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The Polish Office of Competition and Consumer Protection

EUROPEAN FORUM ON STATE AID

Opening speech

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Ladies and Gentlemen,

Let me first thank the organisers for inviting me to open this *Forum on State Aid*. We are privileged to have the Office of Competition and Consumer Protection as our partner in Poland. Therefore, I have been looking forward to this opportunity to talk to you about State aid control and to put the latest developments into a wider perspective.[1]

[The importance of State aid control]

I think the current financial crisis has shown that State aid discipline is as important today as it was perceived to be when the Rome Treaty was written 50 years ago. It says it all, that Heads of States in the latest European Council supported the need to continue to apply State aid rules in the context of the financial crisis. They know only too well that without a neutral European Commission, Member States would have ended up in a State aid subsidy race, which would have been even more expensive for them. A subsidy race that would amplify the long term effects because no Member State would, by itself, take sufficient measures to limit distortion of competition. Indeed, State aid control is not a barrier but part of the solution in dealing with the financial crisis.

To quote European Competition Commissioner Kroes: "Without a solid competition policy such as this, the European economy would descend into chaos". … 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."

[1] Thanks are due to Bente Tranholm-Schwarz

[Clear rules are in place]

Of course, other sectors now look at how we treat the banks that are facing a systemic crisis – and yes it is certainly true that some banks will be allowed to get substantial State aid. However, I must underline that this aid is not approved without conditions and it is only authorised if they can be transformed to be able to function without any aid. Clear rules remain in place.

To clarify the situation the Commission has just issued new guidelines on State aid to the financial sector[2] where a clear distinction is made between:

- the treatment of banks that due to the global financial crises are illiquid but otherwise fundamentally sound financial institutions; and
- the treatment of financial institutions characterized by endogenous problems like inefficiencies, poor asset-liability management or risky strategies.

In both cases State aid will have to be accompanied by a meaningful restructuring plan aiming at making the bank economically viable, rather than simply keeping them afloat with public money. However, this task is of course much more challenging for those banks having endogenous problems.

This was also the major challenge in the cases involving shipyards here in Poland since they have not been profitable for years. We are faced in this case with a dramatic situation where the State has poured since 2002 more than 3.5 billion Euros (more than 12 billion PLN at today's exchange rate)

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[2] Communication from the Commission — The application of State aid rules to measures taken in relation to financial institutions in the context of the current global financial crisis, 25 October 2008 (2008/C 270/02)

under various forms, including guarantees, into the shipyards. We were then faced in September with restructuring plans which again would involve many hundreds of millions of Euros of new aid, without any reassurance of viability and safe jobs, at least not for the Gdynia and Szczecin shipyards.

As many here will know, the Commission gave ample opportunities to work on solutions to ensure a future for the Polish shipyards - a future without more State aid – that is.

[Need to have same State aid discipline in all Member States]

A restructuring or a closure is a very painful process for those involved – and the Commission is of course highly conscious of this. We want to save the maximum of jobs. However this is not just the case in Poland but everywhere in the EU.

I am sure many would have wished that State aid control applied to their competitors only. However, we cannot establish the necessary discipline on subsidies without the same rules for all. Just recall the application of the same rules to shipyards in Spain, Greece and now Malta – and before Germany. Fair competition means - in the sense of the word - that it must be fair to everybody. Thus, it is no coincidence that the fathers of the Treaty entrusted a neutral Commission with the task to enforce the State aid rules.

If we do not apply the same rules to all companies in the same situation, we would ruin the State Aid discipline for all. Without State aid control and equal treatment, nobody would want to play fair and companies being inefficient would be rewarded and sustainable jobs and wealth would be lost in Europe. Thus, in the longer run, the easy way out would come at a very high price. It would destroy an internal Market that has offered and will offer great prosperity in the EU – also, of course, to Poland.

This however does not mean that the Commission will not seek to achieve an outcome that maximises sustainable jobs in general and minimises social consequences in the regions concerned. We are confident that with a necessary diversification of economic activities we will see more jobs and not less. Commissioner Kroes has announced last week in the European Parliament that we are in contact with the Polish government, in order to achieve such an outcome. The ball is now with the Polish authorities to come forward without further delays with the necessary proposals.

[Globalisation]

The same philosophy governs the way we deal with globalisation in general. Protectionism might offer pain relief but it does not offer a cure or any guarantee of future economic health. Furthermore, globalisation offers opportunities - opportunities that we should try to seek proactively instead of trying to avoid the inevitable. You cannot stop globalisation.

[The State aid reform]

Now I think I have talked enough about the necessary discipline in State aid, so I would like to change to a more positive tune and talk about "good State aid", hence State aid that improves the functioning of the markets. Last year the 27 Member States spent around € 65 billion of State aid – so clearly how they are spent matters.

