European Economic and Social Committee

APPENDIX II
to the minutes of the February plenary session

Brussels, 16 March 2012

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to the

MINUTES

of the 478th plenary session
of the European Economic and Social Committee,
held in Brussels
on **22 and 23 February 2012**

Meeting of 23 February 2012

Agenda item 20
Statement by Mr Almunia, vice-president of the European Commission, responsible for competition, on Reforming State aid

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The EESC president, Mr Nilsson, welcomed **Mr Almunia**, vice-president of the European Commission, responsible for competition. He referred to the EESC's work on competition and State aid and stressed the Committee's willingness to assist the Commission in drawing up European policies in this area.

Mr Nilsson gave the floor to **Mr Almunia,** whose statement is set out in full below.

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Mr President,

Members of the Committee,

Ladies and Gentlemen:

I would like to thank President Nilsson and the Committee for this kind invitation, which came at an opportune moment.

A few days ago, the euro area reached an agreement on Greece; this morning Olli Rehn is presenting our new forecast exercise showing how difficult it is to return to a sustained path of growth and job creation; in a few days the European Council will meet again and will discuss the next steps in the fight against the crisis.

Every day we are facing challenges that will shape the future of the EU and of our 500 million fellow citizens.

Our debate today gives me the opportunity to discuss with you the main features and objectives of a reform I announced earlier this month: the modernisation of the rules that the European Commission uses to control State aid.

But before I touch upon the issue, I would like to remind you of the rationale behind State aid control, and to put it in the context of the challenges we all have before us.

The European Commission is the sole authority responsible for supervising the public aid given by Member States to commercial activities.

Articles 107 and 108 of the Treaty give us the task of preventing this aid from creating barriers to trade and divisions in the internal market. Only the Court of Justice can overrule our decisions.

The European Commission has been fulfilling this task since 1957 and I would say that it has made an excellent job of it.

Our action has effectively kept governments from giving selective advantages to firms. Together with the other instruments of competition policy, it has prevented the erection of barriers to entry, and has prevented certain companies from acquiring too much market power.

It is worth recalling here that we don't control all public spending. For instance, when public authorities invest in companies at market rates, they are not giving the recipients any advantage and the expenditure does not qualify as State aid.

If they act in accordance with the so-called market-economy investor principle, public authorities take part in economic activities without distorting competition.

Nor do we control government spending when it pays for services that are not economic in nature and are not provided by the market, such as defence or security.

Similarly, we do not look into the support that Member States provide to all economic actors – as opposed to selected companies – such as lower tax rates across the board.

However, if a State gives an economic advantage to a company which is in competition with others in the internal market, then the support is State aid and we have a duty to assess it.

Of course, this does not mean that State aid is not allowed; quite the contrary. In our social-market economy, government intervention is justified – in fact, it is necessary in some cases – to complement market forces when they fail to produce the desired outcomes.

In these cases, State aid can target market failures and fix them, for example, by giving credit-worthy SMEs access to capital, protecting the environment, encouraging the use of renewable energies, investing in research and innovation or attracting investors to the weaker parts of our territory.

In areas like these, private investors may find the risk-reward balance too low and public aid is authorised by the Commission.

But the support should go only to activities that the market would not finance up to the socially optimal level and it should complement private spending, not replace it.

In this respect, State aid control is an instrument of economic integration that underpins the smooth functioning of the single market, which is Europe's best asset in the global economy.

Indeed, the spending decisions taken by governments have broader economic and social implications. This has always been the case and is all the more so in these difficult times, when the opportunity cost of inefficient public spending is higher.

The economic forecasts released today show that growth is virtually at a standstill in the EU and will unfortunately remain low for some time.

They also show the need for ambitious fiscal consolidation strategies in many countries and point to alarming unemployment rates, especially for young Europeans – which should be by far our main concern.

The organisations that you represent are well aware that this situation is causing growing social tensions. More and more citizens are experiencing a drop in their standards of living and greater uncertainty regarding their future. The prospects for some of Europe's companies are not rosy either.

Many people are turning to their governments for services and support. Moreover, to return to a sustainable growth path is not an easy task and new kinds of public actions are warranted. But these demands come at a time when governments almost everywhere in Europe need to reduce debt levels and consolidate their budgets.

