SPEECH

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The State aid action plan: delivery on track

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The State aid action plan – delivery on track

Thank you for the invitation to come here today to talk about the State Aid Action Plan.

Let us remind ourselves what we have set out to do.

On its adoption in June 2005, the Commission said that the aim was to present a comprehensive and consistent reform package. This package was built on four elements:

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

So what have we done? Are we delivering? After three years we have a pretty clear picture – and most observers agree that State aid policy has changed since Commissioner Kroes defined it as her top priority as Competition Commissioner.

Since 2005 we have revised many of our guidelines, frameworks and communications. And we are delivering on the promise to present comprehensive and consistent reform – very much in line with the emphasis of this College on better regulation.

Before, if you took two sets of rules like the environmental guidelines and the research and development framework, you would not immediately be able to spot many similarities. But in our new legislation you find the same structure, which makes the State aid rules much easier to navigate.

There is in fact a completely new architecture based on a "3–stream system": block exemption, standard assessment and detailed assessment. This is a crucial feature that allows the Commission to focus on the most important cases, and that brings down the administrative burden for companies and Member States for cases which are less important.

All the rules are founded on a refined economic approach ensuring better targeted aid towards key objectives, and minimized competition distortions, through the application of the same analytical framework of "the balancing test" which is based on three questions:

- Is the aid measure aimed at a well-defined objective of common interest?

- Is a State aid measure an appropriate policy instrument - is there an incentive effect and is the aid amount proportional?

- Are the distortions of competition and effect on trade limited, so that the overall balance is positive?

A lot has been done to ensure better monitoring and enforcement. My colleague Herbert Ungerer will be talking to you later today and he will go into the progress there.

New guidelines on environmental protection

I will concentrate on the State aid rules that the Commission has adopted recently or will adopt very soon, and with a particular focus on the Environmental aid guidelines. These new guidelines became applicable in April - as part of the Climate Change Package. This is a good example of integrated policy-making. Climate change has become a political, economic and social priority issue. The guidelines are written as part of the Commission's overall efforts to provide the right incentives for Member States and for industry to increase their efforts for the environment.

As Commissioner Kroes said very recently in a discussion on climate change with business representatives:

"It's not a question of when in the future we have to do something about it: we obviously have to change our plans and activities now. So the questions really become: how do I exploit the opportunities of climate change? How do I minimise any costs it might impose on me?"

She continued: "Often you won't need state aid – the changes will pay for themselves, or new costs will be balanced by new markets."

The aim is to find a proper balance, so that environmental protection can be promoted through market instruments, while at the same time minimising distortions of competition. Normally, when we talk about balance it indicates that there are two opposite objectives. However, in the case of climate change, minimising distortions can in itself contribute positively to the policy objective. For promotion of renewable energy it is necessary not only to support renewable energy directly and to break down other barriers to new entrants in the market, but also to limit the support that producers of fossil fuel receive.

In that sense it is important to find the right balance between the polluter pays principle and the use of State aid. So-called environmental aid is often granted to the actual polluter. So, instead of the polluter paying itself for the pollution caused, the polluter is actually paid for dealing with it.

In theory, if the polluter pays principle was implemented correctly there would be no need for State aid, since the market would correctly price in the requirement to protect the environment. In economic terms, this would be the "first best solution" to rectify the market failure.

However, obviously there are difficulties in fully implementing the polluter pays principle and where this first best solution cannot be fully applied the market failure persists. Therefore, we search for alternative solutions. But the "second best solution" to correct the market failure is not necessarily an intervention involving State aid either. In some case a State aid measure may be quite far down on the list of solutions or not the list at all. Environmental State aid having no incentive effect should not be on the list.

One of the key messages from business is that making markets work better is crucial to combating climate change. This implies that a vigilant competition policy is essential and that we must be careful not to allow environmental State aid that would significantly distort the markets.

So when is State aid appropriate and necessary to trigger a higher level of environmental protection?

One thing is clear: consumers increasingly care about the environmental credentials of businesses. A green image has market value that must be factored in. Furthermore, research shows that there is an enormous potential for profitable investments in energy saving – which nevertheless are not yet being made. So why is this ? The studies mention that the price of energy has been too low to incentivise consumers and businesses to think about investing, and there also is a lack of information and high search costs to find the best energy-saving equipment.

Policy makers – the Member States – need to reflect whether investment aid is the best or only policy choice to trigger more investment. If an investment in energy saving is already sufficiently profitable even at present energy prices then it does not really make economic sense to subsidise these profitable investments.

If there is a lack of information, perhaps targeting that information problem would actually make (more) sense.

