



EUROPEAN COMMISSION

Competition DG

State aid II

**Speech by Humbert Drabbe, Director, DG Competition
at European Steel Forum II
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Steel restructuring and state aid

Ladies and gentlemen,

Introduction

It's a pleasure to participate in this second European Steel Forum. It provides an excellent opportunity to exchange views on the important issue of steel in the context of accession.

Representing in particular DG Competition, I will use this occasion to explain the line the Commission takes as regards steel restructuring in preparation of accession.

Developments in the Member States

The ECSC Treaty has for almost 50 years governed the state aid regime for the steel industries in the member states. It has imposed a strict state aid discipline in the Member States in view of the heavy state subsidisation, the dramatic fall in demand for steel in the 1970s and global over-capacity.

This strict discipline imposed over the years had the effect that aid to the steel sector in the current member states has been brought down to a, relatively, low level. Our latest figures show that the average yearly amount of aid granted to the EU ECSC steel sector was 180 million euro. The corresponding figure for the total amount of aid granted to the manufacturing sector was 32 billion euro, and this means that just over 0.5 pct. of the aid goes to the steel sector. In terms of employment and turnover, the steel sector accounts for about 1 pct. of the total, and given this, the aid level to the steel sector must be considered low. This statement is particular relevant if we look at the aid previously granted to this sector in the Member States. We do not have definitive figures for this, but to give you an indication of the previous situation I can mention that in the period 1980-1985 36.3 billion euro was granted as state aid to steel restructuring in the Member States.

The current Member States have come a long way in this respect. The process has not been without costs, but the result is that the EU steel industry now much more efficient, innovative, and competitive. The positive trend of this transformation may be best expressed in the evolution of the capacity utilisation rate – from about 67 pct. 1980 to 80 pct. in 1998.

The current rules for state aid to the steel sector – The Steel Aid Code – allows aid to be granted for a few well defined purposes. These are:

- aid for environmental protection subject to certain more stringent conditions than those under the EC Treaty;
- aid for research and development purposes; and

- aid for social measures in connection with plant closures.

As you will notice aid cannot be granted for rescue or restructuring purposes nor is regional aid allowed. These types of aid are under certain conditions, however, possible under the general state aid rules. The possibility to grant aid to the steel sector has therefore to be seen as relatively strict.

The ECSC Treaty will expire in 2002, and with this also the current Steel Aid Code. But I can assure you that we intend to propose a continuation of the strict state aid discipline in the steel sector based on the current rules, which have had an important and positive impact on the development of the EU steel industry.

Concerning the situation in the candidate countries, we do not have exact figures as regards the aid level. But we know that the picture here is different from that of the current Member States and that a situation of dependence between state resources and the steel companies still exists. The low capacity utilisation rate of around 67 pct. – similar to the level in the Member States 20 years ago – is an indicator of the serious situation.

“Roadmap” to accession

Competition matters and indeed state aid is one of the basic issues in the co-operation of the European Union because fair trading conditions are a precondition for the single market, which itself is one of the cornerstones of European integration. Taking this point of view, steel restructuring is an important part of the accession process. And steel restructuring has, as you

all know, for some time now been an issue in the negotiations preparing the accession.

I would like to make some general remarks on how we are seeing the process towards a closing of the competition chapter of the negotiations with the individual candidate countries. Please note that my focus is on the state aid part of the competition chapter, which is of direct relevance to steel restructuring.

It is the view of the Commission that the candidate countries must effectively apply the Community rules on competition – what we call the “competition acquis” – well before the date of membership of the EU. The companies must be accustomed to operate in an environment sufficiently similar to that of the EU well before accession. This is necessary in order to prepare the industry in the candidate countries to the competitive conditions in the internal market and avoid serious and unacceptable distortions of competition in the internal market.

We have developed three criteria to assess whether the acquis in competition matters can be considered to be in place and applied. For this we verify whether:

- the necessary legislative framework is in place;
- the needed administrative capacity has been created; and whether
- the country concerned can show a credible enforcement record of the competition acquis.

