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EU State Aid Conference

Session IV: The External Dimension of State Aid Control

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Introduction

Let me start by thanking the organisers for the opportunity to speak at this event[1]. Let me also thank the many contributors to the book that is to be presented to you today. It shows that we have a thoughtful reflection on the objective and the essence of European State Aid Control ongoing, both inside our House as well as in the informed law and economic community.

This reflection is welcome at a time where European State Aid control has to go through major tests during this autumn:

- In the banking sector we are faced with a number of complex cases in the context of the current crisis, as has been discussed during this conference. European State Aid control will have to show that it is able to deal with critical cases with circumspection but firm resolve also when it has to address cases in a complex financial and political environment,

- we will have to act with speed to complete the State Aid Action Plan by making good on our promise to smooth our procedures, to establish a more economic approach firmly and to make the process of State Aid procedures more transparent – and we will do so during this Autumn, with public consultations starting soon and the full Best Practices package to be presented at a major Commission State Aid conference here in Brussels on 21

[1] Thanks are due to Andrea Bomhoff and Anna Jarosz-Friis, DGCOMP

- And we will have to explain the rationale of EU State Aid rules in the global context better – at a time when many of our major trading partners do not have explicit state aid disciplines, and some of them seem to rush into a period of unfettered subsidisation of key industries.

And this leads me right to my topic: the external aspects of the State Aids approach.

Let me start with one single credo which is a common denominator of all of the EU policy statements on this central topic of the last months and years:

The EU should not fight globalisation but shape it

I think that political and economic mainstream opinion today is that globalisation should not be perceived as a threat but as a challenge and an opportunity. But if we want to convince the European citizen, the EU as a policy maker must provide answers how increasing and deepening of global economic integration brings the advantages of globalisation to the citizen. Competition policy, and State aid policy in particular, is one of those areas often invoked in this context.

The fact is that the EU as a champion of economic integration has enormously benefited from the integration taking place with increasing pace also on the global level. The global success of European companies shows that the fear of globalisation is not justified on the facts – even if it has undeniably brought hardship to special sectors and job losses in those sectors. Overall, the EU has defended its shares of global trade and foreign direct investment well, as is shown by recent analysis and reports. We as consumers have benefited as well: data *(ECFIN report)* shows that 20% of the gains in our living standards over the past fifty years is due to integration with the outside world.

I agree that globalisation is a challenge for the global competitiveness of the traditionally leading economies, including job losses and relocation outside of the EU. These problems are very real and must be taken into account in our policy response. However, these adjustments to structural changes in the global economy are inevitable to a large extent. It would be futile to try to subsidise them away. European companies are adapting to global competition by restructuring and consolidation. The EU has designed the Lisbon programme for the economic, industrial and social renovation of the European Union as a global response to the challenge. State intervention must be applied in that framework. And this leads us to the right approach to positioning European State Aid control in the globalisation context.

My second point:

State aid control policy enhances competitiveness and is a major element in building the EU's internal market which gives the right home base for competing on the global market.

Competition policy as a whole is one of the internal policies that contribute most to enhancing the ability of European firms to withstand international competition. Competition is a key driver of competitiveness of EU industry by rewarding firms offering lower prices, better quality, and greater choice of products as a result of innovation and productivity improvement. State aid control policy ensures that competition on merit pays off, and that we do not end up in a wasteful subsidy race between Member States. Let us not forget: This is the very reason why the founding fathers have written state aid control into the Treaty. It thereby contributes towards the creation of a regulatory environment most conducive to innovation, growth and job creation – the very base for competition on the global market place.

State aid control is indispensable for preventing the fragmentation of the internal market through an uncontrolled flow of State subsidies. The success of the internal market project is our biggest asset in the global economy. 45% of world's foreign direct investments locate in the EU. It is a myth that State aid control stands in the way of these investments. On the contrary, State aid policy is needed to ensure that the internal market continues to produce these benefits.

However, State aid control can only produce these benefits when it is not applied with blind eyes but firmly grounded in the political and economic goals of the European Union. With the Lisbon programme State aid has this firm framework. Lisbon has given State Aid control its full legitimacy, by defining a framework for the interpretation of the common interest goals under Article 87(3). The state aid specialists in this room will have noted the silent revolution which has taken place ever since: a continuous redirection of Member States funds into areas where they should go: The best examples are the cohesion policy, where the new regional aid guidelines of 2006 provide the necessary counterpart for the structural funds to have their full effect; environment and climate change, where the new environmental aid guidelines of January of this year are an integral component of the energy and climate change packages, ensuring balance between environmental goals and competitiveness of European industry; and the new R/D/I framework where the new economic approach based on a succinct analysis of market failure in Europe and of incentive effects have given us the right instruments to channel public funds into European industry in the lead segments most relevant to Europe's future position on the global market, without crowding out research and innovation investment by private investors and eliminating competition on the merits in these markets - so much needed to be fit on world markets.

