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REPORT

on the Commission's eighth survey on state aid in the European Union
(COM(2000) 205 – C5-0430/2000 – 2000/2211(COS))

Committee on Economic and Monetary Affairs

Rapporteur: Jonathan Evans

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PROCEDURAL PAGE

By letter of 3 May 2000, the Commission forwarded to Parliament its eighth survey on state aid in the European Union (COM(2000) 205) – 2000/2211(COS)).

At the sitting of 8 September 2000 the President of Parliament announced that she had referred the report to the Committee on Economic and Monetary Affairs as the committee responsible and the Committee on Industry, External Trade, Research and Energy for its opinion (C5-0430/2000).

The Committee on Economic and Monetary Affairs had appointed Jonathan Evans rapporteur at its meeting of 23 November 1999.

The committee considered the Commission report and the draft report at its meetings of 10 July 2000, 28 August 2000, 13 September 2000 and 11 October 2000.

At the last meeting it adopted the motion for a resolution by 30 votes , with 4 abstentions.

The following were present for the vote: Christa Randzio-Plath, chairwoman, Ioannis Theonas, vice-chairman, Jonathan Evans, rapporteur, Richard A. Balfe, Luis Berenguer Fuster, Pervenche Berès, Renato Brunetta (for Alejandro Agag Longo), Hans Udo Bullmann, Ingo Friedrich (for José Manuel García-Margallo y Marfil), Robert Goebbels, Christopher Huhne, Liam Hyland, Pierre Jonckheer, Othmar Karas, Giorgos Katiforis, Piia-Noora Kauppi, Gorka Knörr Borràs, Wilfried Kuckelkorn (for Simon Francis Murphy), Werner Langen (for Christoph Werner Konrad), Alain Lipietz, Astrid Lulling, Peter Michael Mombaur (for José Javier Pomés Ruiz), Fernando Pérez Royo,Bernhard Rapkay, Karin Riis-Jørgensen, Amalia Sartori, Olle Schmidt, Peter William Skinner, Charles Tannock, Marianne L.P. Thyssen, Helena Torres Marques, Bruno Trentin, Theresa Villiers and Karl von Wogau.

The Committee on Industry, External Trade, Research and Energy decided on 13 September 2000 not to deliver an opinion.

The report was tabled on 11 October 2000 .

The deadline for tabling amendments will be indicated in the draft agenda for the relevantpart-session.

MOTION FOR A RESOLUTION

European Parliament resolution on the Commission's eighth survey on state aid in the European Union (COM(2000) 205 - C5-0430/2000 – 2000/2211(COS))

The European Parliament,

– having regard to the Commission's eight survey (COM(2000) 205[1] - C5-0430/2000),

– having regard to the Commission report (COM(2000) 83[2])

– having regard to the Commission's XXIXth Report on Competition Policy 1999 (SEC(2000) 720[3]),

– having regard to its resolution of 18 January 2000 on the Commission Report on the implementation in 1998 of Commission Decision n° 2496/96/ECSC of 18 December 1996 establishing Community rules for State aid to the steel industry (Steel Aid Code)[4],

– having regard to Articles 87, 88 and 89 of the EC Treaty,

– having regard to Rule 47(1) of its Rules of Procedure,

– having regard to the report of the Committee on Economic and Monetary Affairs (A5-0281/2000),

A. whereas State aid that may distort conditions of competition within the European Union are subject to strict Treaty rules,

B. whereas State aid is a key element of the European Union's competition policy, as defined in Articles 87 to 89 of the EC Treaty,

C. whereas the Commission has been granted a central role in ensuring that Member States comply with the terms of the Treaty,

D. whereas in the case of compatible, and hence Commission-approved state aid, it is necessary not only to detail the specific objectives it is designed to achieve, but also to ensure democratic scrutiny,

E. whereas it is necessary to strengthen the European Parliament's role in scrutinising Commission-approved aid and monitoring of whether such aid has been used to attain the objectives set out in the Treaty,

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[1] OJ C not yet published.
[2] OJ C not yet published.
[3] OJ C not yet published.
[4] OJ C not yet published.

