

**Ms Margrethe Vestager**  
Executive Vice President  
European Commission

By e-mail

25 January 2021

**Subject: temporary framework for state aid**

Dear Executive Vice-President,

On behalf of the European retail and wholesale sector, we would like to express our appreciation for the work done by the Commission to ensure, through the Temporary Framework, smooth access to state aid to companies hit hard by restrictive measures imposed by national authorities due to the COVID pandemic.

In its communication “Repair and prepare for the next generation”, the Commission recognised the retail and wholesale eco-system as particularly vulnerable and in particular need of liquidity and investment support. After almost a year of varying levels of government restrictions on people’s movements and the opening of shops, many retailers’ and wholesalers’ businesses have been severely affected, and access to state support remains a matter of survival for them.

We welcomed the revision of the Temporary Framework in October 2020, which allowed for access to state aid for uncovered fixed costs up to €3 million. With respect to the revision announced last week, we would like to ask the Commission to consider whether the following aspects could be taken into account:

- a) to raise significantly the threshold for uncovered fixed costs in the order of 7 to 10 times what it currently is - meaning a threshold for uncovered fixed costs with a limit of not less than €20 - 30 million in order to capture the specific nature of the retail sector, which operates on the basis of high turnover, high fixed costs and low profit margins (see briefing note attached);
- b) extending the scope to allow companies to claim support for “uncovered fixed costs” to include the cost of depreciation and inventory to reflect specific issues facing the sector (see below);
- c) extending the Temporary Framework until end-2021 to give greater predictability.

**1. increasing the thresholds to reflect the specificities of retail**

The thresholds set in the Temporary Framework under sections 3.1 and 3.12 do not match the needs of the retail and wholesale sector, which operates with high fixed costs (staff, rents, etc.) and very low margins (1-3%). The limits of €800,000 and €3 million respectively are by no means close to covering the significant losses which non-food retailers, and wholesalers supplying HORECA, are incurring. The annex to the attached background paper provides an example illustrating the importance of fixed costs incurred by a large fashion retailer and how this relates to the thresholds provided for under the Temporary Framework. Aid is based on the economic entity; this makes the thresholds even more



problematic, especially for conglomerate companies, who have a very much higher turnover and are treated as single entity under the framework.

We also would like to underline the importance of ensuring that access to grants under the Temporary Framework is available to both SMEs and large companies. Many large companies, especially in fashion and accessories retail, are extremely vulnerable but find it hard to access support on a scale necessary to help them in their very difficult situation. Access to state support is equally a matter of survival for them in a crisis that is lasting much longer than anyone had anticipated.

**2. clarifying the concept of “uncovered fixed costs” to cover the cost of inventory**

Unlike manufacturing, inventories (cost of goods for resale) are by far the biggest cost incurred by retailers (about 30% to 40% of total assets in non-food retail), but with new restrictions being imposed as the pandemic continues, retailers are unlikely to be able to sell these products as planned when orders were placed.

Many retailers and wholesalers - e.g. in the fashion, shoes and accessories sectors – are directly or indirectly affected by lockdown measures and have incurred sharp drops in sales. Goods are purchased up to one season in advance (the winter collection for 2020/21 was ordered in January/February 2020; the spring/summer 2021 collection was ordered in August 2020; the winter collection 2021/22 is being ordered right now). Thus, orders could not be adjusted to the new market circumstances arising in 2020 and, retailers are holding excessively high levels of stocks. With prolonged lockdowns in most EU member states, the chances for these stocks being sold are limited as we move into the spring season. In the meantime, the unsold stocks are incurring a significant loss of value.

We would therefore ask that such inventories should be understood as underlying assets defined by contracts made before the crisis, and thus treated as fixed costs during the crisis. This would mean that the definition of fixed costs under the framework would need to include wording which clarified that, where restrictions on stores opening or on citizens’ movements in the crisis lead to such inventory being no longer saleable, or the cost of inventory cannot be offset by present or future sales, this is to be treated as an unavoidable, and thus fixed cost. Resolving this issue could mean the difference between survival and bankruptcy for businesses in the commerce sector.

We thank you again for the help to our sector through the Temporary Framework for State aid and for your consideration of these points when reviewing it.

Yours sincerely,



Christian Verschuere  
**Director-General**