

Ensuring access to COVID-19 support measures for retail and wholesale

The retail and wholesale ecosystem has been severely impacted by restrictions imposed by governments to contain the COVID-19 pandemic. In some member states, non-food retail stores have been closed by government order, in others stores have remained open, but customers have stayed home due to mobility restrictions, teleworking and/ or fear of catching the virus resulting in significant lost turnover. We estimated losses linked to the first wave of the pandemic to reach 16-20% of annual turnover (€250-320bn). Wholesalers are oftentimes not closed by government order, but when their customers are, particularly in the HORECA sector, this has dramatic knock-on effects, leading to significant reductions in turnover and putting many jobs at risk. Retailers and wholesalers operate with high turnover, high fixed costs and low margins (1-3%) meaning that they are particularly vulnerable to current liquidity shortages. Online sales have increased, but they have by no means compensated for the losses. There are 5.4 million retail and/or wholesale businesses in the EU, most of them are very small. These provide jobs to 29 million Europeans and play a key role in the life of local communities. The Commission's Staff Working Document accompanying the proposal for a Recovery and Resilience Facility¹, points out that the retail and wholesale ecosystem is the second ecosystem in the EU needing greatest investment support after tourism.

Specific issues facing our sector accessing government support

Government support has been essential to avoid major bankruptcies and layoffs through the first wave of the pandemic. The second wave is now well upon us, and companies weakened by the first wave are now extremely vulnerable. In this context our members are experiencing difficulties getting access to the necessary support for their survival. They are faced with four main challenges:

- **retailers and wholesalers indirectly impacted by the government measures are not eligible for aid schemes adopted under art.107.2b.** Member states claim that the Commission is not allowing them to support companies under this article unless they are closed by government order. This makes it difficult for retailers and wholesalers to access un-capped support.
- **the thresholds set in the temporary framework under sections 3.1 and 3.12 are unfit for the retail and wholesale sector,** which operates with high fixed costs (staff, rents, etc.) and very low margins (1-3%). The limits of respectively EUR 800.000 and EUR 3 million are not close to covering the significant losses non-food retailers and wholesalers supplying HORECA are incurring. The annex 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. Furthermore, we would like underline, that grants under the temporary framework are relevant for SMEs as well as big companies.
- **the cost of inventory/stock normally does not qualify as fixed cost; this makes it more difficult for retailers to access state aid:** the value of inventory represents 30-40% of retailers' assets; however, this is based on contracts and orders that can be placed up to one year in advance² and cannot be adjusted to the new market circumstances arising in 2020. As a result, retailers are holding excessively high levels of stocks and, 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 incurred a significant loss of value.
- **aid is based on the economic entity;** this makes the thresholds mentioned above even more problematic, especially for conglomerate companies.
- **administrative burdens in accessing the available funds.** Several members have raised, that

¹ Commission communication: [Europe's moment: Repair and Prepare for the Next Generation](#), {SWD(2020) 98 final}

² in the fashion sector, 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 for 2021/22 is being ordered in January 2021

they are facing significant administrative burden when applying for the support funds, and substantial delays in getting the funds paid out. This is very problematic for SMEs and large businesses in dire need for liquidity relief.

Call to action

- **legal base: we ask the Commission to consider entering into a dialogue with Member States to evaluate if it would be possible to open the support schemes under art.107.2b to companies indirectly severely impacted by the restrictions, although not de jure closed by government order.** We understand that art.107.2b was designed for one-off crisis events such as natural disasters where the damages can be assessed upfront. However, the second wave has now hit, and businesses are extremely vulnerable. We are of the opinion that the current situation should be recognised as an “*exemotional occurrence*” by the Commission under art.107.2b and that the lack of customers due to COVID restrictions and fear should qualify as “*damages suffered due to and directly caused by the outbreak*” under the temporary framework para. 15 even if companies are not directly closed by government order.
- **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 EUR 20 - 30 million in order to capture the specific nature of the retail sector.
- **extend the scope of the temporary framework** 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: include wording which clarifies that, where restrictions on store openings or citizens’ mobility in the crisis lead to 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.
- **take a more flexible approach to the definition of an economic entity** benefiting from state support: we do understand that the courts have ruled on the need to use the economic entity as the unit for support, however, any **flexibility** that could potentially be found in this regard would be extremely helpful.
- **work with member states so that they do not impose disproportionate burden for companies in dire need to access the funds and to ensure prompt payment.** Companies are struggling for their survival and do not necessarily have the experience or capability to deal with complex administrative mechanisms. Both SMEs and large businesses are significantly affected and need access to state aid.
- **extend the Temporary Framework until end-2021** to give greater predictability.

Annex

In this example, a fashion retailer was closed by government order and only able to maintain a very limited level of activity (lost turnover is 90%) during the period March-April. During this period, the government took over the labour costs; in spite of this:

- fixed costs remained at a significant level, in particular rents;
- the €800,000 threshold established in the temporary framework represents 1% of the losses incurred; cumulating with the €3 million additional possibility provided under the revised temporary framework for fixed costs represents 6% of the losses incurred;
- a compensation up to 10% of turnover would help compensate up to 30% of the company's losses.

APPAREL FASHION RETAILER						
<i>in this example, the company was closed by government order, the company was able to maintain some online activity but its turnover declined by 90% on average over the period March 2020 to April 2020 compared to the same period in 2019</i>						
	March - April 2019		March - April 2020			
	(in M€)	Before aid (in €)	After 3.1. TF (in €)	After 3.1 TF + 3.12 TF (in €)	After 3.1 TF + 3.12 TF + 107(2)(b) TFUE (in €)	
Revenue	100	200.000.000	20.000.000	20.000.000	20.000.000	20.000.000
Cost of goods sold	-37,5	-75.000.000	-7.500.000	-7.500.000	-7.500.000	-7.500.000
Gross profit	62,5	125.000.000	12.500.000	12.500.000	12.500.000	12.500.000
Operating expenses						
1. Personnel costs (salaries, benefits, ...)	-17,5	-35.000.000	-6.500.000	-6.500.000	-6.500.000	-6.500.000
2. Rents	-15,0	-30.000.000	-30.000.000	-30.000.000	-30.000.000	-30.000.000
3. Utilities	-3,0	-6.000.000	-1.800.000	-1.800.000	-1.800.000	-1.800.000
4. Other operating expenses	-4,0	-8.000.000	-4.000.000	-4.000.000	-4.000.000	-4.000.000
Total operating expenses	-39,5	-79.000.000	-42.300.000	-42.300.000	-42.300.000	-42.300.000
Logistics and central costs	-13,0	-26.000.000	-15.600.000	-15.600.000	-15.600.000	-15.600.000
Net profit/loss (EBIT) before aid	10,0	20.000.000	-45.400.000	-45.400.000	-45.400.000	-45.400.000
Aid under 3.1 TF (max. EUR 800.000)			800.000	800.000	800.000	800.000
Aid under 3.12 TF (70% losses, max. EUR 3 million)				3.000.000	3.000.000	3.000.000
Net profit/loss (EBIT) after aid	10,0	20.000.000	-45.400.000	-44.600.000	-41.600.000	-23.600.000
Cumulated aid under 3.1 TF, 3.12 TF, 107(2)(b) TFUE			0	800.000	3.800.000	21.600.000
Loss sustained by the company vs. 2019			-65.400.000	-64.600.000	-61.600.000	-43.600.000
% loss vs. 2019 covered by aid			0%	-1%	-6%	-33%