F. whereas failure to abide by the Community rules on State aid has resulted in Member States being brought before the European Court of Justice,

G. whereas the Commission has decided to create an exemption for smaller amounts of aid, as defined by the *de minimis* rule,

1. Reiterates that EU State Aid control is centred on the principle that while State Aid is incompatible with the common market, the granting of such aid by Member States can be justified in exceptional circumstances;

2. Regrets that the eighth survey reveals that levels of State aid granted by Member States have increased in the majority of EU countries, and calls on the Commission to continue to pursue a rigorous policy particularly in controlling sector specific and ad hoc state aid;

3. Asks the Commission not to disregard cases of small-scale state aid; points out that small amounts of state aid in a small market can have a relatively more devastating impact on SMEs than large amounts of state aid do in a large market in which large firms operate;

4. warns in particular against the potentially harmful role of State aid when it comes to inciting the relocation of companies from one Member State to another, which may lead to subsidy shopping by enterprises without any value added for the common goals of the EU;

5. Welcomes Commissioner Monti's personal commitment to the introduction of a State aid Register and Scoreboard, and supports the Commissioner's timetable for such publication;

6. Applauds the Commission's determination to improve transparency regarding State aid by securing the production of regular and detailed information from Member States;

7. Considers that adoption of Regulation 659/99 constitutes substantial progress in terms of the processing of cases of government aid, although it does not resolve some of the problems revealed previously, e.g. the time-limit for settling cases, intervention by non-State administrations granting aid, by undertakings receiving such aid and by consumers;

8. Reiterates its regret that data on State aid continues to be given only in aggregated form, and calls for more detailed information to be published on the purposes of aid granted, the sectors concerned, and the companies receiving such aid;

9. Calls on the Commission to enforce decisions concerning the repayment of wrongly paid state aid effectively and to present relevant proposals;

10. Maintains that the European Parliament must receive information on the monitoring of government aid approved by the Commission;

11. Emphasises the importance of investigating whether tax schemes and state aid have the effect of distorting competition and calls on the Member States to supply the necessary information to the Commission;

12. Urges the Commission to bring forward proposals for the extension of the Steel Aid Code (Commission Decision 2496/96/ECSC of 18 December 1996) beyond 2001, in order to ensure the effective control of State aid in the Steel sector;

13. Notes that notwithstanding the significant State aid granted to the coal industry, the medium term prospects for the industry have not been secured, largely due to the lack of major structural change in coal producing firms, and the absence of competitive pressure;

14. Considers that, despite the 18% reduction in aid to the motor vehicle industry in the 1996-98 period compared with the 1994-96 period, account should be taken of the growing European Union overcapacity in this sector

15. Shares the Commission's view that foreign direct investment support measures may be compatible with the common interest if they promote the competitiveness of European industry;

16. Is concerned for the European shipbuilding industry; calls for an assessment of the consequences of possible South Korean state aid to the shipbuilding industry after 31 December 2000;

17. recognises that ad hoc aid to the air transport industry has decreased in the last period, but notes that this aid adds to the already heavy subsidies to the sector by tax exemptions, which goes unnoticed by the Commission despite their distortive effects with regard to other means of transport;

18. Considers that tax exemptions and subsidies in the field of environmental protection may help bring in modern technologies that increase renewable energy use and energy-saving and help reduce emissions;

19. insists that the Commission presents proposals directed to making all Member States introduce fiscal instruments for CO2 emissions, thus avoiding possible distortions of competition;

20. Urges the Commission to ensure in enlargement discussions ***with the*** candidate countries for accession ***on*** EU State aid control ***that account is taken of the particular situation of these countries and that specific regulation before accession and transitional periods after might be necessary to allow for the creation of a***

diversified, competitive and environmentally sustainable economic structure in these countries and to avoid unnecessary destruction of the productive system of those countries;

21. Calls for the Commission to review the presentation of the 9th survey of State aid to include a more detailed assessment of the application of State aid control to the financial services sector, recognising that the sums of State aid granted in this sector can have disproportionate effects upon competition;

22. Whilst welcoming the move to the annual publication of the State aid survey, calls on the Commission to incorporate in future surveys a chapter assessing developments since the reporting period, including the Commission's assessment of future trends;

