' (107 2(c)).

In addition, Article 107 (3) of the Treaty lists further five categories that '*may* be considered to be compatible with the common market' [emphasis added]. These include measures: to promote the economic development of poor areas, to promote a project of European interest, to remedy a serious economic disturbance in the economy of a Member State, to facilitate development of certain economic activities, and to promote culture and heritage conservation.[11] The Commission is empowered to decide whether any particular aid falls under one of the five categories, and since the Treaty offered no additional elaboration, the Commission has been able to exercise considerable discretion in their interpretation.

Procedural rules for the implementation of state aid control are set out in Article 108. The Commission, in cooperation with the member states, keeps existing aid under review and can propose 'any appropriate measures required by the progressive development or by the functioning of the common market'. New aid, meanwhile, is to be notified to the Commission 'in sufficient time to enable it to submit its comments, or any plans to grant or alter aid' and cannot be transacted until the Commission takes a decision. If the Commission takes the view that an aid is not compatible with the Treaty, it can request further information from the member government concerned. If it still has reservations, the Commission can undertake a more extensive investigation. Depending on the results of its findings, the Commission can decide to approve the aid, reduce it or recover it. At all times, the Commission is accountable to the European Court of Justice and, since 1989, the Court of First Instance.

Finally, Article 109 provides for the adoption of an enabling regulation by the Council, acting by qualified majority, on a proposal from the Commission. This provision enables the Community to adopt an implementing measure setting out precisely how the Commission is to examine and investigate aids, as well as definint the conditions under which certain categories of aid are exempted from the obligation to notify. However, despite repeated attempts by the Commission, the Council successfully opposed adoption of such a measure until 1998.

[11] A further clause permits the Council, acting by qualified majority, to add other categories, but only on the basis of a Commission proposal.

2.2 From the EEC treaty to the SEA: the 'dark ages' 1958–1991

Although its powers were clearly defined in the treaties, the Commission encountered considerable difficulties in attempting to enforce the rules. For example, deciding admissibility in individual cases was not at all straightforward.[12] In the first instance, 'facts were not easy to establish and the Treaty left scope for various interpretations' (von der Groeben 1987: 64). It provided 'little guidance on how to balance the goal of undistorted competition against the efficiency and equity consideration of national policy makers … [or with respect to the] development of certain economic activities or certain economic areas' (Blauberger 2008: 7). Moreover, governments and business interests among the Six took fundamentally different positions on the desirability of competition and the importance of competition policy.[13]

Developing a policy framework was no less problematic. Insisting that unlimited subsidies would undermine the common market (European Community 1959, 1960, 1961), the Commission argued that the control of state aid by the Community was in the common interest. It exhorted member governments to recognize their obligations and its prerogatives under the Treaties, and asked for notification from the member governments whenever they offered financial support to a company or sector (Commission of the European Communities 1996: 86). Though it took a firm line on the Community's competence, the Commission was less doctrinaire about the content of state aid policy. It explicitly recognized the legitimacy of state funding, particularly for the purposes of structural adjustment, economic development and social policy. Its accommodating attitude to member governments' new (or renewed) support for national champions in response to the *defi Américain* was indicative of this flexible and pragmatic approach (Lavdas and Mendrinou 1999: 18).

Even so, the Member States refused to cooperate. No doubt motivated by a concern to defend key domestic interests and their own freedom for manoeuvre,[14] they continued to question the Commission's authority and competence.[15] Although in a number of rulings the European Court of Justice confirmed the Commission's powers, the Commission remained unable to compel governments to meet their obligations under the treaty. The Council's rejection of a Commission draft regulation tabled in April 1966 to apply Articles 107 and 108 was illustrative of the obstructive approach taken by the member states. Without such a measure, state aid policy could not be founded on hard law.[16] Determined to perform the role entrusted to it under the treaty, the Commission pursued an alternative approach. It continued to collect intelligence — an inventory of state aid, for example,[17] — then from the late 1960s sought to use soft law to steer government action (Blauberger 2008, 2009a; Doleys 2013).[18]

[12] The Commission delivered only two negative decisions in the first decade.

[13] Governments had widely differing policy traditions, contrasting views on what would be efficient or welfare enhancing, and could not agree on what types of aid should be admissible. Moreover, the Commission was divided internally on the importance that should be given to the redistributive aspects of regional aid (Blauberger 2009a: 722).

[14] Von der Groeben (1987: 59, fn 52) noted that: 'the prominent representatives of industry and middle classes [were] sceptical or even hostile towards the competition policy and the competition rules of the Treaty' and observed that 'French industrialists in particular feared that individual sectors would not be able to survive increased competition within the common market without a long transitional period'.

[15] Von der Groeben (1987: 64) recalled that member governments argued that the Commission should limit itself to consideration of general schemes, while the Commission insisted it should be able to decide on individual measures.

