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**“The State Aid Action Plan –  
Delivering Less and Better Targeted  
Aid”**

*Check Against Delivery  
Seul le texte prononcé fait foi  
Es gilt das gesprochene Wort*

UK Presidency Seminar on State Aid

**London, 14th July 2005**

## Introduction

Good morning, ladies and gentlemen, and thank you, Mr Saunders, for your kind words of introduction.

Let me first thank Mr Sutcliffe and his colleagues in the Department of Trade and Industry for organising this event as part of the UK Presidency.

Before I go any further, I would like to express my deepest sympathy to the Presidency and to the people of London on the horrific attacks that took place a week ago. The strength of your determination against the terrorists who seek to undermine the essence of free, democratic societies has been a beacon to all who share these values, both within Europe and beyond. I can assure you that Europe – and the European Commission I represent here today – stand firmly with you in this resolve.

I am particularly glad that today's seminar has still been able to go ahead. Bringing together high-level policy makers from across Europe to discuss state aid policy is a very **welcome** and **timely** initiative.

The case for creating a virtuous circle of economic growth, better standards of living, and more and better jobs has never been more pressing. You all know the challenges Europe faces: slow growth, lasting budget deficits, high unemployment, and aging populations. Our productivity rates remain a source of concern. We need to get back on the **right track**, by **taking the decisions needed to sustain growth, social cohesion and our environment for coming generations**.

Getting **Europe moving down the path of economic reform** requires us to use every one of the tools at our disposal to the full to deliver reform objectives. And, perhaps most importantly of all, we need to be sure that these objectives really are common, shared by Europe's peoples as much as by their political leaders. Economic reform is like any other type of change: it can be as hard as it is essential, and that means it needs to be managed properly.

All this may appear rather distant from the main theme of our seminar today. I have not forgotten that I am here today to present the Commission's State Aid Action Plan, a very concrete set of principles and proposals for reforming Europe's state aid rules for the coming years. But the design of this plan – and indeed its very inception – is so firmly grounded in the wider process of economic change that to speak of one without the other would be to miss the point.

State aid discipline has a key role to play in managing the economic reform agenda. We should not forget the primary role of competition in state aid policy. Effective state aid control maintains a level playing field for free and fair competition in the single market, the key to competitiveness. We control state subsidies, **because in general they distort the market, which results in lower competitiveness for our businesses, less innovation, and higher prices for consumers**.

But efficient and equitable state aid can also stimulate competition and support the economic reform process in new ways, acting as a driver for the virtuous circle of economic growth, better standards of living, and more and better jobs. The Commission's State Aid Action Plan launches a **comprehensive, coherent and far-reaching reform of state aid policy**, as a direct contribution to the renewed Lisbon Strategy. Our leitmotif is the European Council's call for "**less and better targeted state aid**".

## The State Aid Action Plan

As you can imagine, over the past eight months I have heard quite a lot about why the **existing state aid framework is less than satisfactory**. The **objectives** of state aid discipline are not well known, and understanding them is not made any easier by the current rulebook. Over the years, an **unnecessarily complicated** set of rules, exemptions, and guidelines has evolved. Procedures have grown **lengthy and cumbersome**. “Brussels” has had to intervene in a rather strange range of cases, from individual swimming pools to lottery funding for the Brighton West Pier restoration. It sometimes seems just as hard to get approval for smaller aids as for larger, potentially more distortive, ones. Commission approval is often perceived as just one **more bureaucratic hurdle** to be jumped at the end, once the decision to grant aid has already been taken. And the reality of an enlarged Union means that there are ever more cases lined up to take the leap. In these circumstances, it is becoming increasingly hard for the Commission to set any sort of meaningful priorities in its state aid enforcement work.

### *- Principles of modernised state aid control*

Our Action Plan sets out a vision for a modernised state aid control regime to address these concerns.

It is based on the twin principles of **efficiency and equity**. State aid should be efficient – it should promote overall growth in the size of the economic cake, by targeting the gaps that markets alone will not fill. But **nothing in life is free**, and that includes state aid. So the state aid rules should help Member States get the **best value for money for their taxpayers**, and make sure that scarce state resources are used where they can have most impact.

And state aid should be equitable – the cake has to be shared out fairly, to fulfil a wide range of often non-economic objectives which are fundamentally important to our European social model. Objectives such as **social and regional cohesion, environmental protection, human capital and cultural diversity**. Here too, we must ensure Member States can get the best value for money, and that their measures effectively address the identified priorities.

These twin principles help us **identify state aid which benefits the European economy**, aid which therefore could – and should - be compatible because it is in the common interest.

There are two further elements which are essential to this reform. First, the **state aid rules and procedures we put in place must be transparent**, and **as simple, user-friendly, clear and predictable as possible**. They should also be proportionate, being **applied effectively to aid that can have a genuine effect on European competition and not** intervening unnecessarily in matters that should best be dealt with at national, regional or local level. We should not forget that better state aid means better regulated state aid, with simplified rules and a reduced administrative burden. We are therefore thinking of consolidating and extending the use of **block exemptions, and simplifying the many existing regulations**, so that the overall architecture of state aid policy is easier to grasp.