23. Recommends that the Commission continue to be responsible for monitoring state aid and points out that state aid could increase further in the Member States if monitoring activity is decentralised;

24. asks for Parliament to be kept regularly informed about the opinions delivered to the Commission by the Advisory Committee on State Aid and on any deviating positions of Member States;

25 Instructs its President to forward this resolution to the Council and the Commission.

EXPLANATORY STATEMENT

1. Introduction

State aid that may distort conditions of competition within the European Union are subject to strict Treaty rules. The basic rules on State aid, as outlined in Articles 87 and 88 of the EC Treaty, stipulate that aid which distorts competition by favouring certain undertakings or the production of certain goods shall, insofar as it affects trade between Member States, be incompatible with the common market. The Commission has however decided to create an exemption for smaller amounts of aid, as defined by the *de minimis* rule. [5] In the light of the Commission's experience, it can be established that aid not exceeding a ceiling of € 100,000 over a period of three years does not perceptibly affect trade between Member States and/or does not perceptibly distort or threaten to distort competition.

The recent completion of the single market has increased the need for effective control of State aid. State aid has traditionally been used by Member States as an instrument of industrial and social policy. Within the single market however, State aid can frustrate free competition by preventing the most efficient allocation of resources. Furthermore it has the capacity to enable the less efficient to survive at the expense of the more efficient, therefore reducing economic welfare and weakening the incentives for firms to improve their efficiency. Public spending on aid can also burden taxpayers.

The Commission has been granted a central role in ensuring that Member States comply with the terms of the Treaty.[6] Failure to abide by the Community rules on State aid has resulted in Member States being brought before the European Court of Justice. Critics have accused the Commission of interfering with national sovereignty, because the freedom of Member States is limited when granting financial advantages to certain sectors of their economies. In recognition of these concerns the Commission has specified a number of cases where "exceptions" are considered acceptable. Under Article 87(2) State aidcan be justified under the following circumstances:

a) aid is of a social character, granted to individual consumers, provided that such aid is granted without discrimination related to the origin of the producers concerned;
b) aid to make good the damage caused by natural disasters or exceptional circumstances;
c) aid to the new German Lander.

Further conditions where aid *may* be considered to be compatible with the common market are outlined in Article 87(3). These conditions are:

a) aid to promote economic development of areas where the standard of living is abnormally low or where there is serious unemployment;
b) aid to promote an important project of common European interest or to remedy a serious disturbance in the economy of a member state;
c) aid to facilitate the development of certain economic activities or of certain

[5] The *de minimus* rule sets a ceiling at ECU 100,000 (cash grant equivalent) over a three-year period. Below this threshold figure Article 87(1) does not apply.
[6] Under Article 88 State aid control has been entrusted to the commission and the Commission alone.

economic areas;

d) aid to promote culture and heritage conservation where such aid does not effect trading conditions;
e) other categories as may be specified by decision of the Council acting by a qualified majority on a proposal from the Commission.

Member States must notify the Commission of any plans to grant State aid. The Commission has the discretionary power to decide if the proposed aid qualifies for an exemption.[7] Factors affecting the Commissions decisions are influenced by the size of the firm, its location, the industry concerned, the purpose of the aid etc. A series of "horizontal" rules have been adopted by the Commission to provide a framework or guideline for granting aid to different economic sectors. These frameworks or guidelines apply to the following categories of aid:

- Aid for small and medium-sized enterprises (SME's);
- Aid for research and development (R&D);
- Aid for environmental protection; and energy saving;
- Aid for the rescue and restructuring of firms in difficulty;
- Aid to employment;
- Training Aid.

The Commission has also adopted industry-specific or "sectorial" rules, which outline its approach to State aid in particular industries. These industries are divided into various sectors. For example sensitive sectors like coal, steel, synthetic fibres, motor vehicles and shipbuilding, are treated in a more restrictive manner than other sectors. In the agricultural and fisheries sectors State aid rules only apply to a limited extent, as defined by the Council according to Article 36 of the EC Treaty. For the transport sector, the Treaty contains special rules (Articles 73 and 76). Furthermore, Article 154 provides for Community support of trans-European networks.