[16] The Council would reject a proposal for an enabling regulation for a second time in 1972.

[17] As Doleys (2013) observes, this data enabled the Commission to establish 'references for a concept that had previously had no clear empirical core'.

[18] Soft rules have no legally binding force, but can still influence action. By contrast, 'hard state aid law that exempts certain categories of state aid from European control is based on Article [109] of the EC Treaty and has direct effect' (Blauberger 2008: 8).

The framework initially developed by the Commission was limited and ad hoc, but its coverage was gradually extended. The Commission began this expansion in 1968, when it targeted regional aid, following concerns that governments were attempting to attract inward investment and thereby to distort competition.[19] It then turned its attention to specific industrial sectors (shipbuilding and textiles) that were the recipients of government aid, and later to horizontal aids that cut across industrial sectors — such as aid granted for, environmental protection, or to SMEs. In a series of communications, notices and guidelines, the Commission set out the criteria against which individual schemes were to be evaluated (Lavdas and Mendrinou 1999: 31–33) and under what circumstances aid would be exempted.[20]

Following suspicions that governments were distorting the market by overcompensating publicly-owned companies for the provision of services of a general interest, the Commission asked governments to provide information about their transactions in a series of domains.[21] In order to determine whether governments were supplying financial support that was anti-competitive, the Commission elaborated the concept of the market economy investor principle (MEIP). The MEIP provided the basis for a key test to determine whether an investment made by a public authority should be considered a normal transaction such as would be made by an investor seeking to make a profit (Nicolaides 2003; Niels et al. 2011: 388–401). If on the evidence a private concern would not have made a comparable investment, the proposed transaction could be considered to constitute state aid and approved only if it fell within one of the categories of permissible aid. In practice, however, little pressure was brought to bear on states to comply until 1983 when the Commission began to oblige member governments to recover illegally granted state aid from the firms that had benefitted from it (Smith 1998: 64).

By the early 1980s, a state aid policy of sorts had developed. The Commission had developed 'a more or less explicit model of what it consider[ed] … "good" state aid policy with regard to the "common interest" at the European level' (Blauberger 2009a: 720). Although it was based on soft law and was therefore limited — the Commission could in effect only bind itself (Mestmäcker and Schweitzer 2004: 1180f, cited in Blauberger 2009a: 726) — the framework at least enabled the Commission to 'shield itself from political pressure' (Blauberger 2009a: 720). As possible exceptions were now set out explicitly, the Commission was left 'less exposed to political conflicts about individual measures' (Blauberger 2008: 12). In addition, it established an effects-based understanding of aid as any state measure that distorts competition by conferring a selective advantage on certain undertakings or the production of certain goods and affecting inter-state trade that, moreover, was endorsed by the European Court of Justice, 'provided that the duty to give reasons for decision is discharged' (Hancher 1994: 134).

Despite these advances towards an EU state aid policy, important problems persist. The framework was incomplete and provisions differed between sectors. Detection and compliance remained serious weaknesses. The codes and guidelines applied categories that followed less the wording of the treaty and more the Commission's own priorities (Blauberger 2008, 2009a), which created uncertainty. The policy was also marked by a number of procedural shortcomings. Commission processes were not transparent and it made little

[19] In 1971, the Commission issued a follow-up communication, indicating how Articles 107(3(a) and (3)(c) applied to systems of regional aid in the Member States.

[20] It was not sufficient only for aid to be consistent with the objectives set out in Article 107(3), but compensation for the beneficiary over and above the effects of normal market forces had to be justified and the indispensability of the state aid to the achievement of the objective in question had to be demonstrated.

[21] France, Italy and the UK challenged the legitimacy of this request before the Courts, but were unsuccessful.

information publicly available. The status of third parties, *locus standi*, and cases where the Commission failed to act (Hancher 1994) were further sources of dissatisfaction.

2.3 State aid and the single market programme: the 'reformation' 1992–2004

The 1992 project not only enhanced the status of competition policy, but granted the rules governing state aid a profile that they had not previously enjoyed (Ehlermann 1992). It was widely recognized that the internal market would require the effective control of state aid. Once single market legislation had removed the possibility of protection by regulatory means, the provision of subsidies would become the main tool available to governments (Ehlermann 1992). However, the benefits of liberalisation would be lost if a subsidy race were to break out between the member states.

At the same time, a long-standing challenge to stricter rules on state aid was removed. The rise of economic neoliberalism, on which the internal market project was predicated, removed — at least in theory — the conflict between competition policy and industrial policy. Since in a market economy competitiveness was to be achieved through the free play of competition, state intervention, which had historically involved provision of financial support for national champions, was precluded from the outset. According to this new understanding, the relationship between industrial policy and the control of state aid was no longer zero-sum (Lavdas and Mendrinou 1999: 19).

