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STATE AID IN COUNTRIES OF THE EUROPEAN UNION AS A FORM OF MARKET INTERVENTION

Summary

In this treatise, the Author attempts to bring the importance of state interventions back into limelight. He does so at a time when the European Union is trying to pressure the authorities in Bosnia and Herzegovina to provide necessary legal normatives for this issue, which is of high importance for any state. The Author focuses on the state's approach to solving economic and social issues, emphasizing the significance of establishing and honouring principles and standards in awarding aid, in monitoring realisation, its potential incompatibility with the Common Market and the possibility of returning the (unlawfully) received aid. These are public funds, collected from taxpayers, which are distributed in the redistribution process to certain enterprises, regions and sectors. Relative indicators in awarding aid, based on national income, are the standards to follow.

***Key words**: state aid, public funds, state interventionism, Common Market, horizontal aid, regional aid, incompatibility, trade, illegal aid, aid forms, market, competition.*

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1. INTRODUCTION

If we use the teachings of Adam Smith as the starting point when analysing whether and to what extent the state should be present on the market, it becomes undoubtedly clear that state involvement needs to be minimized. In this context, state activity needs to be focused primarily on the protection of private property and private initiative. The state needs to create a legislative framework to allow for freedom of negotiations and free trade, as well as to act as a guarantor for entrepreneurs' business arrangements. This conception of state's positioning on the market lead to a significant change. The market demonstrated its flaws, which, in time, made room for a more visible involvement of the state. It is this imperfection of the market, transpiring through market flaws, which provides an excuse for the state's presence on the market. Today, there is no dilemma on whether or not a state should be involved in the economy, regardless of whether this is a developed market economy or an underdeveloped country. Degree of involvement varies, depending on each system's unique characteristics and economic situation. The former dilemma on the necessity of state presence on the market gave way to a discussion on the extent of state intervention. Stigler laws, which state basic rules on economic tasks that could be undertaken by the state1 are a good starting ground for this discussion. The state intervenes not only in those fields in which there is no private interest, but also outside these fields, as we have seen in the case of small and medium enterprises in the European Union and especially in the allocative function.2 One form of state market intervention is seen in State aid measures. State aid policy in the European Union has been outlined by the Treaties of Rome.3 If the legal conditions set in community norms, have been met, the aid, from an economic perspective, is aimed at optimising resource allocation inside member states. In general, to be categorised as state aid, it is sufficient that the

[1] See: Samuelson P.A., *Ekonomska čitanka*, Matica hrvatska, Zagreb, l975., str. 101-107. (Samuelson P.A., *Readings in Economics*, Matica hrvatska, Zagreb 1975, pp. 101-107)

[2] More on state functions in: Rizvanović Edin, *Državna pomoć u zemljama Evropske unije - iskustva za Bosnu i Hercegovinu*, Štamparija Fojnica, 2005, str. 4-8 (Rizvanović Edin, *State Aid in the Countries of the European Union – experiences for Bosnia and Herzegovina*, Štamparija Fojnica, 2005., pp. 4-8).

[3] Treaties of Rome (1957), by which the European Economic Community was founded; see more in: Vukadinović R., *Pravo Evropske unije*, IMPP, Beograd, 1996, str. 24. (Vukadinović R., *European Union Law*, IMPP, Belgrade, 1996, p. 24)

resources used for approval of this aid come from public funds,4 but does not have to involve a transfer of funds to the beneficiary. It is important to emphasise, however, that not all aid coming from the state can be defined as state aid, as seen in, for example, general measures of economic policy or exceptions defined in the de minimis rule.5 From the national point of view, the core objective of state aid is accomplishment of economic and social goals, derived from the guidelines of economic policy. The main problem with state aid is that it can disrupt competition and free trade of goods, economic pillars of the Community. Because state aid may interfere with competition and have a negative impact on the trade between member states, it is subject to Community control. At the same time, community competition policy needs to contribute to the removal of any potential cause for conflict between the member states. State aid control is centralised and implemented by the European Commission, while the procedural law is mostly national. The common legal basis, Commission – the Community body charged with procedures and control of conferring aid, unique criteria as the base for objective compatibility assessment all contribute to Common Market establishment.