This is where the reform of State aid will come into play.

How can these competing demands on public finances be reconciled?

The best way out of this dilemma is growth. Only growth can give governments enough resources to meet the needs of the people.

A growth strategy is not only about public money. Structural reforms and the introduction of more competition can be achieved without tapping the budgets.

But it is clear that a number of public policies can help to increase our growth potential by better targeting public expenditure, creating good framework conditions for a sustained – and sustainable – period of expansion.

Public spending must be efficient, effective and focused on growth-promoting policies, particularly in the situation we are facing at present.

How can we do this?

We must fire the engines of growth by promoting investments in physical, human and knowledge capital.

We must focus public spending on education and training, innovation, renewable energies, the interconnections across the internal market, and the development of the digital economy.

And State aid control has a strategic role in this context because it helps Member States to improve the quality of their public finances.

State aid control must help them make a more efficient use of scarce public resources and design public support so that it can deliver the growth policy objectives while keeping the internal market open and maintaining a level playing field for everybody.

In these uncertain times, we can no longer afford to waste public resources and weaken the internal market.

Therefore, helping public authorities make better use of taxpayers' money is one of the main benefits that I expect from our planned reform of State aid rules.

Government support should go where it can make a difference for EU competitiveness. Well-designed support can help efficient companies grow stronger, inefficient ones be replaced, and innovative businesses come to life.

However, we are not starting from scratch. Let me give you an example. Last year, the Commission approved a Swedish aid plan granted to develop the demonstration plant for an innovative wave-energy technology.

The project was too risky for private investors and it would not have taken off without the public support.

In addition, the authorities asked the company to pay back part of the aid if the plant were to be developed commercially. This limited the potential cost to the State and undue advantages to the beneficiary.

Public policies such as these can build an environment that promotes growth and brings Europe's recovery closer. Some EU countries are making good progress along this path and I want to encourage the others to follow their lead.

On the other hand, in our enforcement practice we also have to deal with aid that has a negative impact on the internal market. In this case, we need to be stricter in our control.

One sensitive area is the support that governments grant to incumbents in recently-liberalised sectors; this kind of aid can deprive us of the positive impact on innovation and growth we were looking for when we decided to go down this road.

Here my example is very recent: only last month, the Commission ordered Germany and Belgium to recover part of the aid granted to their postal operators over the years.

Deutsche Post and the Belgian Post had received an amount of aid that exceeded the level of compensation required for the provision of the Service of General Interest with which public authorities had entrusted them. Therefore, we decided that the extra aid was incompatible, since it put the companies in a better position than their competitors as regards commercial activities beyond their public service mandate.

In short, the reform of State aid I am presenting to you today is designed to boost growth, raise the quality of public finance, and improve the fiscal position of Member States.

In this respect, the initiative can be seen as part of the broader drive to engage in a more comprehensive coordination of national economic policies as part of the common objective of a sustained, inclusive and sustainable growth pattern.

Shifting the focus of our control where it matters most is another important objective of the reform.

Under the new rules, we will pursue a more lenient approach to aid having little effect on competition in the internal market.

At the same time, we will look more closely into cases with a potentially large impact and we will launch more frequent ex-officio investigations.

Finally, we will use the reform to cut down on red tape and make our rules simpler and more consistent.

Over time, our State aid regime has become too complex; just bear in mind that we have as many as 37 different guidelines.

As we did last year with the reform of the Services of General Economic Interest, we can do everyone a favour by explaining and arranging our rules more clearly.

In practical terms, the next step in the reform will come in the spring, when I intend to submit to my fellow Commissioners a Communication that sets out the main objectives and guiding principles of the reform.

Let me give you a broad indication of the elements that are likely to change.

We are revising the guidelines related to the Europe 2020 objectives; namely the Regional, Environmental, and Risk Capital guidelines, and the guidelines for Research, Development and Innovation.

We are also looking at ways to simplify and speed up the treatment of cases with limited impact on the internal market through the revision of the General Block Exemption Regulation, Enabling Regulation, and the de minimis Regulation.

Finally, we will probably have to update the Procedural Regulation, especially as regards our handling of complaints. The basic notion of aid will also have to be clarified for a better understanding of the scope of our control.