A perceived lack of transparency in the Commission and Member States has resulted in the Commission regularly publishing State aid surveys. Since 1988 these Surveys were published every two years and in 1998 the Commission decided to publish surveys on an annual basis. These surveys employ a comparative method to measure the variation in the overall EU and national levels of state aid. The purpose of each Survey is to identify, analyse and draw conclusions on the data collected on the various forms of State aid.

2. Synopsis of the eight annual survey on State Aid in the European Union

The Eighth Annual Survey gives an overview of State aid granted from 1994 to 1998. It includes state aid granted in the manufacturing, agricultural, fisheries, coal, transport (railways, inland waterways, maritime and airline), and financial services sector. Sectorial coverage has been extended to include data on aid to tourism, media and culture. For the first time aid to employment and training has been included, and aid to encourage reductions in

[7] Under Article 87(3), the Commission has extensive powers to assess whether aid is compatible with the common market. Article 88(1) requires the Commission to keep the systems of existing aid under constant review. Article 88(3) requires Member States to acquire the Commission's prior agreement before they can put their aid plans into effect.

CO_2 and other gas emissions has also been highlighted. In order to exemplify changing trends over time, the analysis concentrates on differences between the annual average over the three-year-periods between 1994-1996 and 1996-1998.

Part 1 – Aid to the Manufacturing Sector

State aid to the manufacturing sector attracts more aid than any other sector accounting for 35% of the total volume of aid granted in the Community. The analysis of this sector is the centrepiece of the survey.

Since 1994 State aid to the manufacturing sector has continued on a gradual downward path. For example aid fell from €38531 million in 1994-96 to €32639 million in 1996-98. An analysis of each Member State reveals that the majority of the reduction in State aid granted to the manufacturing sector can be attributed to the new German Länder and Italy. Smaller reductions were also seen in Belgium, Spain and Portugal, but levels of aid actually increased in the ten other Member States. There appears to be a gradual long-term upward trend in aid levels in Austria, Denmark, Ireland, Luxembourg and Sweden. It is important to remember however that there are still huge differences in the amount of aid granted in each Member State.

A downward trend can be observed when aid to the manufacturing sector is expressed as a percentage of value added, for rates fell from 2,8% in 1994-96 to 2,3% in 1996-98. Overall amount of aid per person employed has decreased annually from €1357 in 1994 to €1007 in 1998.

The share of aid in the four cohesion countries (Greece, Ireland, Portugal and Spain) has increased from 8% (1994-1996) to 9% (1996-1998). Aid toward the new German Lander has accounted for approximately 26% (or €8607 million) of the total state aid for manufacturing. The share of aid in the four major economies (Germany, UK, France and Italy) has decreased from 84% between 1994-1996 to 80% between 1996-1998.

The Survey categorises aid in the manufacturing sector depending on whether the objective of the aid is horizontal, sectorial or regional. National Regional aid is directed toward specific regions often co-financing Community Structural funds. If it often difficult to classify aid under one objective and therefore caution must be exercised when drawing conclusions about changes over time and between Member States. Keeping this in mind an estimated 57% of aid to manufacturing is spent on regional objectives, 35% on horizontal objectives and 8% on particular sectors.

Most EU countries devote a high percentage of their aid to horizontal objectives, accounting for 35% of manufacturing aid. Research and development (R&D) is given priority followed by small and medium sized enterprises (SME's). Rescue and restructuring accounts for 8% and is commonly associated with negative externalities, which has resulted in this type of aid being strictly controlled.

In shipbuilding, a sub-sector of the manufacturing sector, the Seventh Shipbuilding Directive governs the grant aid for both operating and restructuring. Contract related operating aid is dependent on aid ceilings laid down in the Directive, and covers new constructions and conversions. During the reporting period the aid ceiling was 4.5% of contract value both for ships with a contact value of less than €10 million and for conversions, and 9% of contract value for ships with a contract value of more than €10 million. Operating aid marginally decreased in all countries except France, and aid for the construction of ships for developing countries dropped 65% during the period 1996-1998. Restructuring aid increased from €655 million during the period 1994-1996 to €903 million during the period 1996-1998.

