

**"What have we learnt from the crisis and the policy response?"**

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Ladies and gentlemen,

Almost three years since the first signs of the financial turbulences that were the trigger of the biggest contraction of our economies in decades, the organisers ask us to address a very pertinent question: Have we learnt enough from the crisis? Are our responses so far at the level required to get out of the woods? Will our policies find the way out so as to avoid a protracted period of sluggish growth?

Let me first briefly look back at the early stages of the crisis, draw some lessons from this, and examine the EU policy response.

And then I will try to set out some priorities and discuss in particular our present strong focus on restoring competitiveness.

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There is now general agreement that regulatory failures relating to the financial sector were one of the key causes of the current financial and economic crisis.

The huge amount of risks that were spread all along the system, because these failures generate important contagion effects with a systemic effect. The big contraction suffered by the most relevant economies and the need for public intervention led to risk being shifted from the private sector to the public sector.

We knew from previous episodes of financial crisis that when States bail out entire banking sectors (i.e. unsecured creditors, hybrid capital holders, common shareholders), market discipline is muted, moral hazard risks become more entrenched, and future risk-taking is incentivised.

But because the systemic nature of many of the financial institutions rescued, the authorities had no other alternative than to intervene.

Going forward, in order to avoid the need for more State intervention, fundamental regulatory and supervisory reform is required.

Regulatory shortcomings are currently being addressed in various fora such as the FSB and the G20. A package of financial legislation is also making its way through the EU legislative process. But I will not focus on financial regulation in this context: as Commissioner for Competition I will try to draw today some lessons from the role that EU competition policy played in response to the crisis.

At the start of the current crisis, relevant voices called for the competition rules to be set aside. But the Commission continued to enforce the EU competition rules, and it is clear that this was the right decision.

We used special provisions in the Treaty to deal with exceptional circumstances to enable a more flexible enforcement of the state aid rules. The risk of serious disturbances to the economies of Member States justified this.

This framework allowed the Commission to draw up guidance for state aid – first to the financial sector and a bit later to the real economy.

### *Aid to the financial sector*

As regards the financial sector, the application of the specially devised state aid framework helped facilitate Member State intervention, thus avoiding financial meltdown.

On top of this, it ensured that national aid measures were non-discriminatory and complied with EU-wide criteria, and it gave the measures legal certainty. The EU state aid rules helped to ensure that we avoided damaging subsidy races between Member States, thereby preserving the integrity of the internal market.

Following the initial rescue phase, it has also facilitated the necessary restructuring of the banking sector, and helped put certain financial institutions back on the path towards viability, without state support.

The Commission, working together with ECOFIN, the ECB and our global partners, adopted in parallel some other important decisions. From the regulation of the rating agencies till the proposals to establish new European authorities for the coordination of the financial regulators, following the De Larosière ideas.

New initiatives will come soon: on derivatives, on the field of prudential rules, or in other domains.

In the meantime, and given the absence of a crisis resolution regime at EU level, the Commission's communications on bank recapitalisations, impaired assets and bank restructuring have acted as useful coordination and dispute-prevention devices.

Indirect coordination through state aid control has probably been the best available strategy to deal with the multiple challenges raised by the crisis. It has reduced distortions in competition between aided and non-aided companies, and incentives for excessive risk taking (moral hazard).

But even if the worst is starting to be behind us, we will need to continue to monitor developments in the financial sector in the coming years, both under the state aid and antitrust rules. And we are of course likely to be called upon to review certain acquisitions and divestments in the financial sector under the EU merger control rules.

### *The real economy – the Temporary Framework*

Turning now to what we decided to deal with the spread of the crisis into the real economy, one of our main challenges was the fact that non-financial corporations were not able to access the finance which was essential for them to remain in business.

In the EU, around two thirds of the financial needs of the non-financial corporations was channelled by the banking system.

In direct response to the negative impact of a credit squeeze on the real economy, the Commission adopted a Temporary Framework under the State aid rules to enable Member States to facilitate access to finance. The Temporary Framework is intended to be temporary – it is due to expire at the end of this year.

However, before taking the decision whether or not to prolong this Framework, the Commission is gathering information from Member States about its effects and effectiveness, and will draw its conclusions on the basis of that information, plus comments from third parties.

Indeed, one of the key indicators we will take into consideration will be the state of credit supply to creditworthy companies.

In the euro area, there has been a slight improvement in the credit available for households, but for companies – and in particular SMEs – credit growth is negative. And SMEs usually can't go to the capital markets for finance.

Without banking credit, what would happen to the EU economy? As in any other recovery, the demand for credit will increase at some point, and the financial sector needs to be ready with an adequate supply. If we have to face a credit-crunch this could trigger a double-dip and we would find ourselves in a very bad economic situation.

This is one additional reason why we have to continue to be rigorous in monitoring the restructuring of the financial sector.