And second, an essential prerequisite for the success of this reform, and indeed for the renewed Lisbon process as a whole, is the willingness of Member States to work in **partnership with each other, and with the Commission**. I will say more on this aspect later.

But first I would like to examine in a little more detail the importance of a refined economics-based approach in the area of state aid control.

### **Economics-focused state aid policy in the State Aid Action Plan**

**Public intervention in the market is a delicate matter**. State aid is a powerful means to change the incentives of market participants. It has **enormous potential, for good and bad**. That is why it is essential to wield state aid tools responsibly, soberly and always with moderation.

#### **State aid should only be used:**

- when it is an **appropriate instrument** for meeting a **well defined objective** of common interest;
- when it **creates the right incentives and is proportionate** to the problem;
- and when it **distorts competition to the least possible extent**.

Assessing the compatibility of state aid is fundamentally about balancing the negative effects of aid on competition with its positive effects in terms of the common interest. **Refined economic analysis** should ensure a proper and transparent evaluation of these effects.

Economic analysis of state aid is **still in its infancy**, compared to the achievements in other areas of competition policy. The **UK authorities' initiative** to develop economic thinking in this area is therefore **particularly welcome**. The Commission is also trying to refine its economic approach, through internal reflection and by commissioning external studies. But we are more than happy to hear your views and to learn from your experience in this important area.

Adopting an **economics-based approach** is about identifying why certain desirable economic objectives are not met naturally by markets - and what can best be done to attain these objectives. It is far from true that state aid will be the best or most effective solution in all cases.

But if properly targeted, in some cases state aid **can** be used pro-actively as a means to improve the functioning of markets, while **keeping market distortions to the absolute minimum**. And this is where the challenge lies.

It is quite easy to identify market failures. Look, for example, at **risk capital**, where normal market conditions typically mean that small, innovative and thus risky businesses face tremendous problems in getting funding. Or look at innovation, where companies take a certain risk when they bring forward new ideas, through prototyping, on to production and marketing. In these circumstances, **the state is sometimes the only actor able to change the incentives for investors**, to make them consider innovative ventures worth a try.

The difficult part is designing the right state aid measures to address these specific needs and at the same time keep market distortion to the barest minimum, by keeping overall aid volumes as low as possible. That is why, as we move forward with the process of designing individual measures to put the Action Plan's principles into practice, the Commission is committed to consulting stakeholders every step of the way. We will make a start with a Communication on innovation which I hope to present in the autumn.

### **Increasing effectiveness through partnership – the State Aid Network**

Talking of consultation and exchange of best practice brings me back to an issue I touched on a moment ago – the importance of a partnership-based approach to state aid. The Commission cannot deliver effective state aid administration without a **true partnership with dedicated and committed counterparts in the Member States**. That is why I propose to set up a **State Aid Network**.

Our experience in the merger and antitrust fields shows the value of an ongoing and close dialogue between stakeholders. In State aids our natural **counterparts in Member States are diverse and dispersed**, acting at several levels and with different functions. The purpose of the network would therefore be to **establish clearly defined contact points and a stable communication structure with and between these stakeholders in Member States** to facilitate the flow of information and the exchange of best practice. At the same time, the network would **build on existing structures**, including our colleagues in the Permanent Representations.

Such a network would add real value in several ways:

**First**, by **facilitating co-operation in the day-to-day treatment of state aid cases**, through improved communication via well-established channels.

**Second**, by providing specialised contact points in the Commission **to provide upstream assistance and guidance** on the application of substantive state aid rules, **helping granting authorities to design measures that are compatible with these rules**.

**Third**, by serving **as a forum for policy discussions and development** through exchange of views with Member States' co-ordinators and policy-makers. In that context, I very much welcome the idea that today's conference could become a regular event under each EU Presidency. I am also interested in upgrading the **annual multilateral meeting** on state aid policy into a **high-level policy discussion forum**.

The target of less and better state aid can only be reached by common agreement and voluntary compliance. **Better involving Member State policy-makers** in the formulation of overall policy will contribute to building consensus and common understanding of our joint objectives.

I am convinced that a fully operational state aid network is an essential **complement to the "hard tools"** of a modernised rule book and its enforcement on a case by case basis. I therefore sincerely hope that the network idea will soon become reality.

## Conclusion

Ladies and gentlemen,

The State Aid Action Plan is **just the starting point of a comprehensive reform of European state aid policy**. The process cannot be successful without clear support from all stakeholders, and in particular from Member States and regional and local aid granting authorities. **State aid reform will only work if we all buy into it.**

The Action Plan provides a roadmap, **a global picture** of what we intend to deliver in the coming years. It shows how, taken together, the future measures should help us achieve our common goal: **putting Europe firmly back on the path to sustainable growth and jobs.**

Of course, the Commission does not have all the answers in this process. The Action Plan is a **public consultation** document. I would urge you all **to let us have your views** on it by mid-September. But I hope that, with the Action Plan, and with the idea of creating a state aid network which I have presented to you today, we have at least raised the right questions.

Thank you for listening so attentively.