2. ECONOMIC REASONS FOR CONFERRING AID

Existence of market flaws6 provides member states with a solid justification for implementing state aid measures. Public goods, monopolies, imperfect or asymmetric information, imperfect mobility factor, foreign competition pressure, institutional rigidity and problems in adjustment to the changes on the market are some of these flaws. The state aid should, therefore, be one of corrective measures for market mechanisms. On the other hand, bearing in mind possible negative impacts of state aid, it is necessary to carefully consider the circumstances in which these measures are necessary and, therefore, assess whether such a state intervention would serve its purpose. This assessment procedure comprises seeking and analysing answers to questions relating to the presence of market flaws and

[4] Luigi Daniele, *II diritto materiale della Comunita' Europea*, Giuffre' editore, Milan, 1995., p.179.

[5] Pursuant to the *de minimis* rule, aid to small and medium enterprises that does not surpass 100,000 Euros in a three year time period, is not subject to mandatory notification; see in: Competition law in the European Communities, European Commission, Brussels-Luxembourg, 1995, pp. 177-186. Pursuant to the European Commission Decree from 2006, this threshold is set at 200,000 Euros, www.ec.europa.eu/competition/state_aid

[6] More on market flaws: Rizvanović Edin, *op.cit*., pp. 13-19.

corresponding necessity of implementing state aid measures, existence of more efficient forms of intervention, possible alternatives; then, solving the issue of proper selection of beneficiaries, assessing whether this aid can lead to a desired behaviour modification or if it would lead to the so-called "rent seeking" behaviour.[7] This part of research requires an analysis of state aid cost effectiveness. When selecting the type of aid, two basic criteria are used: efficiency and cost. Experience in applying these criteria to general aid (aid granted to small and medium enterprises, research and development, regional aid) and *ad hoc* aid (rescuing and restructuring companies) teaches us that the former type incurs higher costs and has a more distortive effect on the market.

Determination of an acceptable level of state aid is one of the issues being continually discussed in the European Union. Activities of member states are, thus, aimed predominantly at finding the right criteria for determining the amount of state aid, but also at the modalities of its coordination. When implementing these measures, it is very important to consider the benefit vs. cost ratio. The degree of market flaw correction can be set as the criterion of success. State aid control system, established at the EU level, however, is not sufficient in itself. This means that member states need to intensify their activities aimed towards reducing relatively non-efficient aid, leading to a better use of public resources.[8] Member states bear a higher responsibility, as they are in a better position to assess (using the comparative method) whether state aid would be the most appropriate means to a desired end, or if there is a more efficient alternative. To be approved, the aid needs to realise EU objectives, it needs to be proportional to the problem at hand and it needs to be transparent.[9]

3. LEGAL GROUNDS FOR STATE AID CONTROL

As explained previously, state aid control on a supranational level is in the jurisdiction of the Commission, pursuant to regulations provided in Art.

[7] Seeking funds under favourable conditions, accompanied, as a rule, by political lobbying.

[8] To this end, the European Council has taken appropriate steps, through its decision from Cardiff in 1998, which promotes competition and reduces state-aid caused distortion. The European Commission has done the same, through its BEPG (Broad Economic Policy Guidelines) from 1999, which advocate a reduction in state aid and abandonment of certain forms of aid; www.ks.dk/statstoet/workshop

[9] In 1980 the Commission has, pursuant to Art. 90 (3) adopted a Directive (80/723/EEC), demanding that member states make their public fund flows transparent and procure all necessary information that had previously been required.

87-89 of the Treaty (former Art. 92-94). In order for a particular state aid measure to be realised, it must not be incompatible with the Common Market.

Article 87 (1) reads "…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, insofar as it affects trade between Member States, be incompatible with the Common Market".

Analysing the words of the first paragraph of Article 87 of the Treaty, the following can be concluded. First, aid that is "prohibited" pursuant to this article, does not have to be conferred directly by the state, it is sufficient that state resources are used, which relates to the involvement of any agency that can distribute aid from Government funds, such as local authorities and public institutions.

Secondly, these resources are not necessarily material resources, in other words, this does not necessarily entail a transfer of such resources, it is sufficient that there is a loan under favourable conditions, including low interest rates. Same applies to the cases in which the element of donation is less visible, such as customs and tax facilities, or credit guarantees.

Thirdly, there needs to be a disruption, or a threat of disruption, of competition, that can be the result of favouring of certain enterprises, or production of certain goods. Fulfilment of these requirements results in aid incompatibility and, therefore, in prohibition of its implementation in the intended form.

