

## **SPEECH**

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### **State aid in perspective: Europe, UK and Wales The European Perspective on State aid control**



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Ladies and Gentlemen,

Let me first thank the organisers for inviting me to this conference. I have been looking forward to this opportunity to talk to you about State aid control and to put the latest developments into a European perspective.

*"Without a solid competition policy, the European economy would descend into chaos".* This is what my Commissioner, Neelie Kroes, said less than four weeks ago, when the financial crisis was just about to unfold. And events since then have shown she was more than right. The current turmoil in the banking sector has clearly underlined that competition policy in general, and State aid discipline in particular, are as important today as they were when the Rome Treaty was written 50 years ago.

Fair competition means that it must be fair to everybody. It is not by accident that the authors of the EC Treaty entrusted a neutral Commission with the task of enforcing the State aid rules and making sure that there is a level playing field for Member States and firms alike.

It is worth underlining that the Heads of State in the European Council have explicitly supported the need to continue to apply State aid rules in the stormy times we are facing now. They know only too well that without State aid rules, Member States could end up in an expensive subsidy race - a race that would amplify adverse effects because Member States would not have an incentive, left to themselves, to take sufficient measures to limit distortions of competition and avoid negative spillovers beyond their borders. So State aid control is not a barrier but an essential part of the European solution in dealing with current events in the banking sector.

Of course the financial crisis is high up on everyone's agenda right now and I will come back to the role State aid has to play in this context at the end of my talk. Let us start though by first recalling the basic principles of our European State aid policy which will put things in a broader perspective.

### **The State aid reform / SAAP**

Each year the 27 Member States spend at least €50 billion of State aid. It really matters how these billions are spent – more than ever at this time. It goes without saying that not all State aid is "bad" State aid. In some circumstances, State aid can be the best policy tool available to improve the functioning of the market, and it can be a powerful way to achieve outcomes the market cannot deliver on its own.

The Commission has clearly underlined this role of State aid when it launched its State Aid Action Plan in 2005. The principal aim of this exercise was to arrive at better targeted aid – more "good" aid in the mix. In the last four years we have revised nearly all our rules: the new regional aid guidelines, the research, development and innovation framework, the risk capital guidelines and the environmental guidelines focus on areas where State aid can boost growth and jobs.

## **The new architecture of State aid rules in a nutshell**

The Commission introduced with its State Aid Action Plan a new architecture of State aid control by block-exempting a large number of aid measures from the obligation of notification altogether; by conducting a normal assessment for standard cases designed in accordance with the detailed guidance, and that are below defined thresholds; and by applying a detailed assessment only to a limited number of large cases that present a high risk of distorting competition.

This new architecture allows the Commission both to focus on the most important aid measures and to also bring down the administrative burden for everyone for cases which are unlikely to pose competition problems.

### **Detailed assessment**

Let us first have a closer look at what detailed assessment means. For the most significant potential cases the State Aid Action Plan introduced the so-called "balancing test" that reflects our economic approach to State aid analysis.

Let us not overstate the change here. The Commission did not just discover for the first time in 2005 that economics was relevant to State Aid. What the State Aid Action Plan does is to make our thinking on economic analysis more consistent and more thorough.

So what is the balancing test about? The idea is to disentangle the positive and negative effects resulting from an aid, to evaluate them and then to balance them.

The test requires us to first look at the purpose of State aid: is there a market failure that needs to be corrected? Would State aid increase fairness (or equity) by changing an efficient but undesirable market outcome?

The test also looks at the design of the aid measure and tackles questions such as whether State Aid is an appropriate policy instrument, whether it would change behaviour (is there an incentive effect) and whether it would be proportionate.

Such questions make it possible to grasp more precisely and in more economic terms what the positive effects are, and how they stack up against the potential negative effects of aid. For example, we might want to consider if a State aid reinforces market power, or distorts dynamic incentives, supports inefficient companies, or affects business location or trade flows.

Economics is both an art and a science. Strengthening our economic analysis does not mean reducing everything to a mathematical formula. Competition policy will never be a simple case of feeding numbers into one end of a model and expecting straightforward answers to come out of the other end.

What a strong framework for economic analysis can do is make our approach more coherent and more persuasive.

It is of course true that a case requiring detailed assessment may require more effort from Member States to provide us with evidence about why they have decided to grant the aid.

However, this should normally not increase the bureaucratic burden too dramatically, as this kind of assessment is limited to a small number of important cases, for which, frankly, it is unimaginable that the Member States would not have a detailed impact assessment in the first place. In Wales, for example, we know that you are very careful when spending taxpayers money and you verify the value-for-money of large State aid. And in turn, on the other side of the financing, companies investing a large amount of money don't do that without conducting a serious analysis of the project, and without documenting that. In our guidelines we provide details about the criteria we will look at and it should be easy for Member States to integrate these criteria in their own impact assessments.

And of course a detailed assessment does not mean that the Commission will necessarily open a procedure or prohibit the aid. What it does mean is that the positive and the negative effects must be carefully balanced. If necessary, if the balance is not there, the Commission may require modifications to reduce the competition distortions before it approves the aid.

### **GBER and promotion of SMEs**

The most significant simplification of the rules is reflected in our general block exemption Regulation adopted this summer.

This Regulation aims at the most obvious market failures. It includes measures we know would have limited competition distortions and for which the assessment criteria can be clearly articulated and implemented by the Member States. For such measures, the Regulation allows Member States to grant aid without notification to the Commission.

The general block exemption Regulation clearly puts small and medium sized businesses at the forefront.

