



EU, COMPETITION AND REGULATED MARKETS

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# Start-ups, State Aid and COVID-19

by **Marco Hickey**

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## EU proposes to temporarily ease State aid rules for start-ups.

The European Commission (Commission) is considering extending the Temporary Framework for State aid (Temporary Framework) to start-ups. We look at this proposal in more detail below.

The Commission has sent a draft proposal on the proposed extension to Member States for consultation, with a view to extending the Temporary Framework to start-ups. If agreed, this will be the third time that the Temporary Framework has been amended since it was adopted by the Commission in March 2020 as a response to the Covid-19 crisis.

## Previous amendments to the Temporary Framework

The Temporary Framework was introduced by the Commission in March 2020 to provide targeted support to otherwise viable companies who suffered financial difficulties stemming from the COVID-19 pandemic.

The Temporary Framework was first amended to increase possibilities for public support for research, testing and production of products relevant to fight the COVID-19 outbreak, to protect jobs, and to further support the economy. It was amended for a second time to extend support to recapitalisation and subordinated debt measures.

## Relaxing State-aid rules for start-ups

The current proposal from the Commission would extend the Temporary Framework to:

1. Support certain micro and small enterprises, including start-ups that were already in difficulty before 31 December 2019.
2. Provide incentives for private investors to participate in coronavirus-related recapitalisation measures.

## Reasons for extending the Temporary Framework to start-ups

The proposals have been welcomed by start-up advocacy groups and those in the tech industry, as it recognises that start-ups will play a vital role in the economic recovery post COVID-19.

Start-ups are typically run at a loss to accelerate growth or have sold a large portion of the company to investors, and as a result, they are often classified as being in financial difficulty. State aid rules generally prevent Member States from propping up failing companies, meaning that as a general rule, start-ups cannot benefit from State support.

The proposal will allow funds to be allocated by Member States to start-ups, which in turn will have a positive impact on economic recovery.

## Next steps

Member States will consider the proposals and provide feedback to the Commission, who in turn will finalise the exact scope of the proposals.

## Thoughts

The move by the Commission to include start-ups in the Temporary Framework is welcome and reinforces the views of many that start-ups are a key component in reviving the economy when the pandemic is behind us.

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