Article 87(1) addresses existing aid.[10] The Commission must be notified on each new state aid measure. Based on this notification, the state may initiate an investigation procedure, but the interested parties must be granted a right to participate in the investigation.

Article 87, paragraph 2 prescribes which types of aid may be considered compatible[11] with the Common Market. Objectives presented in Article

[10] This is aid that existed before the Treaty came into force, or when the state joined the Community (for the states that joined later), aid that would have been approved pursuant to Article 93(3), aid that the Commission was notified on, pursuant to obligations prescribed in Article 93(3), but that the Commission did not act upon within the prescribed deadline; more in: Craig P., Grainne de Burca, *EC law: Text, Cases & Materials*, Clarendon press, Oxford, 1995., p. l098.

[11] Aid having a social character, granted to individual consumers, aid to make good the damage caused by natural disasters or exceptional occurrences, aid granted to the economy of certain areas of the Federal Republic of Germany affected by the division of Germany, insofar as such aid is required in order to compensate for the economic disadvantages caused by that division;

87(2) are intensely political, they are recognised as such and harmonised among member states.[12] Legal problems begin with the third paragraph of this Article, which is the article that attracts the most attention among member states.

Article 87(3) of the Treaty prescribes which types of aid may be considered compatible with the Common Market. It is obvious that this definition requires more attention from the Commission, when determining whether concrete cases of state aid are compatible with the Common Market, which also entails a more active participation of the Court of Justice. This Article prescribes the following types of aid:

a) Aid to promote the economic development of areas where the standard of living is abnormally low or where there is serious underemployment.

b) With this type of aid, if the Commission is to declare it compatible, these problems need to be especially severe. The Commission has adopted the stand that the severity of regional problems needs to be assessed in the context of the Community, and not in a national context. Criterion used for this assessment is comparison to European Union average.[13]

c) 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;

d) 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";

This is the most interesting paragraph requiring the fulfilment of two differently defined conditions. The second part of the paragraph in which is a negatively expressed condition; failure to fulfil this condition may lead to this form of aid being declared compatible. Positive expression of requirements for applying this Article allow the aid to be assessed by the references from requirements of an individual industrial sector, or economic field, for which the Commission has recognised that they can have national and not just European Union dimensions. The procedure comprises two phases. In the first phase, there needs to be a minimal

Luigi Daniele, *op. cit*., p. 181.

[12] Micklitz W.H. & Weatherill S., *European Eonomic Lw*, Tempus 2, p. 98.

[13] See Philip Morris case; Craig P., Grainne de Burca, *op.cit*., p. 1091.

regional disparity in a national context, regardless of the state's position within the Union. To classify the region as eligible for receiving aid, it is also necessary to successfully complete the second phase, in which, in addition to unemployment (trend and structure) and income, other factors are considered, such as: net migrations, demographic pressure, population density, productivity, economic activity structure, general geographic situation and infrastructure. In any case, the objective of the aid must be achieved in the individual sector or region and not just in specific enterprises.

In addition to the described examples of aid, article 87(3) also pertains to:

a) protection of cultural and historical heritage and

b) any other category of aid that may be specified by decision of the Council adopted by a qualified majority on a proposal from the Commission.

Article 88 of the Treaty (formerly Article 93) prescribes the procedure to be followed by the Commission in application and reinforcement of important rules prescribed in Article 87, while the Commission has a broad discretionary power in determining compatibility with the Common Market and ensuring that member states and beneficiaries receiving the aid will enforce its decisions. The Commission analyzes every instance of state aid and determines, case by case, whether the proposed measures of aid are acceptable pursuant to Article 87 of the Treaty.

Article 88(1) authorises the Commission to supervise the entire state aid system in member states, in cooperation with these states. To this end, it can propose to a member state any appropriate measure that could contribute to its development or to a better functioning of the Common Market. Paragraph 2 of this Article prescribes that, if, following the notification of interested parties to submit their comments, the Commission finds that the aid that was granted by member states, or through state resources, is incompatible with the Common Market pursuant to article 87, or that such aid was misused, it will issue a decision by which the said member state will abolish or alter the said aid measure within a time period determined by the Commission. Furthermore, this Article prescribes that, acting on a petition from a member state, Council may declare a type of aid that the state grants or intends to grant, compatible with the Common Market, exempting it from the provisions of Article 87 of the Treaty through a consensus, if such a decision is justified by exceptional circumstances. If the Commission has already initiated the procedure regarding the said aid, the fact that the observed state has submitted an application to the Council will have an effect of suspending that procedure until the Council declares its stand on the matter. If, however, the Council does not declare its position within three months of the application, the Commission will issue its decision on the case. Pursuant to Article 88(3) of the Treaty, the Commission will be informed within a time period that is sufficient to allow it to submit its comment on any plan to grant or alter aid. If it finds that any such plan is not compatible with the Common Market pursuant to Article 87 of the Treaty, it will initiate the appropriate procedure without delay. The member state concerned will not put its proposed measures into effect until a final decision has been issued.

