Basic information

2005/2165(INI) INI - Own-initiative procedure	Procedure completed
The reform of state aid 2005-2009 **Subject** 2.60.03 State aids and interventions	

Key players

European Parliament

Committee responsible	Rapporteur	Appointed
ECON Economic and Monetary Affairs	HÖKMARK Gunnar (PPE-DE)	04/10/2005

Committee for opinion	Rapporteur for opinion	Appointed
EMPL Employment and Social Affairs	The committee decided not to give an opinion.	
ITRE Industry, Research and Energy	The committee decided not to give an opinion.	
IMCO Internal Market and Consumer Protection	The committee decided not to give an opinion.	
TRAN Transport and Tourism	The committee decided not to give an opinion.	
REGI Regional Development	KOTEREC Miloš (PSE)	11/07/2005

Key events

Date	Event	Reference	Summary
08/06/2005	Non-legislative basic document published	COM(2005)0107	Summary
29/09/2005	Committee referral announced in Parliament		
24/01/2006	Vote in committee		Summary
27/01/2006	Committee report tabled for plenary	A6-0009/2006	
13/02/2006	Debate in Parliament		

14/02/2006	Decision by Parliament	T6-0054/2006	Summary
14/02/2006	Results of vote in Parliament		
14/02/2006	End of procedure in Parliament		

Technical information	
Procedure reference	2005/2165(INI)
Procedure type	INI - Own-initiative procedure
Procedure subtype	Strategic initiative
Legal basis	Rules of Procedure EP 55
Stage reached in procedure	Procedure completed
Committee dossier	ECON/6/29595

Documentation gateway

European Parliament

Document type	Committee	Reference	Date	Summary
Amendments tabled in committee		PE367.622	13/12/2005	
Committee opinion	REGI	PE364.779	23/01/2006	
Committee report tabled for plenary, single reading		A6-0009/2006	27/01/2006	
Text adopted by Parliament, single reading		T6-0054/2006	14/02/2006	Summary

European Commission

Document type	Reference	Date	Summary
Document attached to the procedure	SEC(2005)0795	07/06/2005	
Non-legislative basic document	COM(2005)0107	08/06/2005	Summary

Other institutions and bodies

Institution/body	Document type	Reference	Date	Summary
EESC	Economic and Social Committee: opinion, report	CES1483/2005 OJ C 065 17.03.2006, p. 0001-0008	15/12/2005	

The reform of state aid 2005-2009

2005/2165(INI) - 08/06/2005 - Non-legislative basic document

PURPOSE : to present the State Aid Action Plan, a consultation document regarding a roadmap for state aid reform 2005–2009

CONTENT : State aid control comes from the need to maintain a level playing fieldfor all undertakings active in the Single European Market, no matter in which Member State they are established. There is a particular need to be concerned with those state aid measures, which provide unwarranted selective advantages to some firms, preventing or delaying the market forces from rewarding the most competitive firms. As a result of such distortions of competition, customers may be faced with higher prices, lower quality goods and less innovation.

There are new challenges facing state aid policy at this moment, which call for action:

-There is a need for renewed impetus to the Lisbon Strategy. There must be reduction in the general level of state aid, accompanied by a redeployment of aid in favour of support for certain horizontal objectives such as research and innovation and the optimisation of human capital. The reform of regional aid should also foster a high level of investment and ensure a reduction in disparities in accordance with the Lisbon objectives.

-The enlargementin 2004 was unprecedented in size, underlining the need for adaptations of state aid policy and for better governance to ensure an effective control in the enlarged Union.

-The increasing complexity and number of documentsadopted by the Commission have created a need to streamline state aid policy, and minimise legal uncertainty and the administrative burden both for the Commission and for Member States.

-There is also a need to strengthen the commitment of Member States to their obligation to enforce state aid rules.

To face the new challenges requires a thorough modification of the existing state aid rules, as regards both substance and procedures. Any effective assessment of the allocation or distribution effects of State aid must take into account their actual contribution to commonly agreed, politically desirable objectives. The aim is to present a comprehensive and consistent reform package based on the following elements:

– less and better targeted state aid;

– a refined economic approach;

– more effective procedures, better enforcement, higher predictability and enhanced

transparency;

– a shared responsibility between the Commission and Member States: the Commission cannot improve state aid rules and practice without the effective support of Member States and their full commitment to comply with their obligations to notify any envisaged aid and to enforce the rules properly.

The Commission discusses the substantive reforms needed to state aid policy: economic and legal analyses are used to fulfil the Commission’s obligations under the Treaty, in some cases to determine when a measure is state aid (e.g. application of the market investor principle or evaluation of the justification of certain measures by the nature or general scheme of the fiscal system) and in particular to determine when state aid can be declared compatible with the Treaty. In assessing whether an aid measure can be deemed compatible with the common market, the Commission balances the positive impact of the aid measure (reaching an objective of common interest) against its potentially negative side effects (distortions of trade and competition). It is for Member States to provide the necessary evidence in this respect, prior to any implementation of the envisaged measure. To best contribute to the re-launched Lisbon Strategy for growth and jobs, the Commission will, when relevant, strengthen its economic approach to State aid analysis. An economic approach will better focus and target certain state aid towards the objectives of the re-launched Lisbon Strategy. One key element in that respect is the analysis of market failures.

The Commission identifies certain key priorities:

-**targeting innovation and R&D to strengthen the knowledge society:** a number of possibilities already exist to grant aid to target the market failures which are hampering innovation activities, but that the rules could nevertheless be improved. Additional possibilities will be analysed to cover measures which can boost innovation in the common interest.

-**investing in human capital:** state aid could be justified when it is necessary to provide the right incentives for employers to engage more workers, particularly those who have difficulties to access and remain on the labour market, and to provide appropriate training for workers.

-**high quality services of general economic interest:** Member States enjoy a wide margin of discretion when deciding whether and in what way to finance the provision of services of general economic interest. However, to avoid distortion of competition the compensations granted should make the performing of public service missions feasible without leading to overcompensation and undue distortions of competition. The Commission will adopt a Decision and guidelines to specify under which conditions public service compensations which constitute state aid are compatible with the Treaty.

-**better prioritization through simplification and consolidation:** the Commission will issue a general block exemption regulation to exempt certain categories of aid from the obligation to notify to the

Commission. It intends to simplify and consolidate the existing block exemptions (training, SME and employment) and integrate a broader range of exemptions, notably as regards aid to support SMEs and R&D. The Commission will also consider integrating some categories of aid, such as regional and environmental state aid and rescue aid for SMEs while addressing the problems raised by cumulation of different types of aids. It will also consider exempting larger amounts of aid than presently, on the basis of economic analysis and experience. However, this will be made on the condition of greater responsibility by Member States in complying with the rules and criteria set by the block exemptions.

-**A focused regional aid policy:** Regional aid must be seen in the context of the possibilities for granting aid for horizontal purposes, in particular for aid measures more directly linked to the pursuit of the Lisbon agenda. It will be necessary to examine whether and to which extent regional bonuses present in current horizontal texts should be maintained. The Commission will also examine what levels of aid can be justified outside the least-developed regions, what the aid differentials should be, what categories of undertaking should benefit and for which categories of aid.

The Commission goes on to discuss modernising the practices and procedures of state aid: where possible within the scope of the current procedural regulations, the Commission will improve its internal practice and administration, and increase efficiency, enforcement and monitoring. It will also consider issuing best practices guidelines after consulting Member States. The Commission also discusses less bureaucracy and better targeted enforcement and monitoring and adapting procedural rules to an enlarged European Union

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.