From the mid-1980s, and for more than a decade after 1992, EU state aid policy developed and expanded. The Commission took a more systematic approach to the regulation of state aid. Existing guidelines and communications were revised (for example, in regional aid), new codes were introduced for areas not previously covered, including recently liberalised sectors, such as air transport (see Kassim and Stevens 2010: ch 9), and a number of loopholes were closed.[22] There was a general re-orientation from sectoral aid to horizontal objectives — support for SMEs (2001) and training (2001), and for promoting employment (2002) — and R&D. Although not always articulated as such, these are areas where an economic justification — correcting positive externalities (i.e. Pigovian subsidies) — can plausibly be posited. The Commission also refined key concepts and tools, such as the MEIP (see Nicolaides et al. 2005), marking the beginning of a new economic approach to state aid policy. In addition, progress was made on improving the procedural rights of third parties and on the award of damages.

In a new environment where the imposition of sanctions was now a real possibility, the positions historically adopted by member governments and the Commission were reversed. Member governments wanted a framework that offered greater predictability than was afforded by the soft law regime. Their long-standing opposition to an implementing regulation gave way to a demand for clear, detailed procedures. By contrast, the Commission, which had long advocated such a measure, was now fearful of losing not only the leverage it had painstakingly acquired, but also the flexibility associated with soft law (Smith 1996). In the event, it submitted a proposal which led eventually to the 1998 Council Regulation (Lavdas and Mendrinou 1999: 37). This enabling Regulation allowed the Commission to issue block exemptions, which contributed significantly to the simplification of the corpus of rules, and codified existing guidelines (Hancher 1994).

The adoption of the 1998 Regulation was a major milestone. It signified that: 'member states finally accepted their obligation not to grant state aid without prior Commission

[22] The 1997 Multisectoral Framework (MSF), which closed the loophole that allowed governments to provide incentives to individual investors through sectoral policy frameworks, is an important example.

consent' (Blauberger 2008: 9). It also recognized the Commission's power to order the recovery of illegal aid — a 'new practice of demanding the repayment of illegally granted aids', which as Ehlermann observed (1990: 70), had been 'unthinkable' only a few years before. The Commission sought at the same time to improve notification and introduced a code of conduct for non-notified aid. It also carried out a survey of the subsidies paid by governments as part of an attempt to tighten control of both new and existing aids (Lavdas and Mendrinou 1999: 24). The survey, which was later superseded by the annual state aid scoreboard,[23] was intended to pressure on governments 'naming and shaming'.

2.4 The state aid action plan: the 'age of reason' 2005-

The overhaul of rules and procedures initiated by Neelie Kroes, the Commissioner for Competition under the first Barroso Presidency, marked a new phase in the development of the EU's state aid policy, and indeed its maturation. Five years previously at the Stockholm European Council, the Heads of State and Government had urged 'less and better targeted aid'. The Commission's State Aid Action Plan (SAAP), which resulted from a state aid review, was partly a response to this call. The tradition of state interventionism in most of the new accession states added a new urgency. Following the 2003 overhaul of the anti-trust regime and the 2004 reform of the merger regulation, the revision of the state aid rules extended the modernization of EU competition policy to this important area. As part of the revised Lisbon Strategy aimed at structural reform in the member states, the revised rules could be shaped for the first time into a policy, which set priorities and which explicitly favoured support for industries or activities that were likely to generate growth and employment.

In its consultation document,[24] the Commission stated its conviction that 'a market based economy provides the best guarantee for raising living standards in the EU' (2005: 6) and that state aid control is necessary 'to maintain a level playing field… in the Single European Market' (2005: 7). It also observed that state aid can help achieve objectives of a common interest. It 'can correct market failures… [or] help promote e.g. social and regional cohesion, sustainable development and cultural diversity' (2005: 10).[25] For the first time, the Commission took the view that the control of state aid should be cast as a policy rather than simply a framework of rules that prohibit distortions to competition.

The SAAP was guided by four principles. The first was that aid should be permitted only when it is: 'an appropriate instrument for meeting a well defined objective of common interest, … creates the right incentives and is proportionate to the problem…, [and] when it distorts competition to the least possible extent' (Kroes 2005). Second, aid should be evaluated by an economics-based approach. Proposed aids were to be assessed in regard to their effects rather than whether they breached the prohibitions set out in the treaty. Third, procedures should be efficient and transparent, with the aim of making the overall architecture simpler and to reduce the administrative burden. Fourth, there was to be a partnership with member states, which was considered essential if prohibited state aid is to be recovered. Importantly, member states must provide evidence to support aid in the context of an overall 'balancing test': 'In assessing whether an aid measure can be deemed compatible with the common market, the Commission

[23] See http://ec.europa.eu/competition/state_aid/studies_reports/studies_reports.html.

