

Neelie Kroes

European Commissioner for Competition Policy

The role of state aid in tackling the financial & economic crisis

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

Introductory remarks at press conference

Brussels, 8th December 2008

Ladies and Gentlemen,

I am going to speak to you today concerning state aid policy in the context of the current financial crisis and economic slowdown. My message is very simple – by applying the EU's state aid policy and working together with Member States, the European Commission is determined to ensure that fewer jobs are lost and that the recession is shorter and shallower than it would otherwise be.

In the context of the financial crisis and the recession, together we shall stand or divided we shall fall. Let me be crystal clear – the European Commission is determined to work with Member States to ensure that we do not end up with an “I'm alright Jack Europe” or to put it another way “l'Europe de chacun pour soi”.

The best way to limit job losses and economic damage is to maintain the integrity of Europe's Single Market through, amongst other things, the application of the EU's state aid policy.

The EU's state aid policy is the ideal framework for ensuring effective coordination of Member States policies to counter the financial crisis and to tackle the recession. By applying the EU's state aid policy and working together with Member States we will ensure that by solving one problem we do not create new problems – that one Member States' problems are not exported to other Member States provoking a downward spiral of retaliatory measures.

There is no question of a one-size-fits-all approach because each Member State's authorities are best placed to judge which measures are best suited to its own circumstances and way of doing things. What we are talking about is coordination of Member States' measures within the framework of the EU's state aid policy.

I am here today to announce that the European Commission has adopted a new State aid Communication on the recapitalisation of banks in the current crisis. This document will complement the guidance already adopted on 13 October on the rescue of banks in the current crisis. This document corresponds to a new stage of our collaboration with Member States and of our joint learning-by-doing.

Following the Commission's adoption of the guidance on recapitalisation of banks, I can announce you that the Commission will adopt the French recapitalisation scheme today, and that it will shortly approve the Austrian scheme. I also expect that Germany will be requesting an adjustment of their national scheme, which should accommodate an agreed solution as regards Commerzbank.

I also would like to announce that the Commission will shortly adopt a new framework of State aid measures that will complement the package already delivered by State aid reform in the last three years, to support growth through the recession period.

First, let me say a few words on the recapitalisation paper, just adopted. Some weeks ago, the main focus of recapitalisation by Member States was about saving distressed banks from difficult market conditions and risk of insolvency. This is what happened for instance in the case of Fortis and Dexia. Just a few weeks ago, there was a very real risk that the world financial system faced collapse. Swift, co-ordinated action saw off the immediate threat. Rapid and effective intervention by national governments stabilised the financial system. Slowly but surely, the measures start working. The guarantee schemes are re-starting the inter-bank market and the banks are absorbing the losses linked for instance to structured products through their recapitalised balance sheet.

But this crisis is a fast moving beast. In the last weeks, the target has moved to the real economy. President Barroso's European Recovery Plan, which has won broad support from Member States, is a major step forward. In this crisis, we have moved beyond needing to shore up the banks. Now, financially sound banks may need state capital not to survive, but to provide enough loans to companies in the rest of the economy. State recapitalisation can be an alternative to de-leveraging the balance sheets of the banks.

Where state capital is needed, we also need safeguards.

- Safeguards that ensure the state capital is used to sustain lending to the real economy and not to simply fund banks' expansion plans at the expense of those who get by without state support.
- Safeguards that encourage banks to end their reliance on state support as quickly as possible.
- Safeguards to ensure fair competition between banks, fair competition between Member States, and a fair deal for the people of Europe who, through their taxes, are paying for all of this.

Without these safeguards, not only will state intervention not help, it will make the situation worse.

The new Communication on recapitalisation was not easy to produce. There are not many issues more complex than setting the price of recapitalising a bank. There can be many types of capital, for banks with many different risk profiles. Some recapitalisation schemes may target both banks in need of capital to resist current market conditions and banks not in need of capital. To establish a benchmark, we benefited from discussions with the European Central Bank and with Member States. But most importantly, we stayed true to our guiding principles, to make sure that whenever State aid is used, it is really to serve financial stability and not to distort competition.

Secondly, I would like to say a few words about on-going cases. Over the last 10 weeks, the European Commission and the Member States have been working closely together and at rapid pace on a range of problems related to the financial crisis. We have had long days, short nights and no week-ends. Hundreds of billions of euros have been pledged by Member States to the banking sector. More than 20 decisions were taken by the Commission, approving these schemes. We have all learned a lot, and improved the design of the measures very much through a trial-and-error process.

Some negative publicity was made last week, which I found unfair. The Commission is not an army of bureaucrats trying to annoy Member States. We are a lean organisation –less than 50 experts are actually dealing with the banking cases- and most importantly, we are a partner, not an obstacle. We are engaged in a pro-active process, to help Member States design their State aid schemes for banks in the best way, making sure that the national interest is in line with the European interest, so that the Internal Market, our most precious asset in these times of crisis, is preserved.

Typically, we work with Member States as soon as announcements are made, when they write the implementation decrees that transform the announcements into reality. Our action is not a simple rubber-stamping exercise. Our added value is that we bring a European angle to issues that Member States naturally view from their national perspective only. This makes sure that national aids not only support financial stability but also limit distortions of competition, and most importantly avoid creating problems for other Member States. This is why State aid rules have been part of the European solution to coordinate national initiatives.

State aid rules take care of all 27 Member States and all 500 million people. They are sophisticated enough to cope with the differences, and strong enough to cope with the difficulties. They give national governments the freedom to take aim at the root causes of the crisis, but stop them from shooting themselves in the foot, or their neighbours in the back. This is why most of our positive decisions were based on a series of improvements in the design of the State aid. This is exactly what happened in the French recapitalisation scheme: the remuneration was increased overall, with better exit incentives and better commitments as regards the financing of the economy. But I could give you many more examples of this collaboration – not confrontation. I would have been more popular in some Member States if I had approved every measure presented to me. But that would have simply stored up problems for later. And that is why I have insisted on changes to a great many of the schemes, and a great many of the individual rescues that have been put before me.

Changes that ensure that taxpayer money is well spent; changes that give the rescues a greater chance of working; changes that keep us away from beggar thy neighbour policies that risk beggaring us all.

Finally, let me say a few words about a new framework that is in preparation in the Commission. As part of the Barroso European recovery plan, I intend to present by Christmas some additional measures to the already vast possibilities for Member States to give targeted aid. We already have many rules that are available and ready to use. But we also need to help Member States with instruments that cope with the transmission of the financial crisis to the real economy.

Measures for the banking system are fundamental to ensure the blood circulation in our economy. However, bold action is needed also on the State aid side and I am strongly determined to adapt our rules to the benefit of European economy. I therefore intend to authorise the quick grant of higher amounts of State guarantees, State loans and to provide for higher de minimis aid without notification. This will help financing of the real economy through investment, but also through coping with temporary liquidity difficulties and stress on working capital.

In this process, transparency is also paramount. The transparency of the level playing field will help to breed confidence.

With the current state aid rule Member States have a great tool-box with which to get to work to improve Europe's competitiveness while preserving a level playing field. The Commission will not get in the way of the measures necessary to help recovery. But nor will the Commission just step aside.

I expect to see further schemes and recapitalisations approved this week and more State aid approved in the coming months. I can confirm that the Commission is ready to act very quickly. I am determined to continue supporting Member States in their efforts to cope with the crisis. Because when we play by the same rules, this union of 27 Member States is stronger.