Let me first highlight the excellent overall relationship that we have with the Polish authorities in seeing through State Aid which goes to forward looking activities – regional development, employment, climate change, and also many cases of sound restructuring of enterprises which led to viable enterprises and not to new subsidies. Since April 2004 we have approved 156 Polish measures unconditionally in the industry and service sectors alone, with only 2 approved with conditions, and only 4 negative decisions, of which with recovery of the aid in 1 case. This does not even include the number of block exempted measures, both schemes and Ad hoc measures, which totalled 176. In 2006 alone total State Aid approved for Poland by the Commission (less railways) accounted for 2.3 billion Euros, some 9 billion PLN at today's exchange rate.

There are numerous recent examples. Just to mention a few: The Commission approved an excise duty reduction for bio-fuels with a budget of 4.9 billion PLN (1.3 billion € at today's exchange rate). Furthermore, the Commission last year approved State aid as part of long-term Power Purchase Agreements of 11.5 billion PLN (3.1 billion € at today's exchange rate). Also, the Commission has authorised State aid for large investment projects in Poland, such as State aid to Sharp Manufacturing Poland Sp. z o.o. of 55 million € and an aid package of close to 200 million € (to eight investment projects joint in the so called electronics cluster) for modern production of flat screens.

The starting point in the Commission's State aid Action Plan was better targeted State Aid. Since 2005, we have revised nearly all our rules. The new rules are based on a refined economic approach that aims at ensuring more value for State aid money and better prioritisation of State aid cases.

The new Regional 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 or help us meet the challenge of climate change.

The new Environmental aid guidelines are a good example of integrated policy-making. The new guidelines fit a completely different political context than the previous ones: today we have the emissions trading system and an ambitious emissions reduction target – climate change has become a political, economic and social priority issue.

When Commissioner Kroes recently hosted a Round table on Climate Change the key message from business was that making markets work better was crucial to combating climate change. This implies that a vigilant Competition policy goes hand in hand with combating Climate Change and therefore, we must be careful not to allow environmental State aid, which distorts the markets significantly.

Often state aid is not even necessary because the changes will pay for themselves, or new costs will be balanced by new markets. However, when State aid is needed the guidelines are there to ensure that we find a proper balance, so that environmental protection can be promoted through market instruments, while at the same time minimising distortions of competition. The refined economic approach has enabled us to fine tune the rules and thus help Member States to ensure that State aid will in fact deliver a higher level of environmental protection.

[GBER]

The Commission has also made a big step to ease the administration. The new General block exemption regulation will make it less bureaucratic to grant well targeted State aid. This Block exemption was the last puzzle in our novel system for assessing State Aid, which now consists of three levels of assessment:

1. the General Block Exemption with no obligation to notify to the Commission;
2. the standard assessment of schemes or individual cases; and
3. the detailed assessment of cases involving big aid amounts to a single company.

The new Block exemption covers 26 categories of aid, up from 10 previously. We will hear more about this later at this Conference. New areas are covered like environmental aid and risk capital. Furthermore, it has condensed five block exemptions [SME, R&D, training, employment, and regional] into one. In addition, SMEs are at the forefront of the Block exemption – eligible for bonuses in nearly every instance.

The Block exemption aims at the most obvious market failures and includes measures we know would have limited distortions and for which the assessment criteria could be clearly articulated and implemented by the Member States.

[Next steps in State aid policy]

The State Aid Action Plan acknowledged we had to increase the speed and predictability of our procedures. This new system will allow both Poland and the Commission to use the resources in a more efficient manner. In parallel with the widening scope of the block exemption regulations, we are further strengthening our monitoring activities in order to meet the objective of the State Aid Action Plan: to step up monitoring of the compliance of conditions laid down in State aid decisions, including the respect of the provisions of the block exemption regulations.

As we will hear later this morning, recent efforts have resulted across the Union in a marked improvement in the execution of recovery decisions, leading to an increase in the amount of incompatible aid recovered and a decrease in the backlog of pending cases. It is of vital importance that those who cash in illegal subsidies realise that they will have to pay back with interest.

We have also made efforts to improve our internal practice and increase efficiency in the State aid field. Thanks to these measures, the average length of the preliminary examination procedure for a notified case has fallen to now around 5 months.

However, we would like to go further. We are working on a best practice package which should take us further in cutting red tape and make action in the State Aid field more and more efficient. We are consulting with the Member States on that matter and we will bring this package to a general discussion at a large Commission State Aid Conference on 21 November.

But let me be clear. We will need the help of the Member States if we want to be successful. Improving State aid rules and practices is indeed a shared responsibility between the Commission and the Member States.

[Let me conclude]

Before I finish, let me again underline that State aid control must be seen in a wider context. That is true not only in terms of the functioning of the Internal Market but also for issues like globalisation and climate change.

The balance has certainly shifted in recent years - away from aid for favoured industries or companies, and towards so-called horizontal aid. With the implementation of the State Aid Action Plan we face less red tape and faster decisions. Thus, our new rules have now been delivered – and from the evidence we have – they seem to be working.

Better targeted State aid can foster growth and tackle climate change. It can help to cure market failures rather than providing pain relief that does not tackle the reasons for the pain. Sometimes we must face short term pain to obtain the long term gains. But let me emphasise: The ultimate balance for the regions concerned must be not less jobs but more.

Thank you