[24] European Commission (2005)

[25] The social objectives come from the Treaty. Sources of market failure widely accepted in the economics literature are set out in the SAAP: externalities; public goods; imperfect information; coordination problems; market power.

balances the positive impact of the aid measure (reaching an objective of common interest) against its potentially negative side effects (distortions of trade and competition)' (2005: 19).

The state aid regime underwent a comprehensive overhaul as these principles were operationalized. Guidelines and communications were reviewed, revised and streamlined. Thus, a new general block exemption (GBER) harmonised rules that had previously been spread across five separate Regulations,[26] and designated 26 types of measures which would be considered automatically compatible if they satisfied specified conditions.[27] The focus was resolutely on horizontal aid, including risk capital in SMEs (2006), research and development and innovation (2006), and environment aid (2008), though checklists were incorporated in sectoral guidelines to make it easier to determine whether aid would be acceptable. In addition, the 'refined economic approach' moved the Commission away from the strict prohibition of aid that infringes the state aid rules and placed the emphasis on the its overall effects. The balancing test attempts to weigh the positive and negative effects of a proposed aid, alongside an assessment as to whether it is appropriate, what incentives it creates, and its proportionality. Greater use was also made of *de minimis* provisions. Finally, a new emphasis was placed on recovery — a new unit in DG COMP was created for this purposeand efforts made to improve cooperation with national courts and national authorities to improve compliance and enforcement.

In short, the implementation of the SAAP brought about a major transformation of the state aid regime. The rules are more transparent, easier to administer, and less burdensome. The replacement of a legal by an economics-based approach addresses long-standing criticisms of EU policy and also brings state aid into line with the other competition rules. This is not to say that no problems remain. State aid control is still a privileged dialogue between the Commission, national governments and favoured firms, political pressures have not evaporated, and complainants remain in a weak position. While introducing a much clearer conceptual framework, the balancing test is not necessarily easy to implement, particularly when it comes to rescue and restructuring aid.[28]

Chart 1 shows how these policy changes have affected the level of state aid since 1992.[29] Expressed as a percentage of GDP — and excluding aid due to the financial crisis — state aid fell from 1.12% in 1992 to 0.62% in 1999.[30] The 'reformation' had succeeded. Since then, despite some fluctuation, the level of state aid has remained at around 0.60%. However, its composition has changed. The share of sectoral aid (excluding agriculture, fisheries and transport) fell from 39% in 2002 to 15% in 2010, with most of the change occurring before 2007. The main effect of the SAAP has therefore been compositional — less aid targeted at specific sectors being replaced by horizontal aids; or, in other words, less, but better targeted aid. It is possible that, in the absence of reform, aid intensity would have risen with the accession of new members in 2004 and 2007. Thus, an additional total effect may be in evidence. Of course, not to include crisis aid, which was almost all directed to the banking sector, is a very important omission.

[26] They cover respectively: SMEs, research, innovation, regional development, and training, employment and risk capital.

[27] Competition Commissioner Neelie Kroes (2008: 3) reported that 65% of all aid measures were block exempted in 2007 compared with 40% in 2002.

[28] Buts et al. (2013) find that by 2007 Commission decisions were in line with the SAAP approach.

[29] The data are taken from the EC State aid scoreboard: http://ec.europa.eu/competition/state_aid/studies_reports/studies_reports.html

[30] The jump in 1997 was due to a huge spike in French sectoral aid. Ganoulis and Martin (2001) argue that much of the decline in manufacturing aid in the 1990s was due more to fiscal discipline than to state aid control.

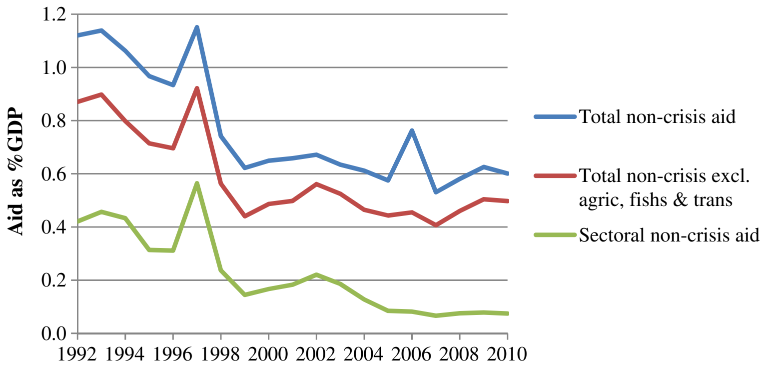

Chart 1 The evolution of state aid in the EU

3 EU state aid policy and the financial crisis[31]

The crisis — first financial, then economic — broke shortly after the overhaul of the state aid regime had ushered in the 'age of enlightenment' (Hancher 2009). The Commission introduced a series of measures to deal with the upsurge of Member State requests for state aid to see banks and later other companies through the downturn.

