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Preserving the competitiveness of European industry – the contribution of state aid policy

Neelie Kroes

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European Commissioner for Competition Policy

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Speech by Commissioner Neelie Kroes at The Centre

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Ladies and gentlemen,

At present, our economy is facing challenges greater and more acute than we have seen in decades. In such times, the role of government is different compared to good times. In an economic downturn, governments have to look harder at how to reduce unemployment, at how to boost growth, at how to minimise the negative effects of a recession on their citizens.

But even though the emphasis of government intervention might change, the basic rules of economics will not. Some policies are better than others, not because of ideology, but because some policies work, and some do not.

Over the years, the European Commission and the Member States have pursued a set of policies that work - the Lisbon Strategy for Growth and Jobs – to ensure that Governments are looking after the long term interests of their economies.

The strategy is a set of tried and trusted methods to boost growth in the economy and to boost employment. This is a 21st century industrial policy, to provide and strengthen sustainable economic growth.

What does such policy require? Things like better regulation, investing in people through education and training, promoting growth through research and development, and of course competitive markets.

Competitive markets make our companies more innovative, more productive and more cost effective, and at the same time deliver lower prices, better quality, new products and greater choice for our citizens.

Competitive markets require a strong competition policy, rigorously enforced, and the EU's state aid rules are an intrinsic part of this.

As the impact of Europe's economic slowdown is felt in terms of redundancies and reduced orders and smaller margins for error, we need a calm and clear Europe-wide response, not a series of divergent national responses. This is where state aid rules help. The state aid rules prevent beggar-thy-neighbour national responses by ensuring that aid does not give recipients a disproportionate advantage, putting them in an artificially privileged position in relation to their competitors. Europe cannot afford to have one Member State's cure aggravating the illness of patients in other Member States.

There is no national route out of this crisis. It would be a disaster to start a subsidy race with Member States spending money not to deal with the underlying problems, but to deal with the problems caused by other Member States' subsidies.

So what should states be doing? They should stimulate sustainable investment in European business, which will lead to more innovation, more research, better training and to higher quality jobs.

The state aid rules will not get in the way, because they have been designed to support just such measures. From day one in my office I have worked hard to ensure that nearly every rule and process of state aid control has been reformed to enable our state aid policies to directly support growth and jobs.

State aid rules also help to focus on targeting the aid where it has optimal effect. The economy is going to need state intervention – state aid – but it is going to need the right type. In particular in an economic downturn, Member States need to be very careful with every euro of taxpayers' money.

That means providing aid that has sustainable benefits for a whole sector or the whole economy.

- Aid that raises productivity (look at our rules on R&D&I)
- Aid that meets needs that the market does not meet (look at our rules on risk capital for SMEs)
- Aid that manages transition and minimises the social costs of economic change (look at the provisions on employment aid and training, for example);
- Aid to rescue and restructure firms in difficulty.

Raising productivity growth

Let me now highlight some of the most important of the recent state aid reforms, where we have worked hard to simplify and speed-up the process to grant well-targeted aid. Simple and speedy procedures are of course especially relevant in the current economic climate.

Overall, we have focussed on three issues. First of all, some measures to raise productivity growth will not be deemed to constitute state aid in the first place, for instance *de minimis* or guarantees of which I will speak in a minute. Some measures will be deemed to constitute state aid but can however be granted directly and speedily without notification to the Commission because they meet the criteria for a block exemption. Finally, other measures will be generally considered to be compatible state aid on certain conditions (for instance risk capital, R&D&I, training, environmental protection, disadvantaged regions).

Let me first talk about measures that do not constitute state aid. In 2006, the Commission adopted a new ***de minimis*** **Regulation** which is an important instrument that will help SMEs in particular. In the present context, it is particularly important to underline that the Regulation specifies that a guarantee of up to €1.5 million does not exceed the *de minimis* threshold and thus does not constitute an aid. Consequently, Member States can grant such guarantees without calculation or administrative burden. This instrument allows Member States to help undertakings and particularly SMEs very rapidly, without notification to the Commission.

But irrespective of the *de minimis* threshold, Member States are free to grant guarantees to facilitate the access to finance for companies. In 2008, the Commission adopted a new **Notice on Guarantees**, which basically set out that public guarantees for loans do not constitute state aid when a market price is paid for it. Moreover, the new Notice also introduces for the first time specific safe-harbour premiums for SMEs, allowing for an easier but safe use of guarantees in order to foster the financing of SMEs often confronted with a lack of stable resources.

In other words, if the conditions of the Notice are met, such guarantees are not considered as state aid and can be put in place immediately.

Now let me highlight the second issue; measures which actually do constitute state aid. I would like to remind everyone that we have significantly simplified and streamlined the state aid rules in the recently adopted "**General Block Exemption Regulation**" (snappily titled "GBER") which now offers Member States the possibility to grant no less than 26 types of aid with minimal administrative burden.