4. INCOMPATIBLE AND UNLAWFUL AID

Aid is considered incompatible if the Commission has found it to be so after having applied the procedure prescribed by Article 88(2) of the Treaty. In other words, only the Commission can declare an aid measure incompatible with the Common Market. If found guilty, the state is not in breach of the treaty *ipso facto*. Instead, the aid measure in question must be modified or abolished. Contrary to the incompatible aid, an aid measure is considered unlawful if it was misused, whether through a violation of the Commission's negative decision, whether through a violation of rules of procedure prescribed by Article 88 of the Treaty, which encompasses not only the aid that the Commission was not notified on but also the aid measures for which the notification was submitted properly but that was put in effect before it was approved. Unlawful aid is a breach of the Treaty. Natural and legal persons may invoke the unlawfulness of an aid measure before national courts, which is not the case with incompatible aid. If the aid was granted unlawfully, i.e. without following necessary procedure, the Commission may require that the member state temporarily revokes the unlawful aid (resources).

Article 89 of the Treaty (formerly Article 94), which prescribes normative authorisations of the Council of Ministers, states: "The Council, acting by a qualified majority on a proposal from the Commission and after consulting the European Parliament, may make any appropriate regulations for the application of Articles 87 and 88 and may in particular determine the conditions in which Article 88(3) shall apply and the categories of aid exempted from this procedure." Other aid measures, which were not mentioned, or which have not been approved as justified (by extraordinary circumstances) by the Council, are considered prohibited. Member states are obliged to abolish such measures, pursuant to the procedure prescribed in Articles 88 and 89 of the Treaty. Contrary to unlawful aid, where the primary subject (with a negative connotation) is the state, in misused aid it is the aid beneficiary that commits the offence. In this way, the case acquires national connotations, both procedurally and in its essence, the latter especially in the context of efficiency of public grants.

5. TYPES OF AID

One of state aid classifications, in this case, industrial, is provided by the European Commission, which classifies aid in the following way, according to the general objective for which it was granted and the sector at which it is aimed[14] :

a) Horizontal aid:[15]

- Research and development,
- Environmental protection,
- Aid to small and medium enterprises,
- Rescue and restructuring,
- Other types of aid (aid with employment, training aid).

Within the horizontal aid, member states pay special attention to small and medium enterprises which are the pillars of their development. It is, therefore, necessary to dedicate a few words to define these enterprises. Pursuant to the definition in force, a small enterprise is an enterprise with less than 50 employees, with its annual turnover or annual balance fewer than 10 million euros. The criterion of independence of the enterprise[16] needs to be added to these requirements, which need to be fulfilled cumulatively.

[14] Fifth Survey on State Aid in the European Union in the Manufacturing and Certain Other Sectors, European Commission, COM 97/170, 1997.

[15] Cross-industry or general aid; See more in: D'Sa M. Rose, *Competition Law in the European Communities*, Vol II, European Commission, 1997., p. 16.

[16] An enterprise (small or medium) is considered independent if no other, larger enterprise owns more than 25% of the capital or votes within the small/medium enterprise. See more in: Competition law in the European Communities, op. cit., p. 179.

With medium enterprises, basic parameters are given as: less than 250 employees, annual turnover less than 50 euros, or annual balance less than 43 million euros, with the added criterion of independence of the said enterprise.[17] These rules of "identification" of small and medium enterprises are applied to all industries, with the exception of special rules prescribed by the ECSC Treaty.[18] According to the information of the Commission, member states have spent approximately 36 billion euros to support production industry, with the bulk of these funds, approximately 80%, spent by 4 largest member states – Germany, France, Great Britain and Italy.[19] This information is the best indicator of the imbalanced use of state aid by member states.

b) Regional aid:

- Regions encompassed by Article 87(3)a of the Treaty,[20]
- Regions encompassed by Article 87(3)c of the Treaty, and, as a separate category
- Aid for Germany – Berlin and Zonenrand.