It is not straightforward to compare crisis aid with more traditional state aid but 30% EU GDP was at risk in supporting the financial system 1998–2010, and a further 9% EU GDP was made available to rescue or restructure individual banks (Lyons and Zhu 2013). Much of this was in unused guarantees and other loans required payment of interest. Stripped back to the pure subsidy element, state aid to financial institutions still represented some 3% EU GDP. Had Chart 1 included crisis aid, the scale and trends of the last two decades would have been occluded. In terms of the administrative burden, the impact on the Commission's workload and on the progress of reform has been enormous.

Since the 1990s, the Commission has developed procedures, periodically updated, for managing aid directed to companies experiencing difficulty.[32] The framework for the rescue and restructuring (R&R) of companies in difficulty was based on 'normal' state aid rules, Article 107(a) and (c).[33] The guidelines of 1 October 2004 were due to expire after 5 years — that is, mid-crisis — and were extended quite reasonably until 9 October 2012. The guidelines had to some extent anticipated the SAAP and provided that aid for rescue and restructuring of companies needed to be justified by social or regional policy concerns, by the need to maintain a competitive market structure (i.e. when exit could lead to a monopoly or oligopoly), or to support the role played by SMEs.

The aid also needed to pass the balancing test. In other words, it should 'not adversely affect trading conditions to an extent that is contrary to the common interest'. The idea that R&R aid should be permitted only in exceptional circumstances and the distortions caused to competition offset by the benefits was powerful in limiting the extent of state aid during the crisis. A number of safeguards were applied: a firm's viability must be restored on the basis of a plan; aid should

[31] This section draws heavily from Hankin (2009). See also Nicolaides et al. (2005).

[32] The criteria for a firm in difficulty is that it should have lost half its capital and more than a quarter of its capital over last 12 months.

[33] Individual companies are not eligible to receive other types of aid directly.

be ‘one time, last time’; firms should provide ‘compensation’; and the aid should be the minimum amount necessary to restore its viability.[34]

The procedure draws a distinction between rescue and restructuring. Rescue covers those situations where aid is offered in the form of temporary liquidity support — loans or guarantees provided for no longer than 6 months — and should be the minimum to keep the firm afloat whilst a restructuring or liquidation plan is developed. Restructuring, by contrast, requires a ‘feasible, coherent and far reaching plan to ensure a firm’s long term viability’. Rescue aid must be repaid and the Commission’s scrutiny is lighter touch than for non-recoverable restructuring aid.

Adapting these principles, the Commission on 17 December 2008 adopted a ‘temporary framework’ to deal with the crisis. It was based on Article 107 (3)(b), which permits ‘aid to remedy serious disturbance in the economy of a member state’. This carried forward many of the features of general rescue and restructuring aid as well as setting out approval mechanisms for general schemes that member states could use to support their banks (e.g. credit guarantees) without requiring an individual investigation of each bank separately. The Commission’s main objectives were to alleviate the credit crunch and, by supporting access to finance, to enable firms in the real sector to be able to invest in the future. The broader aim was to forestall a rush to protectionism.

The next stimulus for reform was Europe 2020. This programme was a response to sluggish growth and sets targets for employment, innovation, education, social inclusion and climate/energy. It might give a push to a new activist industry policy, but the macroeconomic context of fiscal austerity promises to be a highly effective means of state aid control. Nevertheless, the State Aid Modernisation programme was adopted in May 2012 and aims to facilitate aid that is ‘efficient, well-designed and addresses a real market failure’ while deterring aid ‘that generates significant distortions of competition without bringing any real value added’.[35] These goals are to be achieved by developing ‘fewer, clearer and more rational rules’, by focusing on cases that have a more significant impact on the internal market, and revising the state aid guidelines. It remains to be seen if this search for simple principles can be achieved in the politically charged setting of state aid.

4 Political science and EU state aid

The political science literature on state aid offers important insights in a number of key areas.[36] Particular attention has been paid to state aid and industrial policy. The two are intimately connected, since subventions are a key component of industrial policy, but are only permissible under EU state aid rules where the Commission has granted an exemption. The clash between the control of state aid and other EU policies has also attracted interest. Wishlade (1993, 2008), for example, has explored the conflict with regional policy and examined its consequences for the EU and the member states. The extra-territorial impact of EU state aid rules is a further theme that has attracted scholarly attention. Cremona (2003) and Blauberger (2009b) explored their effects in the states of central and Eastern Europe that acceded to the EU in 2004. Rubini (2009), meanwhile, has compared the EU’s regime to the control of subsidies by the WTO. Coverage is uneven, however, and in some areas the literature is distinctly sparse.

[34] Compensation is discussed in Lyons and Zhu (2013). The ‘one time, last time’ condition has not proved a credible principle. For example, airline companies have repeatedly sought and received state aid over the years (see Kassim and Stevens 2010: ch 9).