This then leads me to my third point

State aid control policy helps manage globalisation

In essence, globalisation produces two main challenges: the need to innovate in order to stay competitive, and the need to restructure in order to adapt. The reformed State aid control framework provides tools to manage both of these challenges. It allows to target support where it brings best results and to spur competitiveness. It will thus enable European firms to reap the benefits of globalisation. The State Aid action plan has taken us a long way towards these goals. Yes, we have teething problems in some of these areas. We have the European Courts to correct us when we get it wrong. We have you, many of whom observe our action and interpretation of the rules with close attention. But we believe that overall we are now moving into the right direction.

Member States have now a flexible instrument in their hands which they can use to grant aid for R&D and innovation, training, SMEs, environmental protection, regional development, rescue and restructuring. By way of example, since the entry into force of the R&D&I Framework on 1 January 2007, the Commission has approved 42 schemes with a total budget of more than €12 billion. Most of this has gone right into innovation needed to prepare European companies for the world market.

We have adopted a modern approach to procedures to make them simpler, transparent, user-friendly and predictable. The entering into force of the General Block Exemption Regulation on 29 August this year is a major step into this direction. It has at the same been one of the main actions of cutting red tape for Member States and enterprises in the context of the Commission's better regulation exercise and is a vital part of the Small Business Act. As I said in the beginning, we are working on a best practice package, fine-tuning our procedures to render them speedier, more predictable, and more transparent. More on this at the Commission State aid Conference on 21 November.

However, we should not forget that any State aid comes at a cost of competition distortion. That is why the new economic approach is drawing a balance between the common interest objectives that we all support and the crowding out effects on private initiative that the most well intended public action can entail. To maintain the benefits of the internal market integration, we need a balance between state aid discipline and the legitimate needs of social, cultural, environmental and industrial change. This excludes seemingly easy but false answers to globalisation such as matching harmful subsidies dispensed elsewhere in an unreflected manner, in order to prevent relocation outside of the EU. This would clearly push us into the wrong direction.

We have to keep in mind

Competition policy cannot do it on its own

And this takes me to my fourth point

Of course competition policy, including State aid control, has to be seen as one EU policy amongst other policies. The EU has a whole policy tool box through which it can effectively address the challenges of globalisation. Just think about the EU's own spending on research and development in the context of the Framework Programme which has scored major successes for European competitiveness; or the European Globalisation Fund designed to cushion the social consequences of changing production patterns. We cannot overlook that only the overall balance of globalisation has been positive for Europe. We need solidarity with those sectors and jobs which suffer.

Therefore, State aid control will deliver only in the right policy mix. Within the limits of State Aid control, it is up to Member States to design, distribute and fix the level of State aid as part of the overall economic policy. These are their national choices. Just note that Member States chose to spend only 14% of total screened state aid in 2006 on R&D&I, as our scoreboard shows. Some countries achieve better results than others in terms of effectiveness of their State aids and their contribution to competitiveness and cohesion. This uneven spending on R/D/I and its uneven effectiveness for research and innovation is of course an issue for the wider policy context and it is reviewed under the general Lisbon agenda. Those deficiencies or choices cannot be attributed to deficiencies in our State Aid control.

But how to take account of the fact that much of the rest of the world does not follow strict State aid rules – though they may follow the WTO rules on subsidies?

This takes me to my fifth point

Active trade policy must be a necessary complement to the development of the internal market and the internal State aid discipline, as the Commission has made clear in its communication on globalisation. It is crucial that the EU's external and internal economic policies are coordinated and complementary. We cannot afford an open flank. Subsidies which violate WTO rules need to be swiftly addressed. There is scope for advocacy in favour of further regulation of subsidies beyond the existing WTO rules in the bilateral trade agreements – the FTAs - currently under negotiation, for example with Korea. Similarly, promotion of standards in areas such as environment through regulatory dialogues and trade diplomacy may be seen as complementary to State aid control. And this takes us also to the current global debate on fair arrangements for controlling climate change.

To summarize

To summarize, we believe that State aid control – far from hindering our companies to stand up to the global competition - is an important instrument helping EU firms adjusting to globalisation both by creating a regulatory environment encouraging competition on merits and by offering the tools for channelling public funds into areas where Europe has to succeed if it wants to grab the chances offered by globalisation. State aid control has a vital role in reinforcing the internal market construction. The State aid reform undertaken over the last three years - as described in the Book presented today - has created substantive and procedural rules helping firms to adjust while preventing harm to private investment and enterprises by unjustified subsidies to competitors. It therefore sets the right investment framework for future markets. Clearly, we cannot be naive. European control of subsidies must be complemented by efficient trade policies, both in the form of enforcement of existing international trade rules and in the form of better control of unfair subsidies in Third Countries through the multilateral or bilateral trade agreements.

However, our approach would be fundamentally flawed, if we would take the risk of a substantial weakening of the internal market by being soft on unfair subsidies within the Union. The Treaty framework has served Europe well over the last fifty years. Applied properly and with reason, it will also allow us to take on effectively the challenge of globalisation.

Thank you.