In the motor vehicle industry State aid is granted through regional, rescue, restructuring and training schemes. Due to the small number of cases it is hard to draw any concrete conclusions regarding general trends, but aid has decreased from €581 million (1994-1996) to €477 million (1996-1998). Countries with the highest amount of aid to the motor vehicle industry are Germany, United Kingdom and France. Recently the UK government proposed an aid package for the Rover plant in Birmingham. BMW decided to sell the plant before the aid package could be approved.

Government support measures to Foreign Direct Investment outside the EU may constitute State aid. This State aid can potentially have positive effects by promoting the competitiveness of European Industry. Funds can assist in the development of SME's and contribute to other Community objectives such as the adjustment of the economies in transition or economic development in the Third World.

Included in the category "aid for environmental protection" is a sub-category of schemes that some Member States have established to encourage a reduction in emissions of CO_2 and other gases. Environmental grants help industries adopt modern technologies that increase the use of renewable energies, contribute to energy saving and reduce emission levels. Tax exemptions are also granted, which help firms alleviate the tax burden caused by the Kyoto obligations on emissions. Many Member States have granted tax exemptions because they fear that the extra tax burden might result in undermining of the competitiveness of certain industries. It is for this reason that emission tax schemes have been introduced in a progressive way with energy-intensive industries being granted temporary exemptions.

Various types of aid instruments are utilised by Member States. For the purpose of classification these aid instruments have been broken down into groups. Group A includes different forms of government intervention like grants, interest rate subsidies and tax exemptions. Group A is the most frequently used form of manufacturing aid, with grants accounting for 58% and tax exemptions accounting for 23% of aid. Aid in the form of State equity participation is classified under Group B and represents only 4% of all aid to the manufacturing sector. Aid classified under Group C includes loans at reduced rates and tax deferrals, the former accounting for 11% of the total aid on manufacturing and the latter 1%. Tax deferrals (accelerated depreciation and the constitution of tax free reserves) are rarely used in the Community.

Aid to the manufacturing sector can be broken down according to the mode of financing. Budgetary expenditure, which is composed of grants, equity participation, soft loans, and guarantees, is the preferred way of financing. Budgetary expenditure is used in Austria and Spain to finance virtually all State aids, and it also used in Finland, Luxembourg and UK to finance more than 90% of aid. Tax forgone (tax rebates and deferrals) is used to the greatest extent in Belgium, Denmark, Ireland and Italy.

State aid is also granted on an ad-hoc basis, involving aid awarded through financial mechanisms that are not pre-established. The bulk of ad-hoc aid is given for rescuing or restructuring companies. Manufacturing aid for restructuring the steel and shipbuilding sectors accounted for approximately 50% of ad-hoc aid granted in 1994-1996 and 42% granted during the period 1996-1998. The remainder of the ad-hoc aid has been granted to rescue and restructure 55 companies. Ad-hoc aid decreased from 11% of manufacturing aid in 1994 to 4% in 1998. Total ad-hoc aid decreased from €18 billion in 1994 to €7 billion in 1998.

Steel Industry and the Steel Aid Code

Under Article 4(c) of the ECSC Treaty, subsidies or aids granted by States, or special charges imposed by States, in any form whatsoever, are prohibited. However, since 1981 when the first Steel aid code was drawn up, aid has been permitted in certain very restricted, clearly defined circumstances, which now cover aid for research and development, environmental protection and aid in the event of closure of steel plants. In these situations, the aid is deemed of benefit to the industry and yet is non-distortive of the market.

These rules are outlined in Commission Decision no. 2496/96/ECSC of 18 December 1996 establishing Community rules for State aid to the steel industry (Steel Aid Code), which will apply until the expiry of the ECSC Treaty in July 2002.

Within the Code, there is also an exceptional rule for regional investment aid, which is restricted to Greece and may not exceed a given ceiling.

This survey found that state aid to the steel industry averaged around €260 million during the period 1996-1998. This reflected a significant decrease of over 80 % when compared with the previous period 1994-1996. The bulk of aid during the latter period was granted under Article 95 ECSC Treaty for restructuring and reduction in capacity in the new German Lander, Spain, Portugal, Italy, Ireland and Austria. The reduction in aid granted in 1996-98 would indicate that this restructuring is now almost complete.

