European and national funding working together – How EU State aid rules can contribute

State aid High Level Forum – 19 June

1. Introduction

Excellencies,

Dear colleagues,

Ladies and Gentlemen:

Let me add my own welcome to all participants to today's High Level Form on State aid.

Much of our discussions today will focus on the "internal dimension" of State aid control – as it were. By this I mean State aid control and its immediate future in the context of the ongoing discussions regarding the next MFF.

We will also discuss a more "external dimension", namely State aid control in an international context. I would like to focus my remarks on the first of the two themes– the "internal dimension".

Where does State aid control stand at this juncture and where are we planning to go in the near future?

As you all known, State Aid Modernization (SAM), the major reform of our State aid rules that entered into force in 2014, led to fundamental changes in the framework of State aid control. The most prominent change being, of course, the importance of the General Block Exemption Regulation (GBER).

GBER was something of a paradigm shift within this framework: away from predominantly *ex ante* Commission control of planned aid measures and towards a new relationship with Member States characterized by shared responsibilities for the correct implementation of State aid rules.

Through the GBER, Member States are today implementing the vast majority of new aid measures under their own responsibility and control, or even self-control. This goes hand-in-hand with more *ex post* control by the Commission through our yearly monitoring.

The implementation of this new relationship takes time and is in fact still ongoing. I think I am not exaggerating if I say here today that this process has been and still is very much a process of mutual learning for both, the Commission and you, the Member States.

We have, therefore, very often heard from Member States that what is needed at this moment is not another big reform of the rules but rather continuity and dialogue to implement SAM fully and to fully reap its benefits.

Rest assured that we have been listening carefully and are taking this feedback on the importance of continuity of the rules very seriously.

Nevertheless, while we agree on the importance of continuity and stability of the rules, it is also true, as is well known, that many SAM rules are time-limited and will expire, if not renewed, at the end of 2020.

We are currently reflecting internally on the best way forward. To help us take well informed decisions we have put a framework contract in place that will allow us to hire experts to evaluate SAM rules where necessary and where this cannot be done in-house.

Once we have thoroughly assessed how the current rules have worked, we will be in a position to take informed decisions about the future of the rules. For this we will also very much rely on the messages that we can draw from your own experience of applying SAM both from the discussions in the SAM Working Group and other opportunities of exchange, as today's High Level Forum.

There are, however, a few areas where the Commission has to act now. For example, this is the case for the SGEI *de minimis* Regulation, which is set to expire at the end of 2018 and which we will propose to prolong.

Another example that you already know from our discussions is our ongoing revision of the Best Practices Code. We are updating it to make the way we work clearer and more transparent to everyone.

I have mainly talked about continuity so far. However, there are some areas where we may need to adapt our rules somewhat more thoroughly. This leads me to the main point I would like to talk about today.

As Commissioner Vestager has already mentioned in her speech earlier today, we are working on further streamlining State aid rules to accompany the EU's next Multiannual Financial Framework (MFF).

On the 2nd of May the Commission has kicked-off the process that will lead to the next MFF when it adopted its proposal for the EU's finances beyond 2020.

Over the last few weeks, the proposals for the different EU funding programmes have been published, fleshing out the skeleton of the budget proposals.

Let me first of all mention that for the first time, the proposals include a specific programme for Competition, which is of course very important for us.

This will help us finance important initiatives supporting competition policy at large, such as studies and consultations, information technology, cooperation with Member State and our "Training of Judges" grant programme.

We need state-of-the art IT tools, equipment, software and experts in order to tackle the implications for competition resulting from the transformation of our economy, in particular from the exponential growth of data.

Beyond the Competition programme and looking at the overall proposals for the next MFF, it is clear that the Commission is committed to simplifying and streamlining the rules. EU's actions will be focussed on measures that have true added value, such as RDI where investments are crucial for the future of Europe's economy.

But the Commission is also very much aware of the fact that the new budget will have to do better with limited means, as the phrase goes.

This is why it will be increasingly using forms of financing that help mobilize private resources alongside public ones to support investments in Europe.

