

SPEECH

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State Aid Reform: Where do we stand ? Status of the State Aid Action Plan

IBC Global Conferences, Brussels

Brussels

7 November 2006

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Ladies and Gentlemen,

State aid reform is the priority of priorities for Commissioner Kroes in her mandate. The State Aid Action Plan sets out the philosophy behind the reform that's being pursued, and it is also the roadmap for delivery of that reform. The Action Plan adopted in June 2005 by the European Commission is a bold and ambitious statement. It announced that the Commission would set out to tackle a series of acknowledged deficiencies in State aid policy, and thereby transform State aid into an effective policy tool for growth and jobs.

The State Aid Action Plan launched a review of almost all our rules and procedures. Through this comprehensive review of the detail, we have the opportunity to streamline state aid control, and as in other areas of competition policy, to focus attention on the most distortive cases and schemes. Where do we stand? Well so far, we have delivered what we have announced. There is still a considerable amount to do, and some of the more difficult aspects are ahead of us.

[The origins: why did the Commission launch a reform of State aid?]

The State Aid Action Plan was launched as a response to a series of challenges:

- The re-launched Lisbon Strategy for growth and jobs – this requires a re-direction of State aid towards less and better targeted aid
- enlargement – more countries lead to more State aid cases and to a need for the Commission to better prioritize resources
- increasing complexity in the State aid rules, as well as insufficient transparency and inadequate enforcement.

These challenges could possibly have been addressed separately, in a piecemeal fashion. However, the State Aid Action Plan was also motivated by a suspicion that State aid law is not very well understood outside a small set of Brussels specialists. It was felt that the basic justification for State aid control needed to be revisited and recalled, so as to reinforce the legitimacy of this area of competition policy. There was a need to develop clear and understandable guiding principles.

There are strong reasons for State aid control in the EU. State aid is a tool that can be put to good and bad uses. State aid can be abused to protect national players, keeping inefficient firms afloat, distorting competition and artificially maintaining costly, fragmented markets. But State aid can also be used positively to embrace globalization by better targeting public funds towards growth and jobs in open and competitive markets – supporting economic reform to deliver long-term competitiveness. The Commission, in that context, is a referee making sure that when State aid is given, it is overall for the benefit of the Union, because the positive side in terms of growth, jobs, social cohesion, or the environment say, outweigh the negative side in terms of distortions to competition and trade.

The State Aid Action Plan re-stated these basic ideas and proposed to reform State aid policy to respond to new challenges, To reform policy in a manner that would be internally consistent – that would make sense overall.

[Guiding Principles]

Through the delivery of the State Aid Action Plan, the Commission aims to create mutual understanding with the Member States as to the foundations of the policy that should be applied for the future. There are 4 guiding principles underpinning the reform programme.

- less and better targeted state aid;
- a refined economic approach;
- more effective procedures, including better enforcement, higher predictability and enhanced transparency;
- a shared responsibility between the Commission and Member States.

The consultation process in 2005 showed clear support for these principles, and they have been at the heart of the policy developments of the last months. First, the reform is guided by the objective set by European Council: less and better targeted aid. The idea is to concentrate aid where it adds greatest value: where aid contributes to social or regional cohesion, and where aid makes up for market failures such as in innovation, risk capital, and research and development.

Where do we stand on this? It should be clear that on less and better targeted aid, Member States are in the driver's seat and the Commission has only a supporting role. They drive, we navigate perhaps. The design of State aid measures and allocation of national budgets is clearly the responsibility of Member States. However, through better rules and scrutiny, the Commission also tries to contribute to the EU objective of less and better targeted aid. We're clearly now moving in this direction, notably achieving a better focus of regional aid on regions most in need, and authorising aid measures that better tackle the market failures. Aid in favour of SMEs, research and development, innovation and risk capital will benefit from new and better targeted rules. This should support a re-directing of State aid.

In addition, the Commission is improving its scrutiny. This can be seen from the new regional aid block exemption and from the new risk capital guidelines:

- on the one hand, the Commission is reducing the need to notify cases that are not problematic for competition and trade
- on the other hand, it is intensifying its analysis of cases that at first sight seem more distortive, through more detailed and more economic assessments.

It is of course too early to measure the net impact of these improvements. However, the expectation is that this will reinforce a general tendency. The last scoreboards show progress in re-directing aid towards horizontal objectives, and show a decrease of State aid amounts, albeit limited.

State aid reform was guided by the idea of a refined economic approach. Assessing the compatibility of state aid is fundamentally about balancing the negative effects of aid on competition with its positive effects in terms of common interest.

Economics can be used to increase transparency in the process and to better assess and evaluate these positive and negative effects of aid, not only to design State aid rules, but also to decide on concrete cases.

