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State aid rules for long-term competitiveness

> The European Union needs to strengthen its long-term competitiveness taking into account the whole EU toolbox of policy instruments. The fundamental building blocks for industrial policy to foster competitiveness are stable framework conditions. Focus must be redirected from short term state aid relaxations towards what the EU needs long term.

Europe faces a new geopolitical situation due to increased tensions after a series of shocks to the global economy. This development challenges the resilience of the EU state aid framework, and we need to ensure that state aid policy supports our long-term competitiveness. With a view to the next Commission and upcoming discussions on the reports on the future of the Single Market and the future of European competitiveness, we call for a policy renewal that recognizes that a level playing field is at the core of a healthy, competitive, and productive economy.

What is state aid for?

A strict state aid framework and state aid control has been a cornerstone of EU competition policy, aimed at preserving the integrity of the Single Market. The rules are based on the existence of market failures as a key condition for determining where state intervention can enhance competitiveness. This must remain the principle. Undertakings need to compete on the market based on their offer and excellence, not with the amount of aid received.

Our common state aid framework should be used to target local, regional, and European needs. A core value of state aid rules has been to enable Member States to provide classic state functions to its citizens, such as energy supply, roads,

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railways, housing, and other general welfare functions. This does not always entail state aid, but it is important that the rules envisage funding for these basic functions. Horizontally applicable rules ensure a level playing field. Established state aid rules (CEEAG, IPCEI, GBER[1]) have recently been revised to enable public support for the green and digital transition. Research, development, and innovation are core elements of the rules especially to foster excellence. Public funds must not crowd out private investment and risk sharing will continue to be an important element especially in RD&I funding.

State aid rules fit for purpose

We stress the need for a cautious and evidence-based approach regarding changes to the EU state aid framework. State aid rules should be continuously monitored and, in line with the Better regulation agenda, revisions must be based on thorough problem analysis and impact assessments. The Commission should work closely with all Member States and use scientific evidence when available and ensure stakeholder consultations. State aid as a policy tool to accelerate the digital and green transition, stimulate innovation, strengthen resilience, and reduce vulnerabilities, should be evidence-based, targeted, proportionate, and WTO-compatible, with sufficient safeguards to preserve a level playing field. State aid rules must be consistent with EU policies and tools serving the digital and green transition, including Cohesion Policy or Member States' national recovery and resilience plans. Further, the topic of impact of state aid on the integrity of the Single Market should be included in the annual monitoring of EU long-term competitiveness. Dedicated Key Performance Indicators could be established to identify potential risks of fragmentation of the Single Market.

The risks of a subsidy race on the Single Market and globally

Efforts to promote the EUs economic security must not undermine basic principles of the Single Market or the multilateral trading system. We are concerned that a focus on loosening of state aid rules could trigger a subsidy race not only globally but also between Member States. This would create disruptions in the Single Market and could endanger our fiscal stability. To some extent, Member States experience that companies are "forum shopping" aid under the TCTF[2] to place their productive investments in a particular Member State. Aggregated data shows that temporary crisis frameworks have led to major differences in aid levels among Member States, which risks exacerbating

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[1] Climate-, energy- and environmental guidelines; Criteria for important projects of common European interest; General block exemption regulation)

[2] Temporary Crisis and Transition Framework for State Aid measures to support the economy following the aggression against Ukraine by Russia

inequalities, also along geographical lines, on the Single Market[3]. For these reasons it is important that temporary relaxation of state aid rules does not turn into a new paradigm of rules. Instead, the Commission should explore ways to mobilize private investment. To this end, deeper and better integrated European capital markets are vital for mobilizing private capital for investments. Realizing the Capital Markets Union is a key element in this regard.

A level playing field is the basis for innovation capacity, the potential for start-ups, SMEs and growth and development of undertakings as well as the geographically balanced development of the EU. The state aid framework should be fit for purpose to ensure long-term stability. The phase-out of the transition part of the TCTF is crucial. Matching aid, in particular, risks the integrity of the Single Market, as it is specifically intended to influence the beneficiary to choose to locate and retain their investment in the granting Member State over all other locations. Use of state aid beyond the need to address a market failure and necessary and proportionate funding, or respond to a crisis, risks stifling innovation and productivity. Lessons must be drawn from the application of the temporary frameworks regarding the use of the least distortive instruments and what to do in future crises. A more granular approach to evaluate the impact of those instruments is needed.

Long-term competitiveness

The EU faces a new geopolitical environment which requires a reinvigoration of EU long-term industrial policy. We want to feed into this discussion by focusing on the role of state aid and alternatives to state aid in the broader EU policy toolbox.

We stress that there are alternatives to the loosening of state aid rules. What businesses of all sectors and sizes call for are clear and predicable framework conditions, simplification of regulatory burdens, faster permitting procedures, enhanced innovation capacity, skilled work force, less barriers on the Single Market, a large trade network with third countries, well-functioning capital markets and more. We need to aim for a sustainable industrial policy.

It can be relevant, based on thorough analysis, to promote increased economic activity and production in specific sectors. To do that, we need coordinated and structural responses at the EU level. Analysis and measures need to focus on the problem at hand. The European Critical Raw Materials Act (CRMA), the

[3] https://competition-policy.ec.europa.eu/system/files/2023-06/state_aid_scoreboard_note_2022.pdf on COVID-19 spending; https://competition-policy.ec.europa.eu/system/files/2023-12/State_aid_TCTF_decisions.pdf on TCTF budgets

European Chips Act and the Net Zero Industry Act (NZIA) are examples of long-term industrial policy instruments that include a wide range of tools. This type of instruments could be further discussed and developed. These legislative acts refer to the possibility to grant state aid in pursuit of their respective objectives. It is important that sectoral policies do not create new opportunities to grant state aid, outside the state aid framework. Future growth is dependent on market access and sustainable and resilient supply chains. This also encompasses high environmental and social standards. The diversification of supply chains is facilitated by free trade and investment agreements as well as international partnerships. Accelerated negotiation and ratification of these must be a priority.

Open and sustainable trade, governed by the rules-based trading system, remains another indispensable pillar for enduring competitiveness. There are already defensive instruments at our disposal, to counter unfair competition from third countries, in duly justified cases. We also support the EU's effort to pursue an ambitious trade policy agenda, pushing to strengthen global rules and transparency on harmful industrial subsidies. This is essential since a global subsidy race damages our economies, increases the risk for trade conflicts and undermines necessary cooperation. The EU's ability and credibility to promote this agenda and thereby tackle distorting subsidies by third countries is dependent on the robustness of EU state aid policy.

Yours sincerely,

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