Our proposals for modifying State aid rules are specifically intended to support these wider policy objectives of the next MFF to ensure its smooth and efficient implementation while preserving fair competition in the internal market.

They are, therefore, directly linked to the MFF proposals, self-standing policy initiatives independent of any general review of the SAM rules as they approach the end of their validity.

2. THE MFF AND STATE AID CONTROL

One might wonder where exactly is the link between the MFF and State aid control. Why is State aid control even relevant for the MFF implementation and why do the rules need to be adapted to simplify and support its implementation?

The short answer is that State aid control comes into the picture in situations where funds under control of a Member State are combined with funding under central EU control.

Funding under EU control without discretion by Member States, such as funding from COSME, Horizon Europe or the Digital Europe Program, does not constitute State aid. But State aid rules become important if such funding is combined with funds administered with discretion by the Member States.

This happens, for example, if a Member State contributes national funding to a project or a financial instrument supported by centrally managed EU funds. The same is true for funding from shared management funds, over which Member States exercise discretion, such as the European Structural Investment Fund.

To better understand issues arising from this, DG COMP recently conducted a survey in the Working Group of Member States on the interactions of the different rules (ESI Fund and State aid).

Your feedback to this study was very helpful for us to better understand how you perceive the interaction of these two sets of rules.

It was also very good that Member States authorities responsible for State aid and those implementing ESI Funds have worked on the replies together. This is the best way to find constructive solutions.

I am also happy to see that the new work-plan of the SAM Working Group that will be discussed later today includes proposals to discuss some of the issues raised by the survey.

This is all part of a growing understanding that combinations of EU and Member States' funds are becoming increasingly important and it is crucial that different rules – those governing EU funds on the one hand and those regulating the use of national funds on the other – work together as seamlessly as possible.

And this is precisely what we are planning to address with our planned targeted modifications to the GBER.

We want to ensure that we find solutions that improve the interplay between EU funds rules and State aid rules. We have identified three areas where modifications of the GBER can significantly improve this.

2.1. Financial Instruments – National financing combined with InvestEU Fund

The first of these three areas concerns financing through so-called financial instruments, in particular budgetary guarantees. Member States and the EU are increasingly using financial instruments to support investments in a wide range of policy areas.

The main reason for this is that financial instruments which. for example. take the form of equity, loans or guarantees, have a repayable nature. In times of budget constraints, this would ensure a more efficient use of public funds as opposed to non-repayable grants.

Secondly, financial instruments have a leverage effect; they can mobilize additional (private) funds and therefore allow us to do more with less.

In addition, financial instruments are often delivered via multilateral and national development banks, which have the necessary expertise and knowledge of the financial sector to ensure a sound financial management.

Now, how does this link to the MFF?

The Commission announced on 6 June, as part of its proposals for the next MFF, its proposal for the InvestEU Fund – an EU investment program of EUR 15 billion.

Building on the experience with the European Fund for Strategic Investment and EU financial instruments of various programmes, the idea is to bring these instruments into one Fund and enlarge their scope.

What will technically be done is that the EU will be providing a budgetary guarantee to the EIB Group and national and multilateral development banks for their financial instruments.

The InvestEU Fund proposal, however, does not only work with pure centrally managed EU money, but puts a strong emphasis on combinations with the EU Structural and Investment Funds (ESIF).

It allows Member States, for example, to contribute their ESIF resources to a so-called "Member States compartment" of the InvestEU guarantee.

Member States can also contribute to financial products of the EIB or other development banks that are supported by the InvestEU guarantee. The idea is to join resources where it makes sense to boost the firing power of the fund and to foster investments in the internal market.

For all the support that InvestEU provides directly, State aid rules do not apply because there are no State resources involved. But if Member States contribute some of their money, for example part of their ESIF envelope, and exercise discretion as to how these funds are supposed to be used, this is subject to State aid control.

Our objective is, therefore, to streamline State aid rules to facilitate such combinations, while at the same time making sure that competition is not unduly distorted.