Among other things, we are talking about:

a. access to funds for risk capital

b. R&D&I

c. training

d. environmental protection

e. disadvantaged regions

f. and female entrepreneurs

Every one of these measures is available for SMEs, so allowing Member States to support SMEs during each of their development stages. This is the Commission saying: 'we want your projects to succeed and your business to flourish without red tape.'

Finally, let me discuss the third issue; measures that do not fit under the GBER but will be generally considered to be compatible state aid. Our guidelines provide ample possibilities to notify well-targeted aid measures, not least in the crucial area of **access to financing.**

Our **Guidelines on Risk Capital** target innovative and fast-growing SMEs. At the forefront of the guidelines is a new safe-harbour threshold of one and a half million euros per target SME.

Larger aid amounts are possible as well. Although they do need to be notified, we have acted quickly and favourably: approving more than 20 schemes with a total budget of nearly €2 billion. We are ready to approve more schemes, if Member States want to come forward with them.

Because, in the current financial situation, if the Risk Capital Guidelines are properly exploited they will help fill gaps left by the struggling financial sector.

In our globalised economy the bar is set high – that means investment in research, development and innovation is more important than ever for the competitiveness of European industry. The Commission has adopted in December 2006 a new **Framework on State Aid for Research/Development and Innovation**. In particular, that allows SMEs access to direct grants or preferential loans from their governments. In particular the following measures can be taken:

- Aid for R&D projects which allows in particular aid for fundamental research up to 100% of eligible costs and for industrial research up to 80% for small enterprises
- Aid for young innovative enterprises up to €1 million and even more in assisted regions,
- Aid for innovation clusters,
- Aid for innovation advisory services
- Aid for innovation support services
- Aid for the loan of highly qualified personnel,
- Aid for technical feasibility studies,
- Aid for process and organisational innovation in services,
- Aid for industrial property rights costs for SMEs.

So far over 60 schemes, in areas such as hydrogen energy, biotechnology, and nanotechnology, worth more than €12 billion have been approved. Again, we are happy to approve more.

Those rules are by no means limited to SMEs. For example, they allow for State aid for developing new technologies like those that lead to emission reductions beyond legal EU requirements. This could be of particular interest for car manufacturers, in addition to guarantees (as mentioned above) and to training and regional aid which I will come to in a moment. As you can see, the possibilities for granting State aid for investing in a sustainable future are there, and they are plentiful – it is now for Member States to use them.

At this time it is critically important to **maintain investment in training and retraining**. Rising unemployment is not a signal to decrease training spending, quite the opposite. One of the most important challenges facing every country is how to help people when areas of the economy are in transition. We need to manage transition now, and the state aid rules can help. SMEs will be glad to know that their governments may grant both general and specific training aid to their companies covering up to 80% of costs.

Perhaps one of the most under-exploited state aid options is in environmental protection. We want the EU to have a competitive advantage in these rapidly expanding markets. Under these guidelines, Member States may for instance grant aid allowing energy saving and fostering the development of new environmentally friendly technologies: which means the technologies of the future. This is a tremendous business opportunity and we cannot let European companies miss out!

Long-standing measures are also in place to support disadvantaged regions, and I especially encourage aid that supports business start-ups.

Finally, I would like to underline that our state aid rules allow the rescue and the subsequent restructuring of firms in difficulty, provided that they are turned into viable undertakings and that the amount of aid and the distortions of competition and trade are limited to the minimum necessary. The rescue and restructuring guidelines also foresee special rules for SMEs. If the conditions of these guidelines are respected, the Commission can approve aid measures in a very short timeframe – if needed, even in a matter of days, as our recent experience in the financial sector has shown.

I hope that this provides some clarity as to the opportunities available under the state aid rules, even if the list is of course incomplete.

Conclusion

If it is not already clear, my main message today is that the state aid system allows governments to intervene in the right way to boost growth and jobs in a sustainable manner. The system is also important for what it avoids – subsidy wars and inefficient spending. We need state aid control not only for what it delivers, but for what we would lose without it.

Of course, no system is perfect. Member States are going to be looking hard at ways out of the coming recession but before re-inventing the wheel, they should first look at what is on offer in the existing rules, because this is the quickest way for them to give compatible aid.

I certainly leave my door open if you have specific suggestions for something we can change to assist your need. Given the current crisis, my department is ready to meet stakeholders in order to judge whether the full panoply of available measures is understood and implemented, as well as whether they are adequate in all respects for the current circumstances.

But overall, we have to acknowledge that the current rules have worked well, and like a fine French wine have been getting better with age. They create jobs and help Europe and European businesses to make the most of the single market and global markets. So the main challenge, particularly in the current climate, remains to use to the full extent the possibilities provided by the modernised state aid rules ! I see a lot of room for improvement there, and I am happy to play my part in solving it. But ultimately, it is for Member States to use all the features of our new state aid tool box.

So I leave you with the knowledge that the state aid system is targeted directly at supporting your needs. I am of course happy to take any questions you may have.