Where do we stand? Two years ago, the economic analysis of State aid was still in its infancy. The State Aid Action Plan sparked a very useful learning process. Many economic papers have been published and this engagement of economists in State aid analysis is a welcome development. The Commission has made progress in its internal thinking. We have now a clear general framework, with a methodology enshrined in the so-called 'balancing test'. Furthermore, as you can see from our new rules on Risk Capital and on Research, Development and Innovation, the refined economic approach is now a reality and is becoming a cornerstone of our policy.

The third pillar of the State Aid Action Plan was more effective procedures, better enforcement, higher predictability and enhanced transparency.

Where do we stand on this? There is still much work to do here, but progress is being made. Let me pick out two issues. First, regarding enforcement, the Commission is now consistently pursuing Member States who fail to comply with State aid law and we have brought a number of Member States to Court. We are also actively pursuing the so-called Deggendorf jurisprudence, whereby a Member State cannot grant new aid to a company, unless it has recovered from this company all remaining illegal and incompatible aid. As a result, more aid is being recovered by Member States.

Secondly, as regards partnership with Member States. Procedurally, we need Member States to cooperate by providing complete notifications and timely and accurate replies to our questions. In terms of policy goals, Member States alone are responsible for setting their own spending priorities and designing schemes that generate growth and sustainable jobs. So far, however, the partnership with Member States has remained too often rather confrontational. The dialogue has been case specific rather than policy oriented. There is scope therefore to extend and deepen this cooperation, and through the discussion of the proposals in the pipeline, this is what we are doing. The Commission has also recently launched a network of State aid contact points to help this process and we hope it will contribute to a better enforcement of our rules.

[Delivery]

The Commission is working hard to deliver its announced reforms. Let's see what has been delivered so far.

The State Aid Action Plan was published in June 2005. The consultation showed a very clear support for reform, as we saw earlier, and you can read the comments received on our website.

The Decision and guidelines on Services of General Economic Interest were adopted in July 2005, marking a very successful result after more than one year of various consultations and debates.

In September 2005, a Communication from the Commission proposed to authorise aid to innovation, on the basis of an economic analysis of market failures hampering innovation and put forward a series of proposals for consultation.

In October 2005, the Commission adopted new Regional Aid Guidelines, better addressing the new diversity among regions in the enlarged EU and targeting aid better towards the areas more in need.

In December 2005, new rules were published on short term credit insurance. In July 2006, the Commission adopted new Risk Capital Guidelines for SMEs, increasing the safe-harbours and implementing the refined economic approach.

A new framework on Research, Development and Innovation is due to be approved at the end of November 2006, with new provisions to support innovation, and hardwiring within the framework of the refined economic approach. You will have seen the two drafts submitted to consultation.

The new *de minimis* proposal should be adopted by the Commission in December this year, at a level of 200,000 euros over a 3 year period. This should simplify the action of Member States towards supporting SMEs, and free up some resources in the Commission to better scrutinise cases that are producing major distortive effects in the market.

As for procedures, we have finalised internal proposals on best practices guidelines within the present rules. We held first discussions with Member States and guidelines could be published around summer 2007, if deemed useful. We have received a series of suggestions on how to reform our procedures further. We are reflecting on a possible proposal to reform the Procedural Regulation. It is too early to speculate further on this now however.

We are working now on a draft new General Block Exemption that the Commission may adopt in December 2006. Block Exemptions are very useful tools for reducing the bureaucratic burden for Member States, since they avoid the need to notify for measures that are considered not problematic for competition and trade.

The General Block Exemption will simplify, rationalise, consolidate and increase the possibilities for block exemptions, within the possibilities of the current Council enabling regulation, to include innovation, environment, risk capital and regional aid.

But we may want to go further in the future. In October 2006, we published a first proposal for a change in the Council's enabling regulation, in order to be able to extend the scope further in due course, and this text could be approved in 2007.

Mrs Kroes has also announced that she will re-visit the notice on cooperation between national courts and the Commission, on the basis of the report we made this year on the application of State aid law by national courts.

We will also next year publish a new notice on State aid in the form of guarantees and a Communication on direct business taxation. We will also assess whether to revise the rescue and restructuring aid guidelines.

As you can see, this is an agenda that keeps us out of mischief.

[Conclusion]

Ladies and Gentlemen,

The State Aid Action Plan is a major project for this Commission. There is still some important work ahead of us, but we are committed to delivering everything we have promised. We have to continue to deliver as we have been so far.

The further challenge for the Commission itself will be to implement these new rules and to deliver speedier and better argued decisions. The challenge for the Union is the need for Member States to design better State aid measures for growth and jobs. This is not easy and requires more economic analysis and more impact assessments. State aid reform is happening, but considerable effort is needed by all actors to achieve fully what we have set out to achieve.

Thank you very much for your attention.