The requirement to have an adequate legislative framework refers to the national state aid regulations which needs to be brought in line with the EU

state aid acquis, including the relevant substantive rules on horizontal, regional and sectoral aid. The criterion concerning administrative capacity concerns the setting up of national state aid authorities and their capability, also in terms of resources, to make it possible to enforce the state aid rules.

These two first requirements are clearly preconditions for the third requirement – that is the ability to show a credible enforcement record of the state aid acquis. To establish this record it has to be verified whether state aid is effectively granted in accordance with the EU rules. This will be the crucial test for the possibility to close the competition chapter. The enforcement record will have to be shown in all areas and will involve all types of aid, be it aid schemes, tax benefits, individual aid awards or ad hoc measures. Also the steel sector will be subject to this scrutiny. I would therefore use this opportunity to sketch the approach that we intend to follow when evaluating the enforcement record in the state aid area.

The starting point for the evaluation is to see if state aid in the candidate country is in fact granted in accordance with the EU criteria. It goes without saying that this evaluation will extend to all aid schemes, individual aid awards and ad-hoc aid measures.

There can obviously not be enforcement without an enforcement body, that is to say, the state aid monitoring authority. Many of the candidate countries already have such authorities, which as a rule are in the process of consolidating their position within the national administrations.

The authority's role and actions are crucial in assessing whether the control of new aid projects is credible and systematic. All state aid projects have to be checked by it to ascertain their compatibility with the EU acquis. To

establish that this is the case, we will look in some detail at information on the activities of the state aid monitoring authority.

In particular, information on the number of notifications received and of cases examined will be needed. Furthermore, the opinions given by the monitoring authority, including those of a more informal nature, may give a useful indication of the effectiveness of the State aid regime. In this context, we will need to check for how many aid proposals the authority has given its approval, or whether it has attached conditions, made recommendations for amendments, or even issued outright rejections. I would call this the *quantitative* part of the evaluation.

Then, let me turn to what could be named the *qualitative* part of the evaluation. This would involve looking at a sample of the more important cases decided by the monitoring authority. There, we would analyse whether the case has, if at all, been ex-ante notified to the authority, and whether the assessment of aid is in conformity with the EU acquis.

This type of assessment is bound to include some of the more high-profile State aid cases. Cases that raise interest also outside the country concerned and attract attention particularly from the EU Member States. This will pose a great challenge to the monitoring authority: such important cases can rightly be described as real test cases for the credibility of the enforcement action.

As I have mentioned, aid to the steel sector will be evaluated according to our general method based on the three criteria: framework in place, sufficient capacity, and credible enforcement. However, concerning the

steel sector the involvement of the national state aid agencies has not yet been very active. It is our hope that this soon will be the case.

Although I have focused on describing how we intend to go about evaluating the enforcement record in the State aid area, the legal framework and the administrative capacity are equally important and have already taken a lot of painstaking work to build up but are in general not yet fully in place.

But it is the enforcement that completes the creation of an efficient State aid regime. Only assessing the enforcement actions will enable us to conclude, in the words of the EU's negotiating positions, that companies in the candidate countries have become accustomed to operating in an environment such as that of the EU and that the competition chapters can be closed.

Aid for restructuring

When the framework for accession – the Europe Agreements – was established, it was clear that the adaptation of the steel sectors to market conditions would require a large and difficult restructuring. The nature of this restructuring would not be unlike the restructuring of the steel industry, which was carried out in the Member States. On the basis of the hard-learned experiences here, it is recognised that state intervention can be necessary in such a restructuring. Against this background the Europe Agreement contain a 5 year grace period during which state aid for restructuring purposes can be granted. This is a unique opportunity for the candidate countries, which is not available to Member States.

In order to make certain that the aid is a one time only occurrence and also to limit the competition implications of the aid, 3 conditions are imposed on the opportunity to grant aid for restructuring purposes.

Firstly, the aid must restore viability on market conditions. Viability is the prime goal of restructuring and necessary to secure that aid will not be needed in the future.

Secondly, the amount of aid must not exceed what is necessary to reach the goal of viability. State aid cannot be used to bring the company in an advantageous situation compared to its competitor and therefore aid must be limited to the necessary minimum.

