The reform of state aid 2005-2009

2005/2165(INI) - 14/02/2006 - Text adopted by Parliament, single reading

The European Parliament adopted a resolution based on the own-initiative report drafted by Gunnar **HÖKMARK** (EPP-ED, SE) in response to the Commission's action plan on state aid reform (2005-2009). Parliament stated that the market economy is the most efficient way of allocating limited resources and State aid should therefore be an instrument of last resort. State aid should always have clearly defined objectives, be proportionate and, in particular, be granted on a temporary basis. Parliament pointed out that the total amount of State aid granted each year in the EU is the equivalent of more than 50% of the EU's annual budget even by the most conservative estimates. The amount of State aid, as a proportion of GDP, varies substantially between Member States - and ranged from 0.10% to 2.76% in 2003 - potentially causing considerable market distortion. However, the benefits of State aid could considerably exceed its costs when aid is used rationally and when thorough cost-benefit analyses are conducted.

General: Parliament welcomed the Commission's intention to modernise the practices and procedures regarding State aid, in particular by increasing legal certainty, refining the economic approach, increasing transparency by consulting stakeholders and enhancing the adjudication process, and agreed with the Commission that there is a real need for a comprehensive reform of State aid policy. It was essential that when assessing whether State aid is compatible with the Treaty, the right balance was struck between the negative effects of State aid on competition and its positive effects on the common Community interest. Parliament wanted the Commission to publish an annual report on State aid granted in the Member States. It also asked the Commission to check whether the maximum aid rates of up to 50%, which are possible in principle, do not appear too high from the point of view of the market economy. With such high aid rates a company could be set up without its own capital, which is contrary to the principle of entrepreneurial responsibility in a market economy.

Stronger economic approach: Parliament welcomed the Commission's aim of refining its economic approach to State aid proceedings and focusing its resources on cases that are likely to create the most serious distortions to competition and trade, with regard to the objectives of the Lisbon and Gothenburg strategies. The Commission's economic approach must be defined strictly, in order to increase legal certainty for the parties involved. Parliament suggested that the Commission provide both a more detailed definition of the concept of 'market failure' including an explanation of when the concept is applicable and a coherent methodology. Parliament noted the initiative by Commission Vice-President Siim Kallas to introduce more transparency into the procedure for granting agricultural subsidies, which would require Member States to publish the identity of beneficiaries and the amount of aid granted on the Internet. It recommended that that scheme be extended to all State subsidies. Member States should require companies to publish details of aid received in order to enable shareholders better to evaluate the real performance of the company, in particular in the event that the aid may subsequently be cut.

Innovation and R&D: State aid for R&D could enable Member States both to target market failures and to draw up measures giving industry an incentive to invest more in R&D. Parliament underlined, nevertheless, that aid for R&D must not give rise to aid that distorted competition, especially by favouring established market players. It noted that the development of environmental technologies in the EU, notably in the energy sector, had been hampered by significant State aids for fossil fuels and nuclear power. It strongly believed in the principle that external costs should be included in the price of energy from different sources and that this principle should be a basis for the revision of the EU's State aid guidelines. Parliament went on to state its support for State aid flexibility concerning the promotion of innovative ideas in public sector research bodies, as well as clear rules on how to transfer such ideas and

expertise to businesses. In this regard, it supported the generation of further innovation through public-private collaboration and partnerships. Aid for R&D should not favour individual undertakings, and Parliament urged the Commission to aim aid for R&D at innovation clusters.

Risk capital: Parliament considered that, due to regulatory insufficiencies and incentive-poor tax systems in some Member States, the provision of risk capital, in particular to small businesses, is not optimal. It welcomed, therefore, the Commission's ongoing revision of its communication on State aid and risk capital . Innovative SMEs should be fostered, inter alia through the use of appropriate tax incentives. Parliament favoured block exemptions for small-scale aid to SMEs.

Services of General Economic Interest: Parliament felt that the element of overcompensation was the most fundamental criterion and that, therefore, the financing of services of general economic interest constituted State aid only in those cases in which the criterion of justifiable compensation cannot be shown to be fulfilled. Parliament called for greater clarity from the Commission on the implementation of the Altmark ruling, taking account of the specificities of different sectors and suggested that assessment of state aid to public service companies should be based on the effect on the market rather than the size of the company involved.

It noted the exemption of smaller public service companies from the application of the State aid rules, but wondered whether the distinction between smaller and larger undertakings in the assessment of State aid rules is adequate. The Commission's assessment should be based on the effects of State aid measures on the relevant market rather than on the size of the public service company involved.

Block exemptions: Parliament supported the adoption of a general block exemption regulation by the Commission in order to simplify the existing block exemptions, notably on training, SMEs and employment, and to integrate a broader range of exemptions, notably as regards State aid to support SMEs and R&D, so long as cross-subsidisation from small to large enterprises was monitored and prohibited as appropriate. It also welcomed the proposal to raise the de minimis threshold, and suggested that the figure be doubled, to EUR 200 000.

Regional aid: Parliament considered that State aid should be permitted only where the aid both adds value that no other political measure can achieve and is for the benefit of a region. It supported a more efficient approach to the grant of regional aid, with a focus on investments in infrastructure and horizontal aid in disadvantaged or the least developed regions of the EU, including the introduction of advantageous tax conditions for transitional periods not exceeding five years. It highlighted the need to maintain appropriate support measures for "statistical effect" regions. The Commission must ensure that neither national nor European State aid results in a distortion of competition between Member States" regions and does not finance intra-EU relocation, leading, in particular, to jobs being lost in one region for the benefit of another.

Environmental aid: Parliament considered that environmental State aid, where fair and transparent in its application, can play a crucial role in achieving the goal of sustainable development in the EU, particularly by stimulating investment in technology over the long term and by the patenting of such technology in the EU, in line with the objective of stabilising greenhouse gas emissions laid down in the UN Framework Convention on Climate Change. It endorsed the Commission's view that the current guidelines on State aid for environmental protection are not properly adapted to the increasing sophistication of investments in environmental technologies, nor to new forms of public/private partnership. The Commission and the Member States should speed up the introduction of measures to reduce environmentally damaging State aid and ultimately to eliminate it altogether.

Better governance: The current practices and procedures of State aid policy have certain shortcomings and are too bureaucratic. Parliament strongly supported the idea of forming a closer network of supervisory authorities, such as courts of auditors, in the Member States, which could facilitate the

objective of consistency in the application of the State aid rules. It stressed that any decentralisation of competence in favour of national authorities required rigorous monitoring. Decentralisation could risk resulting in the inconsistent enforcement of State aid rules, in particular given the varying structures and levels of experience and expertise of Member States' competent authorities.

Parliament expressed its discontent that sanctions for non-notification are currently enforced only against beneficiaries and not against Member States. It supported the Commission in exploring new deterrent mechanisms to address the incorrect implementation of the State aid rules by Member States.

Finally, Parliament renewed its call for the codecision procedure to be introduced for all competition policy matters which the Council decides by qualified majority.