It takes out of notification 26 types of measures that allow Member States to support companies during their different development stages and assist them in different areas, including access to finance, research & development, innovation, training, employment, and environment.

Stimulating entrepreneurship is another key theme of the Regulation. It allows different types of aid for the creation of enterprises, for example aid in favour of young innovative enterprises, and aid to promote women entrepreneurship.

All in all this delivers a comprehensive and solid toolbox for aid for effective and productive small and medium sized business support.

The message here is to go ahead and use the tools, use the scope you now have to define well targeted measures to deal with the market failures that are holding back economic development at this time.

## **Services of general economic interest**

Another important part of the jigsaw is that of services of general economic interest, like waste management, hospitals, and social housing. Already back in 2005 the Commission issued guidance to ensure a higher degree of legal certainty on what financing Member States can grant to the providers of such services.

To make life easier and less bureaucratic, the 2005 package exempts from the obligation of notification all public service compensation below 30 million € per beneficiary per year. Compensation for hospitals and social housing is exempted altogether, irrespective of the actual compensation amount. Of course, even for these exempted measures, the basic conditions set out in the package have to be met (i.e. must be a clearly defined public service mission, no over compensation and there must be transparency of accounts to avoid cross-subsidization).

I would like to stress that it is mainly for the public authorities and governments, be they local, regional or national, to define which public services should be delivered and by which means. It is not for the Commission to decide on how many post offices should be kept open or if a train connection in a particular rural area should remain. The task of the Commission is limited to ensuring that the State does not over-compensate the costs of running such services.

What this means is that public services, including hospitals and social housing, can operate at the quality level decided by the Member States and their public authorities.

We are coming at this from the perspective of making sure there is a level playing field and that no undue distortion of competition should occur.

Our interest would seem also to be perfectly aligned to that of the taxpayer who will be footing the bill.

Looking at the future, Member States' reports on the application of the rules on services of general economic interest are due by the end of this year. This reporting will allow the Commission to take stock of the application of the new rules over the last few years.

## **Which role do our rules play in the context of the current economic crisis?**

Having all this in mind, let me now turn back to the current financial crisis. Of course, other sectors currently look at how we treat the banks – and yes it is certainly true that banks will need to rely on State aid on a very large scale for a while to get through the present market conditions.

The Commission is doing its utmost to support solutions for stabilising European banks by applying its State aid rules in a consistent and very speedy way. In the past few weeks our rules have been shown to be able to take fully into account evolving market circumstances, while at the same time guaranteeing the common European interest.

We are acting to approve rescue measures for banks very quickly, in order to protect financial stability and avoid spill-over effects on the rest of the economy.

With regard to restructuring aid, our focus is on finding appropriate solutions that will restore viability in the longer term where possible.

Mrs Kroes is saying that she is determined that our State aid system will continue to be part of the solution, not part of the problem. This is a system that helps everyone to provide a Europe-wide response to a problem that is way bigger than national.

The European Commission is making sure that it can react with adequate responsiveness to the current situation. Member States need to act very quickly and markets need to be reassured that the right action is not going to be jeopardised by EU rules. For that reason, Member States are encouraged to be in touch with us from the very beginning of their thinking, so that a coordinated approach is always fostered. We are working very quickly and are available seven days a week, and almost 24 hours a day.

This does not mean at all that competition rules are not being applied in the current context. On the contrary, they are the way to securing a common European framework, even in situations where governments have to act at the national level.

There are rules and limits and there is transparency as to what we do. A Communication was adopted on 13 October which gives clear guidance on how the Commission is applying the Treaty rules to state support schemes and individual assistance for banks. Support schemes such as those providing guarantees or re-capitalisation can be cleared by the Commission very quickly where they fulfil conditions which ensure that they are well-targeted and proportionate to the objective of stabilising financial markets and contain certain safeguards against unnecessary negative effects on competition.

In particular you should know our view that in these crisis measures:

- there must be no discrimination based on nationality, eligibility for access to a scheme cannot be based on nationality;
- emergency measures have to be necessary and proportionate and distortions limited to the minimum;
- rescue aid must be followed (if not accompanied) by restructuring or liquidation plans.

State commitments have to be limited in time so that support is only provided as long as it is necessary to cope with the current turmoil in financial markets. State support has to be reviewed, adjusted or terminated as soon as improved market conditions so permit.

State support has to be clearly defined and limited in scope to what is necessary to address the acute crisis while excluding unjustified benefits for shareholders of financial institutions at the taxpayer's expense.

There needs to be an appropriate contribution of the private sector. This implies that there should be an adequate remuneration – pricing - for general support schemes and the private sector is to cover at least a significant part of the cost of assistance granted.

There must be sufficient behavioural rules for beneficiaries that prevent an abuse of state support, like for example expansion and aggressive market strategies on the back of a state guarantee.

We have already approved quite a few schemes and we will issue further decisions in the days and weeks to come. We are also acting quickly where there are individual cases of banks in difficulty. A good example of this includes our approval of the Bradford and Bingley case within 24 hours of formal notification – following several days discussion up front.

For many of these schemes and cases already approved, some fine-tuning of the conditions has been agreed with the Member States concerned. There are ongoing discussions on quite a few others in the pipeline.

## **Conclusion**

Let me conclude my presentation with another quote from my Commissioner. She said that *"we need a clear level playing field for European consumers and businesses, not a jungle. But a jungle is what we would get if we suspended or abandoned competition policy."*

This holds true in normal times. But it becomes even more important in crisis times like these.

Thank you very much for your attention.