The point is that we have not only been concerned about distortion of competition. State aid may in some cases be necessary and give the right incentive to increase the level of environmental protection. In other cases it probably won't. The balancing test puts an emphasis on also getting the positive side of the equation right. We want to be sure that the aid will in fact deliver a higher level of environmental protection. The balancing test ensures better targeted aid.

However, once State aid is well targeted, there is substantial flexibility and scope for Member States in the new guidelines. To summarise the five main changes from the 2001 guidelines:

First, six new types of measures are covered:

- acquisition of clean transport vehicles
- early adaptation to future mandatory standards
- environmental studies
- energy-efficient district heating
- management of waste from other producers
- tradable permit schemes.

Second, aid intensities have increased considerably. For most cases they will increase from 20% to 30%. In selected cases it is possible to go to 100% if the aid is granted on the basis of competitive bidding procedure. There is also a bonus to be added for eco-innovation.

Third, tax reductions and exemptions will undergo a more serious test. In particular we request Member States to demonstrate that reductions and exemptions are necessary and proportionate.

Fourth, the guidelines introduce two types of assessments: a standard assessment and a detailed assessment.

Finally, there is the important link between the new guidelines and the future General block exemption Regulation.

General block exemption Regulation (GBER)

With the upcoming adoption of the General block exemption Regulation an important piece of the jigsaw will fall into place in the new architecture of State aid rules. The Regulation delivers a single overarching framework for all aid measures adopted by Member States which are compatible with the Treaty, and therefore do not need to be notified to the Commission.

Five existing exemption regulations will be rolled into one. [SME, R&D, training, employment and regional aid]. And as you can see from the drafts that have been in consultation it is also intended to exempt measures under new areas like environment and risk capital for SMEs.

When we have evidence of a market failure and are convinced that aid constitutes an appropriate instrument to tackle a problem, we have included the aid measures concerned either in our guidelines or in the General block exemption Regulation.

The GBER will include those measures for which we had sufficient experience and knowledge to judge that the distortions would be limited, and that the assessment criteria for the particular type of measure could be clearly articulated and be implemented properly by the Member States.

The Commission has consulted the public on three occasions and I would like to thank those of you who took the time to comment. The comments have provided a valuable input to the process.

We expect that the Regulation will be adopted by the Commission early in July.

The new GBER will be very SME friendly.

All of the 20 measures included in the draft GBER are available to SMEs. These measures allow Member States to accompany SMEs during their different development stages, assisting them in the area of access to finance, research & development, training, employment, environment, those areas where they may need support. The Regulation will cut red tape and streamline the conditions applied to these different aid areas.

Notice on aid in form of guarantees

Another important delivery is the Communication on State aid in the form of guarantees that has just been finalised.

State guarantees have to be handled in a cautious way. They represent a commitment to use State resources in case of failure of a borrower. On the other hand State guarantees can be very useful instruments that allow for a higher use of private resources through loans say, and they have a leveraging effect.

The new Notice adopted by the College in May confirms the applicability of the market economy investor principle to assess the absence of aid in a guarantee. For that purpose, the Notice clarifies the conditions relating to this on the basis of market references and risk analysis. Such risk analysis is normally based on the credit rating of the beneficiary, as established for example by its bank. When applicable, the quantification of the amount of aid is also based on these elements.

The new Notice introduces for the first time specific safe-harbour premiums for SMEs allowing for an easier and safer use of guarantees in order to help the financing of these companies often confronted with a financing gap. Under these rules an SME can be granted a guarantee deemed as free of aid if it pays a pre-defined premium according to its rating. When no rating could as yet be made even by its bank – say for start-up companies - a specific safe-harbour is also established to allow these companies to benefit from such simplification. The Notice clarifies also that when guarantees are provided within schemes for SMEs, they can, up to 2.5M € per company, be evaluated globally without risk analysis.

On a very practical level, from 1 July a new method becomes applicable for setting reference and discount rates used in the analysis of state aid cases for calculating the grant equivalent of aid and the aid element resulting from interest subsidy schemes. The new method takes account of the specific situation of the company or project, fulfilling the commitment to a more refined economic approach there too.

Conclusion

There have been three recent further consultations on the shipbuilding framework, the rescue and restructuring guidelines and the communication on public service broadcasting.

We are taking the responses into account in our internal reflections on how to proceed.

Let me underline again that the input that we are getting in our public consultations is very important to our work. This clearly helps to ensure better regulation. We really appreciate that we get many comments, even when the comments are critical. We always get good ideas on how to further improve the proposals, and the process forces us to confront the strength of our own arguments.

I hope you will agree that delivery of the State aid action plan is not only on track but also heading in the right direction.

All of you who have contributed to the process so far can claim a share of the credit for that.

Thank you very much.