If everything goes according to plan, the main elements of this package will be in place before the end of next year.

Ladies and Gentlemen:

In closing, I would like to repeat that this reform will help Europe's public authorities make a more efficient use of taxpayers' money and encourage them to spend it on public policies that can boost growth and create jobs.

We all share this responsibility, regardless of our different roles in politics, industry, and the labour movement, or in the civil society organisations that form part of our communities.

I am confident that our dialogue, through a broad consultation process, will help us find the best answers to the needs and demands of our fellow Europeans.

Of course, I will be available for further discussions with the Committee on this reform during the next phases of the process.

Thank you.

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Mr Nilsson thanked **Mr Almunia** for his contribution and opened the discussion.

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Mr Cedrone (Gr II, IT) asked Mr Almunia what initiatives the Commission had taken regarding competition and wondered whether this action was enough.

Mr Andersen (Gr III, DK) stressed that competition policy should take account of other non-traditional forms of business, such as those in the social economy and cooperatives, and pointed out that these businesses should not be penalised for internalising social costs. He also drew attention to the importance of State aid for businesses working to support and train the disabled.

Mr Farrugia (Gr I, MT) stressed how surprised he was by the announcement of zero growth when so many measures had been adopted by the Commission and Member States. He wondered whether that meant that Europe had failed. He then referred to the 23 million SMEs in the EU and the fact that the majority of State aid was intended for large businesses and asked for this situation to be changed and for the anti-competitive gap between SMEs and large businesses to be closed.

Mr Fornea (Gr II, RO) asked the vice-president about the future for coal mines in Europe following the Council decision on State aids intended to facilitate the closure of uncompetitive mines.

Mr Pegado Liz (Gr III, PT) asked what the actual parameters were for ascertaining whether to accept State aid or else adopt market regulation measures and what measures could be implemented to even out distortions in competition created by State aids. He also questioned Mr Almunia about the follow-up to be given to the work already undertaken by the Commission on collective actions in the anti-trust sphere and when an EU measure on private enforcement could be expected.

Mr van Oorschot (Gr I, NL) drew attention to the specific plight of farmers who were called upon to comply with measures for sustainable farming, but at the same time could not benefit from State aid and were seeing their cooperation restricted by competition legislation.

Ms Kekeleki (Gr III, EL) said that, because of the current crisis, many Europeans were no longer able to afford access to services of general interest which were no longer being financed because of the austerity measures. She also wondered about the question of a possible ethical consumer trademark.

Mr Cassidy (Gr I, UK) raised the question of State aid for the shipbuilding sector and the situation regarding flags of convenience.

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Mr Nilsson thanked the members and gave the floor to **Mr Almunia** for his replies.

Mr Almunia thanked the members for their questions.

He underlined the importance of stimulating growth, but added that the Commission's actions at this level were not sufficient in themselves. Action to combat the crisis needed to be taken at every level. The European institutions as a whole, together with the Member States, should make a commitment and engage in concerted action. Member States should make the necessary structural reforms in line with the Europe 2020 strategy and restructuring the financial system was a priority. Finally, he felt that project bonds could also represent a new resource for helping future investments.

Mr Almunia emphasised the role of social economy and then drew attention to the fact that national governments were responsible for allocating State aid. The Commission's role was merely to ensure that such aid was properly allocated and did not create distortions within the single market. He said the Commission was currently focusing on the question of regional aid which should above all benefit SMEs.

Concerning the situation of coal mines, **Mr Almunia** reiterated the terms of the Council decision on State aid for facilitating the closure of uncompetitive coal mines. He added that these closures were accompanied by flanking measures.

He also announced that the Commission's work programme for 2012 included a legislative initiative for compensation for damage arising from infringements of competition law and also a cross-cutting initiative on recourse to collective actions.

With respect to farming, **Mr Almunia** stressed the need for reconciling cooperation with competition rules without forgetting that a cartel was always a cartel.

Finally, **Mr Almunia** announced that the Commission had just launched a public consultation on the guidelines for the application of competition rules to maritime transport services and called on the EESC to give its opinion on this topic.

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Mr Nilsson thanked **Mr Almunia** for his replies and for making time to attend the session and said that the EESC was keen to continue cooperating with the Commission.