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State aid: Commission prolongs crisis framework with stricter conditions – trend towards less and better targeted aid continues despite crisis-related spike

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

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Ladies and Gentlemen,

The European Commission today decided to prolong into 2011, with some modifications, the special State aid rules that allow Member States to preserve financial stability and to ease access to finance for the real economy.

As you remember, in 2008 the Commission introduced a comprehensive and extraordinary set of State aid rules to address the consequences of the economic and financial crisis.

Two years later, the economic **recovery is taking hold**, as shown in the Commission's autumn forecasts. But, although the situation of the banking sector has improved, the situation remains fragile.

Maintaining the availability of support measures will continue to serve as a **safety net** given the continued volatility in the financial markets. At the same time, we will continue the process of a **gradual phasing out** of the crisis rules and of the exceptional levels of state support.

State Aid Scoreboard

The State Aid Scoreboard published today, shows that the amounts committed, or even granted, to the financial sector are very important. Most of it in the form of guarantees, as can be seen from the first table attached to the press release (IP/10/1635). Of the total €4.5 trillion committed and approved by the Commission, nearly €4 trillion amounted to guarantees either through general schemes or ad hoc interventions.

Guarantees do not necessarily translate into a cost for taxpayers. They are generally guarantees of loans and if the banks repay those loans there is no or little cost for the State.

New rules for banks in 2011

The Commission today decided to maintain the crisis-related state aid rules for banks. The only change is that from the 1st of January, all banks receiving support in the form of capital or impaired asset measures, regardless of the size of the support, will have to submit a restructuring plan. Until now there was a threshold to distinguish between banks fundamentally sound and banks in need of restructuring, but two years into the crisis it makes little sense to continue with this distinction.

By the way, this is not the first step in the gradual exit strategy. The first step was taken in July this year with the tightening of the conditions of the government guarantees.

Our key message is that banks have to prepare for a return to normal market mechanisms without State support. The new rules also represent an incentive for aided institutions to accelerate the necessary restructuring.

Having said this, when assessing the restructuring needs of a bank, the Commission will, of course, take into consideration its specific situation, why it needs public support, its business model and future viability.

The real economy

Turning to the State aid to the real economy and looking first at the **long-term trends** – so excluding the support during the crisis – it is heartening to see that 'traditional aid' remained broadly stable at €73.2 billion in 2009 and that Member States continued to re-direct aid towards horizontal objectives of common interest such as research, innovation and environment protection, which is what will help Europe reach its strategic objectives of smart, sustainable and inclusive growth.

The support under the **Temporary Framework** amounts to a total of €81.3 billion in commitments in 2009, as can be seen in the Scoreboard. The aid actually spent in 2009 was even lower at 'only' €2.2 billion. This shows companies may have been able to finance themselves or needed less funding as the economic outlook was uncertain. I should stress that our figures do not include 'cash for clunkers' or other general support measures that are not formally State aid.

In any case, here too we need to prepare a gradual return to the normal operation of the market. Without that, we will not generate the long term growth that the European economy needs.

The Commission, therefore, agreed to prolong the Temporary Framework but with some changes.

We have maintained the possibility to provide subsidised guarantees and subsidised loans for SMEs because they are the ones who continue to have problems accessing credit.

Having concluded that the temporary risk capital measures were worth keeping, we modified the Risk Capital Guidelines to increase from €1.5 million to €2.5 million the maximum equity or other finance that a Member State can invest in a start-up company. Private equity investors have moved towards less risky investment during the crisis making difficult access to finance for start ups especially at their early stages. The modified guidelines are set to expire at the end of 2013, so we will revise the situation then.

In addition, as companies are still having difficulties in finding adequate trade insurance coverage from private insurers, the Commission has also extended the procedural simplifications on short-term export credit insurance that were introduced by the Temporary Framework. Similarly, we prolonged the Communication on short-term export credit, which was due to expire at the end of 2010, until 31 December 2012.

On the other hand firms in difficulty will no longer benefit from the Temporary Framework but rather be examined under the normal Rescue and Restructuring Guidelines when they receive State support, to ensure that their restructuring is not being delayed and that State money is used to return to viability.

Subsidised working capital loans and guarantees for large firms are now also excluded from the Temporary Framework as they have better access to finance.

We have also decided not to prolong the so-called €500,000 maximum aid a company can receive without notification and to return to the standard €200,000 de minimis rule.

The new Temporary Framework will enable our firms to export and continue innovating in difficult times but, as in the banking sector, will also encourage restructuring when necessary.

To conclude, with today's package of measures, the European Commission is continuing to support the work of Member States. We are moving out of the worst of the crisis, and moving towards recovery.

If the current recovery continues, we will return to the normal application of the State aid rules in January 2012.