And thirdly, the aid granted must be counterbalanced by adequate capacity reductions on a global level in the country concerned. Capacity reductions will limit the impact of aid on competition and are particularly important in the candidate countries with their low utilisation rate in the steel sector.

Let me emphasise that these 3 conditions are vital to the Commission and are our main guidelines in the context of steel restructuring in the candidate countries. I should also say that the same conditions were rigorously imposed by the Commission during the restructuring of the steel industry in the Member States. And, furthermore, we find these conditions back in the Commission's so called Restructuring Guidelines, which apply to restructuring in all sectors in the economy. The conditions, which the Europe Agreement impose on the granting of restructuring aid, are consequently not taken out of the blue, but are well known and have proven their value.

The framework, which the Europe Agreements constitute for aid to the steel sector, makes clear that when we are assessing the enforcement record in the steel sector and thus the possibility to close the competition chapters, we not only take the strict EU state aid acquis into account. We also consider restructuring aid with the criteria mentioned as instrumental in preparing the steel industry for membership of the internal market. It is important that this opportunity for the candidate countries is indeed used and used in time before accession.

Situation in the candidate countries

I must say I am worried about the state of preparation of the steel sector. I hope you will excuse me for being very frank on this issue, but I find it important to present the following point clearly. When I take a general view of the candidate countries, the picture, which emerges, is the following: State aid is routinely being granted to steel companies. Bail out actions to companies in difficulties involving state resources are being launched. And real restructuring operations, which satisfy the objectives of the Europe Agreements, are rare. We have several examples to support this statement: For example steel companies that are only surviving because of regular grants of operating aid, steel companies in or close to bankruptcy being saved using state resources, and so far we have not received any restructuring programme which we have been able to approve according to our criteria.

I am here talking of the general picture - when looking at each individual country the picture is more nuanced. But this is not the time to discuss our relations with individual countries – we will continue to do this through other channels. But the overall picture is clear, and my message to you

today is, that this is a matter of considerable concern to the Commission and to the Member States on who's mandate we act.

The Commission cannot turn a blind eye to the general lack of concrete implementation of the Europe Agreements in this specific area, nor will the Member States, because steel restructuring is considered a priority in the candidate countries' process to prepare for accession.

I am very well aware that the task the candidate countries face to reverse the situation is not an easy one. It will involve closure of capacities, redundancies and problems at regional level. Preceding speakers have made clear that instruments to tackle these problems are available. I do not wish to underestimate the consequences of the restructuring process, but I wish to underline my argument that the task is necessary and will eventually have to be carried out.

The lesson from restructuring operations in the EU Member States has not been easily learned, but we are now wiser: State aid to uncompetitive companies is a very inefficient use, if not a waste, of scarce resources – resources, which can be used with greater benefit for other purposes. The benefit may not be for today or tomorrow, but the investment will pay off. A continued subsidisation of (loss-making) activities cannot lay the necessary foundations for a dynamic development and sustained employment. Subsidies delay necessary structural changes. Also in the steel sectors of the candidate countries such changes are inevitable.

Conclusion

The Commission has gained some experience in this field. We are ready to share with you our knowledge of restructuring in the steel sector and state aid, and we will be looking forward to strengthen our co-operation and contacts, and according to your needs, to assist you in applying the EU-rules. I wish to assure you that my colleagues, my staff and myself will support you to the best of our abilities in your efforts. And I am sure I with this also speak on behalf of my colleagues in DG Enterprise, who have organised this Steel Forum. We all share a common goal of a competitive and viable steel sector well integrated in the Single Market. The objective is clear and with combined efforts, we must reach it.

As indicated, the issue of steel restructuring is crucial to us, and I urge the candidate countries on behalf of the Commission to accelerate their efforts to apply the provisions of the Europe Agreements concerning the steel sector. Restructuring must have absolute priority for the reasons I have given. This is not only to live up to a contractual agreement. The establishment of market based competition, restructuring and application of state aid rules is – as already mentioned – a important precondition for accession to membership of the European Union. It is tough message. Implementing it is difficult. But this was the path taken by the member states and the path we urge you to follow too, without delay.