Before a detailed analysis of Article 87(3)c of the Treaty (formerly Article 92), it should be said that pursuant to this Article, in the context of potential beneficiaries of regional aid, the regions in which the GNP is below 75% of the average GNP in the Community are to be considered particularly depressed. Depressed regions, in comparison to other regions in the same member state, are those regions in which the GNP does not surpass 80% of the national average and in which the unemployment rate is at least 10% higher than the national average.[21] With such a clear definition of criteria for granting regional aid, with the assumption of successful realisation, there is a possibility of reducing economic disparities among different regions. New guidelines for regional aid, bearing in mind that they refer to the period between 2000 and 2006, involve the new members as well.

[17] See: Commission Recommendation 2003/361/EC.

[18] These are special branches of industry as exceptions, namely: steel, coal, shipbuilding, synthetic fibres, motor industry, fishing and transport; Competition law..., op. cit, p. 231.

[19] In 1991, aid per employee in industry amounted to 1238 ECU vs. 1472 ECU in 1994; Fifth Survey on State aid in the European Union - 1992-1994.

[20] Thus, for example, whole states, such as Greece, Ireland and Portugal, are observed as regions, while, for example, Germany has 6 regions, Spain 10, Italy 3, while in case of France, regions are overseas departments; see more in: Subsidies to investment and the fragmentation of the Canadian economic union: What can we learn from the European and international experience?, by Demers F., Smith M., Demers M, April 1998; http:strategis.ic.gc.ca.

[21] Baudenbacher Carl, A brief guide to European State Aid Law, Kluwer law international, London, 1997., p. 41.

Approximately 50% of industrial aid is used for regional objectives in the Union, with this aid comprising 26% of the non-agricultural aid.

It is necessary to mention, as a separate category of state aid, aid to individual sectors: shipbuilding, steel, transport, coal and other sectors that have a special historical significance. This refers primarily to the European Coal and Steel Community, whose foundation was the cornerstone of today's European Union.

Aid for the Spanish manufacturer of glass wool «Rockwool Peninsular S.A.» is the best illustration for the aid granting procedure, especially in the context of national vs. supranational relations. When assessing cases like this one, special attention should be paid to three factors: capital – labour ratio, degree of competition in the relevant market and the regional impact factor. Each of these three criteria is expressed through a value coefficient, which varies depending on project properties. For an enterprise to become a beneficiary of a grant, its market share needs to be less than 40%. Regarding procedural issues, the Commission adopts a decision on approving aid within two months of the notification, or, if there are doubts, opens a procedural investigation and reaches a final decision within four months at the latest.[22] In the Rockwool case (glass wool manufacturer with its business seat in Spain), the analysis was performed as will be explained in the text to follow. As can be seen from the overview, the relevant market product is glass wool, an insulation material, with better performance record than other materials. In its notification, Spain states that the relevant geographical market would comprise the markets of France, Spain and Portugal. It has been ascertained that the concentration of glass wool manufacturing plants is relatively low in Southern Europe. The Commission adopted a different viewpoint on this matter. First, Community as a whole was designated as the relevant geographic market. It has been ascertained that capacity utilisation degree may be determined by analysing the nature of the market, i.e. information on whether investments are being made on a declining market. To this end, the ratio between the development of consumption of the considered product (production + import - export) and the growth rate of industrial manufacture in the Community are determined.[23] Based on the provided

[22] By 15. February 2000. the Commission received 14 notifications, of which 4 resulted in a final decision. Four decisions were reached without opening a procedure. More on this at: www.europa.eu.int

[23] Average annual growth rate of industrial production for the European Union (1992-1997) was 3.235%. According to EURIMA (European Insulation Manufacturers Association) information, the annual production growth rate for glass wool for the same period of time was 3.475%.

information, it was ascertained that the glass wool market is not a declining market and that Rockwool's market share does not exceed 40%. It was therefore concluded that the competition factor is 1. Regional impact factor was based on the number of job positions opened, as well as on the readiness of buyers to respond to the investment positively. In this example, transport of the final product was the most important source of indirect job positions opening (45). The calculation was performed as follows: for the estimated production of 800,000 m^3 of glass wool, 10,000 trips were planned. The average distance of destination was estimated as 450-500 km. 220 trips were planned for each driver. The second source of job position opening was within transportation of raw materials. Following the proposed arguments, the Commission declared the information submitted by the Spanish Government acceptable.