We think that applying the standard State aid criteria to Member States funds combined in this way would be disproportionate.

After all, it is planned that the Commission will play a strong role in the implementation of the InvestEU Fund.

The governance system of InvestEU counts on a strong involvement of the relevant policy DGs. This will make sure that the guarantee is designed to support common EU interest objectives.

It would also ensure that InvestEU support brings "additionality" and does not simply replace private investment.

Finally, InvestEU will be evaluated by the Commission and controlled by the European Court of Auditors.

Only limited additional State aid requirements would be needed to protect competition in the Single Market.

If these conditions are met, the Member State's funding will be exempted from the State aid notification requirement.

2.2. Research, development and innovation

The second area that we identified is research, development and innovation.

Earlier this month the Commission presented its proposal for Horizon Europe, the Union's new flagship programme for research and innovation that will replace Horizon2020.

The Commission strongly believes that increased and more focused investment in research and innovation is essential for the EU's future competitiveness, employment and growth. This is why the Commission is proposing to significantly increase the funding available.

Let us also recall the global dimension: not investing in research and innovation would make the EU and Member States less competitive globally.

Under Horizon Europe, research projects by small and medium-sized enterprises can be awarded the 'Seal of Excellence' label to recognize their potential.

To help implement these projects efficiently, State aid rules can be streamlined.

We are working on a dedicated block exemption for such projects.

This would allow Member States to fully fund them with national money or with money from structural funds as if they had been directly funded under Horizon Europe, without any need to *ex ante* notify the funding to the Commission. This means that these projects, which have the potential to make a real difference, can go forward easily and directly.

Similarly, the Commission proposal for Horizon Europe includes the possibility for Member States to co-fund Horizon Europe projects, provided at least three Member States participate.

To qualify for such co-funding, projects must meet common EU interest objectives and address well-defined market failures. As a result, also for these measures competition concerns are limited.

We are planning to propose a dedicated block exemption for these kinds of co-funding in the GBER.

2.3. European Territorial Cooperation

There is a third area where State aid rules could be simplified.

For many years, the promotion of European Territorial Cooperation, also called Interreg, has been an important priority in EU cohesion policy.

Under the current GBER, such projects can already be supported. We will consider to further extend the scope of aid measures allowed under the GBER.

3. THE WAY AHEAD

Some of the modifications that I explained are only possible if the legal basis of the GBER – the Council Enabling Regulation – is extended.

The Commission has therefore adopted a proposal for an amendment to that Regulation on 6 June.

In the next months, the Commission is planning to present detailed proposals for the modification of the GBER in the three areas that I have mentioned. The proposals will be published for consultation of all interested stakeholders. They will be submitted to the advisory committee of Member States.

These proposals for the modification of the GBER will be based on the extension of the Council Enabling Regulation as proposed by the Commission. They are to a large extent conditional on that extension, so I urge Member States to treat this as a priority in Council. The Commission and Member States can only achieve these simplifications together.

We aim to have the Enabling Regulation adopted early 2019. This would allow us to also review the GBER and ensure that the new rules are in place sufficiently in advance before the new funding period starts in 2021. We hope the Council will treat the Enabling Regulation as a priority.

We will have many more opportunities to discuss how to do this in practice. As I said earlier the SAM Working Group meetings are very important in this regard. It is an excellent forum for Member States to exchange experiences among themselves and with the Commission on how to best implement State aid rules, and that applies of course to this initiative as well.

If you see any implementation problems, please come directly to us. My colleagues and I in DG COMP are always available to support, clarify and help solve any practical implementation problems that might occur.

This can be done in a more institutionalized setting such as the SAM Working Group and the High Level Forum. Or it can be done in more informal settings such as by providing answers to interpretation questions or simply sharing knowledge and explain rules in trainings, seminars and conferences.

I cannot emphasize enough the importance of getting the implementation of these initiatives right. It is a shared objective, and I have no doubt that, together, we will reach it.

Many thanks for your continued commitment and for your participation in the exchanges today.