[35] Speech by Commission Vice-President Joaquin Almunia, 8th May 2012.

[36] See especially Smith (1998, 2001), Lavdas and Mendrinou (1999), and Cini and McGowan (2010).

There are particular gaps in research on the political economy of state aid control, with Dewatripont and Seabright (2006) two of the few authors to address the topic.[37] Although the December 2007 special issue of the *Journal of Industry*, *Competition and Trade* examines the potential benefits of subsidies to address market failure, it does not give a central role to the regulation of state aid by the Commission. Moreover, although the literature routinely discusses important decisions of the Commission or rulings of the European Courts, it pays considerably less attention to the cumulative effect of these interventions — a surprising omission given not only the turn to Europeanization in the literature in recent years, but also scholarly interest in the EU's impact on national industrial policy. Issues, such as the influence of EU state aid policy on the decline of support for national champions (Hayward 1995),[38] or whether action in this area has privileged the Anglo-Saxon model of capitalism over French and German models, for example, have yet to be fully explored (see Albert 1991; Amable 2003; Crouch 1997, 2005 for discussion of contrasting models of capitalism).

Furthermore, key questions remain unaddressed. A first set concerns the Commission. How is the Commission's role in the control of state aid best conceptualised, and how does it compare to other areas of competition policy? A second relates to the impact of EU action on national policy and policy making. How, if at all, has EU state aid policy affected social and welfare policies in the member states? Third, what have been the consequences of EU state aid policy on territorial relations within member countries and specifically on sub-national authorities in federal states?[39] Fourth, the external impact of the EU's state aid policy has not been systematically investigated. Has EU action harmed European companies by depriving them of support that third countries are prepared to supply, or has it improved their competitiveness by submitting them to the rigours of the market? A final set of questions relate to member governments. Under what conditions, institutional, political and economic, do governments typically grant aid? Which sectors do they tend to support in this way, why, and how have their priorities changed or remained stable over time?

A further limitation of much of the existing literature has less to do with substantive issues than with scholarly approaches. The economic, legal and political aspects of EU state aid policy frequently interact, but academic analyses are written overwhelmingly from the perspective of a single discipline. As a result, important insights are lost. It is not only that scholars working on the control of state aid in one discipline do not cite publications from any others, but that as a result of drawing on the methodological approaches and tools of one discipline alone key features of EU action or its impact are not addressed and understanding inevitably remains partial.

This special issue addresses several of these concerns. It highlights the importance of EU control of state aid and shows that EU action in this neglected area of competition policy has far-reaching implications. It examines the Commission's response to the economic and financial crisis, the dynamics of policy development and impact of the EU's state aid policy in industrial policy and beyond. It compares the approaches of governments to granting aid, and looks at some of the external consequences of EU policy.

[37] For further examples of the economics literature, see Spector (2009), Ganoulis and Martin (2001), and Neven and Verouden (2008).

[38] See Hayward (1995), Kassim and Menon (2006), and Kassim and Stevens (2010). McLaughlin and Maloney (1999) contend that the Commission has 'broken up long standing institutionalized government-industry relationships'. See Clift and Woll (2012) for an alternative view.

[39] Streb (2009) is an exception.

5 New perspectives on EU state aid policy

The first contribution to this special issue, by Thomas S. Doleys, investigates how the Commission's approach to the implementation of the treaty provisions on state aid has changed over time. Doleys (2013) argues that the Commission confronts a dilemma of discretion. The grant of formal autonomy gave the Commission broad discretion, but it also made the Commission vulnerable on account of the wide-ranging powers entrusted to it. Drawing on principal-agent theory, Doleys highlights the importance of the non-formal mechanisms that member state principals used to constrain the Commission. He argues that the Commission's strategy of what Lavdas and Mendrinou (1999: ch 2) term 'restrained formation' can be explained as a response to the signals it was receiving from the national capitals. Doleys shows how Commission action from the late 1950s was conditioned by member state non-compliance and how the Commission (as agent) was disadvantaged by information asymmetries that favoured member state principals.

The second and third articles examine the Commission's crisis response to the banking and the automobile sectors respectively. Banks were clearly at the centre of the storm and present some of the most dramatic examples of rescue and restructuring aid ever experienced. Bruce Lyons and Minyan Zhu (2013) note, for example, that as many as 40 banks received rescue and other aids as a result of the crisis. Lyons and Zhu reflect on the systemic importance of banks as providers of finance — an essential input into all other productive activities — and the claims on which their calls for special treatment were based. They recognize that banks could not be allowed to fail and argue that the techniques used by the Commission for assessing the aid elements of the main forms of bank support were largely appropriate. At the same time, they suggest that the Commission was less rigorous in determining the level of aid that is desirable and question the anticompetitive nature of some of the 'compensatory measures' imposed by the Commission.