Part II – Aid to Agriculture

The average annual national budget outlays on the agricultural sector decreased from €14.515 million during 1994-1996 to €13.339 million during 1996-1998. These figures include direct payments, reduction of input costs and general services at the Community level.

Part III – Aid to Fisheries

The fishing sector receives certain amounts of State aid within the framework of the CFP. The average levels of aid decreased from €293.66 million (1994-1996) to €259.71 million (1996-1998).

Part IV – Aid to Coal Mining

The overall trends in aid per person employed decreased slightly from €46.656 (1994-1996) to €44.173 (1996-1998), partly due to the fact that aid notified by France has not been included since its figures are still under examination by the Commission.

Part V – Aid to the Transport Sector

In 1994 the Commission adopted strict guidelines on State aid to the air transport sector, which reinforce the 'one time last time' principle. This sector has gone through the process of gradual liberalisation, achieved since 1997. Ad-hoc aid for restructuring peaked in 1994, but it has since decreased significantly. Aid to this sector only represents 1% of overall aid or 3% of aid to the manufacturing sector.

In 1996 the Commission adopted a white paper outlining a strategy for revitalising and financing of railways. From the data available aid levels appear to have dropped during the period from 1996-1998. In 1997 the Commission tightened State aid guidelines in the maritime transport sector. This resulted in a general reduction in the amounts of aid granted, which is extremely low.

Part VI – Aid to the financial services sector

Amounts of aid granted to the financial services sector are relatively small when compared with overall aid figures, although a continued increase, albeit at a slower rate than that reported in previous Surveys, has been observed during the latest reporting period. Aid was granted to the financial services sector in France and to a much smaller extent, Germany, Ireland, Italy and Portugal. Its level has risen from an annual average of €1959 million in 1994-1996, to €3283 million during the current reporting period.

With the exception of Germany, Ireland and Portugal, this aid is almost entirely destined for major restructuring and is contingent upon, *inter alia,* reductions in the market shares of the companies' concerned. Moreover the restructuring of the companies concerned is often a precursor to their subsequent privatisation.

Given that the bulk of the aid granted in this sector benefits only a small number of companies, government support to this sector must be kept under constant watch and all current restructuring operations will continue to be closely monitored. This is particularly important in the banking sector where, given the solvency requirements that are imposed by European banking regulations, credit institutions' capacity for growth is limited. Until such time that they can either attract new capital or increase their own capital by way of increased profits, their room for manoeuvre is limited by the Community solvency ratio. As a result capital injections or equivalent forms of aid have a direct impact on the beneficiaries' operations and may distort competition far beyond what would be expected if only the nominal value of the aid were taken into consideration.

Part VII – Aid to tourism, media and culture

State aid for tourism, media and culture is provided by Member States by way of multi-sectorial SME's and regional aid schemes. The Commission has generally approved this spending under the regional frameworks or under general rules governing State aid. Italy is the main contributor to programs specifically supporting tourism. France, Italy, Sweden and the UK have granted above average levels of aid to promote media and culture.

Part VIII – Aid for employment and training

Incentive schemes used by Member States to stimulate or facilitate employment and training are generally available and therefore they do not apply specifically to any one sector. General employment measures are not always considered as constituting State aid, but schemes that are not generally available are more likely to be viewed by the Commission as containing elements of State aid. Italy grants large amounts of employment aid, followed by Spain, Belgium and Portugal. Britain and Denmark devoted large amounts of aid to training.

Part IX – Overall volume of national aid in the Community

The overall National State aid granted in the EU between 1996-1998 was €93.127 billion, which is a decrease from the €104.215 spent on aid during the period 1994-1996. If the overall figure is broken down into sectors, State aid is decreasing in almost all sectors with the exception of media and culture, and financial and other services. The bulk of the decrease is from the manufacturing and rail transport sector, but it is important to remember that aid levels are still very high in these areas. It is also important to note the disparities in the levels of aid granted in each Member State. State aid as a percentage of GDP is especially high in Portugal, Italy, and Germany, whereas percentages in the Finland, United Kingdom, Luxembourg and the Netherlands are comparatively low. If analysis is extended to Euro per person employed Germany and Italy are the highest with over seven hundred Euro, and Finland and United Kingdom are lowest with fewer than 300 Euro per person.