Review no.1 : Case no. 94/99 (Spain) – Aid for Rockwool Peninsular S.A.

Beneficiary	ROCKWOOL PENINSULAR S.A.
Decision date	21. April 1999.
Type of investment	Glass wool factory
Qualified expenses	64.7 million ECU
Aid amount	15.5 million ECU
Small and medium enterprise	No
Investment location	Caparroso (Navarra, Spain)
Type of assisted field	87 (3) c
Regional aid maximum	15% NGE
Aid net equivalent	13.2%
Direct employment	107
Indirect employment	56
Relevant product market	Glass wool
Relevant geographic market	European Community
>40% of the market share	No
Market properties	Non-declining market
Competition factor	1
Capital/labour factor	0.8
Regional development factor	1.1
Conclusion	The proposed aid level accepted

www.europa.eu.int

Source: Competition Policy Newsletter, Bruxelles, number 1, February 2000.

6. AID FORMS AND SOURCES

Once the goal or sector has been defined, it is possible to select the form of aid. Forms of aid may be classified in four groups:

a) Grants and tax facilities, with the former being more common in practice.

b) Participation in shares;

c) Loans (under favourable conditions, usually with a reduction in interest rate) and delays in tax payments. Favourable loans are often used in Germany and Spain while delays in tax payments are the least used instrument of aid.

d) Guarantees are the most frequent form of aid in rescue and restructuring, as well as in support to the development of small and medium enterprises in the European Union, and third form of aid by its significance in industry; they are most commonly used in France, Germany and Belgium.

There are two basic modes of financing these forms of state aid: budget expenditures and tax expenses. Of the previously described aid forms, grants, participation in shares, favourable loans and guarantees are budget expenditures and they are preferred in the European Union, while tax expenses, in general, are of marginal significance.[24] Some information illustrative of aid structure: with the exception of agriculture, that most of the aid goes to, total non-agricultural aid represented 1.2% of GNP of the Community in 1995 – 1997, which is a decrease in comparison to the previous two-year period. Aid structure for the coal industry is also interesting, amounting to 9% of the total non-agricultural aid, with 77% of this aid form going towards present manufacture, while the rest goes towards social needs. This type of aid has a particularly significant place in Germany and Spain. Aid growth for rescue and restructuring of enterprises that have encountered business problems raises the most concerns, bearing

[24] This is particularly true of Luxemburg and Spain where all aid is channelled through the budget, but also of Denmark, Ireland and Great Britain where 90% of the aid is financed from the budget. Contrary to this, tax expenses are widely applied in Belgium, Italy, Germany and France; www.strategis.ic.gc.ca.

in mind the complexity of the matter and its potential influence on competition and trade between member states. With the exception of aid granted through special measures towards the so-called new Länder in Germany, aid average has increased from 6.7% in the period from 1993-1995 to 8.4 in the period between 1995-1997.[25]

7. CONCLUSION

Measures of state aid are, in their nature, expenses, or potential loss of public income, but, at the same time, represent profit for its recipient. State aid within the European Union, by its motives, objectives, sources, regulations, institutional and legal structure represents a combination of national and supranational policies. Member states find justification for implementing state aid measures in the existence of market flaws. If the Commission estimates that the awarded aid will not disrupt trade among member states, it will approve the said measure, while its success will be assessed through its demonstrated efficiency and cost-effectiveness. Effects of aid may be presented by observing the ratio between the total funds allocated from the budget and the success in correcting market flaws. One precondition for achieving these results is coordination between member states. Decisions adopted by Community institutions, Commission and Council, are partly political and as such represent a good indicator of the power ratio between the carriers of different concepts of European Union development. Adversaries of state aid consider it incompatible with free market economy *per se* and feel that irrational spending of taxpayers' funds contributes to an increase in poverty of the market and lowering of the consumers' standard. Regardless of these objections, it can be said that state aid contributes to the development of member states through its corrective and redistributive effects, thereby contributing to the development of European Union itself. This form of state presence on the market is desirable, providing it stays within the previously described boundaries.

[25] In France, this aid is directed at air transportation and financial services; same in Italy, with several other industries, while in Spain it is mostly directed at steel and shipbuilding. These states have set aside more than 80% of the aid for these purposes; www.ks.dk/statstoet/workshop/JanHSchmidt/Paper1

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