The car industry was the largest industrial sector affected by the crisis. Historically, a laboratory for state support and venue for industrial disputes, the reflex response of governments in the US and in Europe was once again to reach for the pocketbook. In their contribution to the special issue, Nicolini et al. (2013) examine the support given by governments to the industry over the long term. They observe a reduction over time in the aid directed to car manufacturing, a shift from sectoral to regional aid, and differential effects in the impact of aid, which has sometimes increased and sometimes diminished capacity. More broadly, they contend that the EU has ended the special relationship between governments and particular large firms or national champions. They argue, however, that the EU's achievements in the field have been the outcome of 'control, but not strategy' — accident, rather than engineering. They contend also that the instruments used by the Commission are of questionable effectiveness and that decisions have often been in contradiction, raising questions about policy coherence. In the face of over-capacity, restructuring aid has been approved at the same time as aid for new production facilities in other member states has been permitted.

The next two papers examine the consequences and role of state aid in two member states, though the implications of these national case studies are much wider. Buts et al. (2013) ask whether state subsidies have a discernable impact on market structure in Belgium. They do not distinguish the motivation for the subsidy, and their data does not include non-subsidy aid (e.g. guarantees, soft loans, tax breaks), but they do have a database covering grants for investment in fixed assets awarded to all firms in Belgium with at least 100 employees. Some such aid will have been exempt from control by the Commission and other such aid will have gained clearance. Their core finding is that the amount of subsidy

granted in 2006 resulted in a significant increase in the subsidised firm's market share two years later. It is noteworthy that this effect was found during the post-SAAP 'age of reason'. The authors cautiously conclude that this was not the declared aim of the aid. In other words, there remains room for improvement in EU state aid policy.

Turning to the investigation of the wider role of EU state aid policy, Ben Clift (2013) examines state aid as a form of economic patriotism, which he argues exemplifies a particular case of the paradox of neoliberal democracy. Although governments seek election in order to determine the fate of a political community, their effective control is circumscribed by a wider context of interdependence and, in the case of EEA member states, a supranational regulatory regime. Governments have sought to invent new forms of interventionism in a neoliberal world where market-making and re-regulation are the only permissible tools. In this context, the state is neo-mercantilist, but liberal in character. Clift examines state aid in France, which has a long traditional of state interventionism in support of strategic sectors and firms. He finds that dirigisme — and to a lesser extent the French model of capitalism — has survived, as the French state has been able successfully to reinvent interventionist mechanisms to suit the new era. He points to the permissive elements of the EU's state aid regime, which permits support for R&D, innovation, and environmental protection, as well as individual cases such as Renault, SFI and the rescue of the banks — a list to which Air France might also be added (see Kassim and Stevens 2010). In the case of BNP-Paribas, he notes, that 'assistance … enabled BNP-Paribas to exploit the crisis to pursue an aggressive external expansion policy which made the bank the largest in the Eurozone'. The current crisis, which many believe was partly due to neoliberal ebullience, may provide a platform for a resurgence of economic patriotism, though that will be tempered by fiscal austerity.

Michelle Everson (2013) discusses how a shift in how the European Court of Justice understands the state aid regime may have a profound and controversial effect on national social policy. In a national political economy, there are constitutional (and cultural or traditional) constraints that limit the scope and domain of the market. At EU level, however, there is a strong bias towards economic efficiency, since the treaty makes it easier to achieve negative than positive integration. Everson examines how the ruling of the EU in the Ruffert case threatens the authority of national orders to demarcate domains of social and economic policy. 'The European Court of Justice', Everson argues, 'used to treat public procurement as distinctive part of EU state aid regime which might be reconciled with redistributive concerns at national level', but now the EU services regime has been applied to procurement. This 'realignment', she contends 'reflects a mismatch between European economic and national social competences, and a friction between national and European conceptions of constitutional legitimacy'. The privileging by the European Court of Justice of economically rationalising arguments over political interventionist discretion at the national level has upturned jurisprudence on state aids in one member state and seems to presage the further encroachment of market logic into the social policy domain.

State aid also has an infra-national dimension. The conventional wisdom in the scholarly literature is that sub-national authorities are unequivocal beneficiaries of European integration. The EU has made it possible for sub-national authorities to communicate with each others, as well as with the European Commission, creates new arenas for exerting influence in a transformed structure of opportunity, and makes available sources of revenue that are beyond the control of their capitals. In his contribution, Hagen Streb (2013) contests this view. Drawing on the experience of Austria, Belgium and Germany, and using the state aid review as a case study, he argues that the European Union has undermined and disempowered sub-national states in federal political systems. As the Commission treats them no

differently from any other public authority, sub-national governments can no longer exercise the autonomy or perform the functions intended by the national federal orders in which they are embedded. The effect has been to flatten national territorial structures, a finding that contradicts the dominant wisdom concerning the impact of European integration on sub-national regions.