3. Results

Although the overall level of State aid has decreased in every Member States except France, Ireland and Portugal, large disparities in aid volumes still exist between countries. The largest decreases occurred in Germany and Italy, which reduced their aid by €8 billion and €2 billion respectively. Aid awarded to the manufacturing sector has decreased by 15%, but the drop can be almost exclusively attributed to decreases in the aid levels in Germany and Italy. The share of aid in the manufacturing sector has decreased from 84 to 80 percent in the four big economies (Germany, Italy, France and the UK), whereas aid has increased from 7.8 to 9.3 percent in the cohesion countries. The largest share of manufacturing aid in the Union is spent on regional objectives, which is targeted at the least developed regions. Sectorial aid in manufacturing has dropped to 8%.

Budgetary expenditure is still the preferred form to award State aid as opposed to tax foregone. Ad-hoc aid still represents a relatively large but continually decreasing volume of aid. The overall aid levels have decreased from €104 billion during 1994-1996, to €93 billion during 1996-1998. Aid decreased in almost every sector except financial and other services, and media and culture.

4. Conclusions

To ensure the lasting economic success of countries both within and outside of the eurozone, continued budget discipline is necessary in every Member State. The Survey argues that decreases in aid is a reflection of budget discipline, but levels of aid reported are still high and represent a significant margin for manoeuvre in regard to further efforts to improve the efficiency of public finance. State aid control has a pivotal role to play in facilitating structural change in the European economy by helping to remove publicly induced obstacles. This should facilitate long-term improvements in the competitiveness of European businesses and therefore an increased ability to compete at a global level. The Commission also recognises the need to reduce the cohesion gap under the current State aid controls.

The Commission approves aid for many purposes where there is considered to be a common interest. Examples of acceptable State aid include R&D, SME's, environmental protection, training, employment and regional aid. The Survey argues that continuing high levels of aid necessitate the continued pressure on Member States to reduce aid levels especially in the manufacturing area. New State aid guidelines and frameworks are being drawn up to fine tune existing rules, and it will continue to draft guidelines in new areas like environmental protection and employment guidelines. The Commission is also examining the role of State aid in Venture capital markets and it will continue to monitor developments in newly liberalised sectors like energy.

The Commission report from 26 January, 2000 on economic reform stresses the importance of maintaining the overall downward trend on State aid and it recommends that Member States make additional efforts to avoid sector specific and ad-hoc aid. The report highlights the need for strategies to be developed to reduce overall State aid by increasing transparency. The report argues that aid should be oriented toward horizontal goals and should only be granted where it can be justified on economic grounds. The State aid should provide a clear welfare gain, which is in the common interest and for purposes such as regional development, environmental protection, R&D and innovation.

Increased transparency will be implemented in the coming months by laying the foundations of a State aid register and Scoreboard. Commissioner Monti has consistently expressed his support for this initiative and promised the compilation of such a State aid scoreboard. Your rapporteur supports the Commissioner's timetable for such publication. The Survey also recognises that improvements in the collection and quality of the data will increase transparency. Therefore further and speedier progress in implementation of a register and scoreboard is essential.

Concerning improvements of the survey itself, your rapporteur regrets that data on State Aid continues to be given only in aggregated form. Therefore, in future more detailed information on the purposes of aid granted, the sectors concerned, and the companies receiving such aid should be published. With view of the ninth survey, the Commission should review the survey to include a more detailed assessment of the application of State aid control to the financial services sector, since the sums of State aid granted in this sector can have disproportionate effects upon competition. Furthermore, the Commission should incorporate in future surveys a chapter assessing developments since the reporting period, including the Commission's assessment of future trends.

The Commission hopes to continue to reduce the gap between the level of State aid granted in the richest Member States and in the four cohesion countries. With enlargement it has become necessary to ensure that Community State aid standards are also implemented in candidate countries.