

State aid proliferates in Europe

Hands up for handouts

BERLIN

Taxpayer subsidies to companies have multiplied in the recession

EUROPEAN firms are impressively innovative when it comes to securing cash from taxpayers. Even though the European Union officially frowns on state aid because it threatens its cherished single market, there are so many loopholes in the Brussels rule book that even the dullest bureaucrat and least competitive company can usually find one.

In the German state of Lower Saxony, for instance, farmers can claim compensation for beehives that are destroyed by the wild wolves that have been reintroduced to the area in recent years. Lest anyone think the European Commission shortsighted, it has also made allowance for damage which may be caused by lynx and bears, if these beasts are also released into the wild in future. This is in addition to the €55 billion (\$70 billion) that Europe hands farmers each year under its Common Agricultural Policy.

Industrial undertakings have been no less adept at harvesting subsidies. German coal producers still get €2 billion a year from their government to help the country produce greenhouse gases. France, meanwhile, is giving €19m to GDF Suez, a utility, to help it reduce greenhouse-gas emissions by studying biofuels. On May 3rd the company reported a profit for the first quarter of €5.2 billion before interest and tax.

European companies were no slouches at scrounging before the financial crisis, but since its onset the clattering of their begging bowls has become relentless. When the crisis first struck, the commission's competition regulators relaxed their rules on state aid to allow the bail-out of banks and to help firms that suddenly faced a dearth of credit. Many deserving firms had indeed been deprived of working capital, say, or trade finance. But in opening the door to helping them the commission seems to have created a loophole big enough for farmers and industrialists

to drive their tractors and forklifts through.

By the end of February the commission had approved 70 schemes allowing countries to give handouts to tens of thousands of farms and firms. Many of them, however, have little connection with the credit crunch. Britain, France, Germany, Italy and Spain have all won permission to subsidise the production of "green" goods with cheap loans. In most cases the money will go to carmakers and their suppliers. The sums are far from trivial. Britain's application said it expects more than 1,000 companies to benefit from as much as £8 billion (\$12 billion) in subsidised loans.

Carmakers will also get a break in Sweden. Saab and Volvo may receive government-guaranteed loans, ostensibly to improve the efficiency of their cars. Yet Saab has lost money for years and Volvo has been only marginally profitable. Another car company keen for a handout is Ford. Although it pointedly declined a bail-out in America, it has been happy to take grants and soft loans in Germany and Romania to develop an efficient engine.

Farmers, too, have been quick to use the crisis as a reason to ask for extra help even though subsidies already account for about a third of their income. Because of a particularly sharp drop in milk prices, the commission agreed to allow governments to hand dairy farmers €15,000 each. Several countries, Austria and Britain among them, have applied to do so.

But the economic crisis that is the reason for the jump in state aid may also limit the amount that governments can afford to hand out. Some are already having second thoughts. Spain, for instance, initially asked for permission to lavish €300m on carmakers. Now it thinks it may struggle to find even €100m to subsidise green car production. And in Britain the National Farmers Union laments that its members are unlikely to see much if any of the hoped-for €15,000 a head. If only they had some wolves to fall back on. ■

L'aiuto statale prolifera in Europa (ag)