Nikos Zahariadis (2013) investigates a further aspect of EU impact. Using a database of state aid decisions between 1992 and 2007, he seeks to identify 'winners and losers' among the member states. In his terminology, a 'winner' is narrowly defined as a country that can get more state aid past the Commission's scrutiny. He outlines two hypotheses. The first is that decisions are imposed by the Commission, which is able to act autonomously and dictate terms to member governments. The second, which he prefers, is that state aid decisions are best seen as the outcome of power politics between the member states and the Commission, where the outcome is likely to reflect the relative power of the two actors and larger member states are able to prevail. The distribution of aid among the member states reflects the political priorities and size of the member states. He also examines the factors that influence the level of demand for aid. He tests whether demand is shaped by worsening economic conditions, the severity of trade dislocation, and the number of parties in government, and finds that the first and third matter most. Zahariadis concludes that if the aspiration of the Stockholm European Council for less aid that is better targeted is to be realised, attention must be directed towards national capitals rather than to Brussels.

The final articles address external aspects of EU state aid policy. Chad Damro (2013) examines the interaction between state aid and trade. Subsidies can act as a barrier to market entry and run counter to the trade rules of the World Trade Organization (WTO). Aggrieved parties can lodge an appeal under the WTO Subsidies and Countervailing Measures Agreement and brought to the dispute settlement mechanism. DG Trade can become involved either when aid that has been authorised by the Commission is challenged by third countries or when aid granted to a foreign firm threatens to prevent EU firms from entering a foreign market. Damro examines the role played by private interests, what affects their choice as to which of the two tracks they choose under the subsidies and countervailing measures agreement, and their interaction with EU institutions.

Blauberger and Krämer (2013) examine the impact of EU state aid policy on the competitiveness of European firms. Since EU state aid rules limit the subsidies that governments can grant to EU firms, they hypothesize that EU firms will be disadvantaged in global competition or the Commission will come under pressure to relax the rules where there is no effective control of state aid outside EU. Such a situation arose in car manufacturing in 2009. The Commission has sought to remove or reduce this pressure by promoting the adoption of EU-style state aid and public procurement rules outside the Union. It had directed efforts at third countries and campaigned within the WTO. Blauberger and Kramer assess the success of these efforts.

6 Conclusion

The extraordinary character of the EU's rules on state aid was starkly underlined by the economic and financial crisis. With governments desperate to save their banks and to bail out their industries of strategic and symbolic importance, the Commission's reaction was fundamental first to the survival of these sectors and indeed of the European economy, but also to ensuring that rescue was managed subject to conditions that would secure competitiveness in the longer term. At the EU level, the state aid rules were the main instrument for

ensuring that aid was accompanied by restructuring (European Commission 2011: 8) and not simply cash injections that would enable firms to survive the crisis, but harm competition thereafter. As Lyons and Zhu (2013) and Nicolini et al. (2013) show in banking and automobile manufacture respectively if calculating the effects of state support is not an exact science, anticipating the impact of Commission decisions with any precision is no less straightforward.

As these and other contributions to this special issue show, the impact of EU state aid policy has had a far-reaching impact in industry and financial services. It has not, however, ended. Indeed, as Clift (2013) shows, states such as France, that have historically followed strategies that featured high levels of financial support for industries or firms, have amended or recast rather than abandoned traditional policies and practices. Buts et al. (2013) demonstrate that even post SAAP reforms, state aid still has a significant influence on the market share of subsidised firms in Belgium. Aid continues, and continues to have real effects, but whether the benefits actually outweigh the harm to competition even in the 'age of reason' requires further investigation.

Importantly, the effects of EU action have not been restricted only to industrial policy. Its impact has been felt in other sectors (Zahariadis 2013), notably social policy (Everson 2013). Moreover, EU policy has affected territorial relations in those Member States with federal political systems (Streb 2013). It also has important consequences for EU governments and firms beyond the borders of the Union (Damro 2013; Blauberger and Krämer 2013).

These investigations of the effects of the EU control of state aid and the processes by which the Commission has developed EU policy (Doleys 2013), demonstrate the importance of EU action in this field. They also highlight the extent to which, beyond the work of all but a few authors, EU state aid has been neglected in mainstream EU scholarship. In short, the special issue has shown that EU state aid policy is a subject of central importance, with implications across a broad range of policy areas, that deserves wider attention.[40]

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[40] The special issue has not, of course, exhausted the field. It does not include, for example, sector-specific analyses, investigation of the role of EU state aid rules in bringing about restructuring and liberalization, the role of 'compensatory measures', member state perspectives on developing the state aid rules, examination of the influence of state aid control on areas of social and welfare policy, consideration of EU state aid control as industrial policy, or accounts of the EU state aid review.

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