Report on competition policy 2009

2010/2137(INI) - 03/06/2010 - Non-legislative basic document

PURPOSE: to present the Commission report on competition policy in 2009.

CONTENT: the Commission's annual report on competition policy 2009 is divided into six sections, as follows:

- it provides an overview of how the instruments of competition policy, namely the State aid, anti-trust and merger control rules, were further developed and applied;
- it discusses how these and other instruments were deployed in selected sectors, including financial services, energy and environment, electronic communications, information technology, the media, the pharmaceutical industry, health care services transport, postal services, the automotive industry and the food industry;
- it gives an overview of consumer related activities developed last year;
- it looks at cooperation within the European Competition Network (ECN) and with national courts;
- section five deals with international activities;
- in section six, a brief description of inter-institutional cooperation is given.

The report notes that in 2009, the European Parliament adopted a resolution on the White Paper on Damages Actions for breach of the EC antitrust rules and the Annual Competition Reports for 2006 and 2007. In addition to the regular dialogue between the Commissioner for Competition and the ECON committee, the Commission participated in discussions held in other Parliamentary committees and on a range of subjects including the Annual Competition Report, the White Paper on Damages Actions, the Broadcasting Communication, State aid and the financial crisis, the Pharmaceutical Sector Inquiry and the Motor Vehicle Block Exemption Regulation. Bilateral meetings with MEPs were held on these and on a range of other issues.

The Annual Report on Competition also features a focus chapter on a topic considered of particular importance in the field of competition policy. The topic chosen for this year is "Competition policy and the financial and economic crisis". Special attention is paid to the Commission's assessment of national measures adopted as a response to the financial crisis, whether these measures consist of national schemes or measures targeting individual companies of the financial sector. In a similar way, particular attention is also given to the measures implemented within the **Temporary Framework**, to palliate the effects of the crisis on the real economy. A request to that end was made by the European Parliament in its draft resolution on the Annual Report on Competition Policy for 2008, under discussion at the time of finalising this edition of the Annual Competition Report.

The role of competition policy in the context of the financial crisis: the paper recalls that early on in the crisis, Member States decided to inject large amounts of State aid into the financial sector and had identified various types of solutions, from guarantee-based schemes to recapitalisations. It discusses the adoption of various Communications, including the Banking and Recapitalisation Communications, the Impaired Assets Communication, which responded to a growing consensus on the need to tackle the root causes of the crisis in the form of toxic assets on banks' balance sheets, and the Restructuring Communication which reflects the Commission's thinking for a future beyond the current crisis, with a viable banking sector. Restructuring plans have been approved amongst others for Commerzbank, ING, RBS, Lloyds' Banking Group and KBC, whilst many others are currently being assessed.

As banks were deleveraging and becoming much more risk-averse than in previous years, companies started to experience difficulties with access to credit. The Commission adopted the **Temporary**

Framework for State aid measures to support access to finance in the current financial and economic crisis. This Temporary Framework (applicable until end-2010), which has been amended on several occasions, gives Member States additional options on tackling the effects of the credit squeeze on the real economy. The Temporary Framework focuses on two objectives:

- maintaining continuity in companies' access to finance (e.g. by allowing Member States to grant State guarantees for loans at reduced premia or subsidised interest rates for loans and the granting of up to EUR 500 000 per company); and
- encouraging companies to continue investing in a sustainable future (e.g. by allowing subsidised loans for the development of green products).

It also includes temporary adaptations of existing guidelines as a simplification of the rules on short term export credit insurance and an increase in the ceilings for risk capital investments. By 31 December 2009, the Commission had approved 79 measures in 25 Member States aimed at stabilising companies and jobs in the real economy. The Temporary Framework was widely used to support the car industry, which can benefit from aid up to EUR 500 000 per company for the next two years (small amounts of aid), State guarantees on loans, subsidies loans (including specifically for green cars) and facilitated access risk capital for SMEs. Some of the measures the temporary framework provides for, are of particular relevance for the car industry since they allow the financing of projects for the development of low emission vehicles.

The Commission approved aid for green products, notified by France, United Kingdom, Spain, Germany and Italy. Furthermore, a number of Member States including France, United Kingdom, Germany, Belgium (Flemish region), and Romania have installed guarantee and/or subsidised loan schemes from which the car industry (as well as other industries) can benefit. For instance, a subsidised loan of EUR 1.5 billion was granted by Germany to Opel following the bankruptcy proceedings of its mother company General Motors, while France granted both Renault and PSA subsidised loans of EUR 3 billion. In addition, the Commission approved a State guarantee on an EIB loan notified by Sweden for Volvo Cars.

In general, Member States considered the Temporary Framework as a useful tool which has provided an important support for companies.

On **deliveries and the costs involved**, the Commission notes the following:

- between October 2008 and 31 December 2009, the Commission had adopted 73 decisions in relation to 33 schemes and 68 decisions on individual measures to 38 banks. These 141 decisions encompass 21 Member States. Because of the urgency, some of those decisions were taken overnight, to avoid a domino effect and the major collapse of the EU's financial system;
- between October 2008 and the end of 2009, the Commission approved around EUR 3.63 trillion (equivalent to 29% of the EU-27 GDP) of State aid measures to financial institutions;
- as far as the real economy is concerned, by 31 December 2009, the Commission had approved 79 State aid measures in 25 Member States. Out of these measures, 18 related to guarantees, 11 to short-term export credit measures, nine to reduced interest rate loans, six to risk capital measures and five to reduced interest rate loans for green products. A large number of the measures approved (30) related to the granting of up to EUR 500 000 per undertaking;
- the autumn 2009 State aid Scoreboard shows that the overall aid volume rose in 2008 from around 0.5% of GDP to 2.2% of GDP or EUR 279.6 billion due to the financial and economic crisis. Crisis-related aid represented roughly 1.7% or EUR 212.2 billion and related to aid to financial institutions only. Aid to the real economy under the Temporary Framework started to be implemented by Member States only in 2009. Crisis measures aside, total aid amounted in 2008 to 0.5% of GDP or EUR 67.4 billion, a level similar to 2007 and the years before. Aid was mainly directed towards horizontal objectives of common interest (on average 88%), of which regional aid, research and development and environmental aid represented around two third whereas rescue and restructuring

aid fell. Although figures for 2009 are not yet available, the volume and share of non-financial aid in 2009 is not expected to change dramatically.

The paper concludes that there is no doubt about the benefits of the State aid granted to the banking and insurance sector. The liquidity injected has prevented the meltdown of the financial system and has contributed to re-opening markets, provided more funds to the real economy and helped financial markets reach a more normal market functioning. In this crisis context, competition policy helped support financial stability and created the right conditions for stable financial markets in the short and longer terms. The timely intervention of the Commission has also limited the consequences of the credit crunch for the real economy. Equally important, the use of competition rules has helped protect taxpayers' money.