But as soon as the credit conditions return to normal, the Temporary Framework should expire.

It is important to recall that the Temporary Framework is not an instrument to tackle the effects of the recession as such: if it is prolonged beyond what is essential, this may delay the necessary adaptation and restructuring in the economy.

Once the recovery is in place, we need to come back to our normal set of rules for State aid.

At the same time, I am aware that there is still considerable uncertainty regarding the strength of the current recovery.

To a large extent, growth in the past months was partially the result of the exceptional stimulus measures adopted by the governments and the EU authorities. Both

monetary and fiscal policies have reacted aggressively to sustain aggregate demand.

*Our priorities now: exiting from the crisis*

The moment has arrived to focus our priorities on the exit from the financial and economic crisis, and to ensure that Europe emerges from the crisis better equipped for balanced and sustainable growth.

This is the purpose of the new EU 2020 strategy, launched last month.

To reach its objectives, priority should then be given to normal State aid rules, for example in favour of SMEs, employment, research, or environmental protection.

Of course, aid must be phased out gradually, taking account of market conditions and the requirements of financial stability.

But there should be no doubt about our goal: we want to exit from state support, and a return as soon as possible to normal market functioning, for all market players.

State aid policy has the potential to contribute to the key priorities of EU 2020 by strengthening its role to safeguard the single market.

The role of competition policy is to support this process both in the financial sector as in the real economy.

We need a strong and vibrant EU banking industry capable of serving European businesses and citizens. Europe cannot afford to have "zombie banks" that stay alive but are too weak to lend to the real economy. Banks must be able to compete on the merits of their business strategies and not on the depth of the public pocket. The current market conditions should be used by these banks as an opportunity to address their underlying problems.

The longer term aim of EU 2020 is to deliver sustainable jobs and growth, with sound fiscal policies. Apart the contribution to the reform of the financial sector, how does competition policy help contribute to these objectives and make European business more competitive?

Competition encourages companies to innovate. They cannot rest on past successes. Instead, they are forced to

come up with new and better products so as to retain old customers and gain new ones. Competition encourages companies to adapt their business strategies to customer demands and to make investments for the longer term.

Competition encourages companies to allocate their resources in the most efficient way.

Competition contributes to achieving more choice, better quality and lower prices for consumers – and it is worth remembering that businesses are consumers too, and that they benefit from competition in all the goods and services they purchase.

Ultimately, competition helps boost productivity, growth and job creation.

The application of an EU-wide competition policy helps create a level-playing field for business across Europe. It creates opportunities for companies, which have access to a wider market for their goods and services.

It also creates challenges that improve their performance, as they find themselves competing with companies from across the EU.

Some argue that Europe cannot be competitive abroad as long as it imposes on itself a competition policy discipline in the internal market. They believe that the way forward is for the State to protect national markets, promote national champions, set up public barriers to competition and hand out public money to prop up inefficient businesses.

I can assure you: this is a recipe for failure.

We have weathered the financial and economic crisis by avoiding protectionism, and thanks to this we have better chances to expect that what emerges from this crisis will be a stronger economy.

But competition and the internal market are two sides of the same coin.

For Europe to be more competitive we need make sure that business can take full advantage of our European single market.

To that end I intend to use the antitrust rules to support competitive European frameworks in those areas where the internal market is failing. We have projects ongoing in quite a number of sectors, as financial services payments systems, energy, transport, pharmaceuticals, telecoms and the so-called Digital Agenda.

Of course, we need to promote Europe's capacity for research and development, for innovation and for entrepreneurship. In this regard, State aid for horizontal objectives such as research and innovation, jobs, regional cohesion, or environmental objectives, can keep distortions of competition to a minimum, and help achieve a Single Market that is open, integrated and competitive.

### *Conclusions*

Let me conclude.

Competition policy – and specifically state aid policy – has played and continues to play a central role in managing the effects of the recession, overcoming the crisis and putting our economies on the road to recovery.

The crisis has served to remind us of the importance and role of supervision and regulation, as well as competition enforcement. I will continue to work very closely with my colleagues in the Commission and indeed with the ECB, national governments, the Council, the European Parliament, to deliver this.

We are working hard to provide the appropriate regulatory and policy framework for the EU economy.

But the European industry must also strive to get back on its feet after what has been, and continues to be, a very difficult period. Short-term measures, such as state subsidies, only work in the short-term. In the longer term, the only way to be competitive and succeed globally is to compete on the basis of ideas, creativity, efficiencies and innovation.

Through a rigorous European-wide implementation of EU competition rules we can help industry achieve these long term goals of competitiveness and growth. This is my aim during the next few years.

You also have responsibilities, and I count on you all to take forward this message about the benefits of competition and to set yourselves again down the path towards competitiveness, economic recovery and growth.

Thank you.