PRESS RELEASE FOR IMMEDIATE RELEASE

"The voice of crafts and SMEs in Europe"

State aid: Barroso gives Member States licence to burn money

State aid rules against crisis contain many positive points but a dangerous increase in "de minimis" aid

Brussels, 17 December 2008 – UEAPME, the European craft and SME employers' organisation, was left with mixed feelings by the temporary State aid measures presented by the European Commission as an answer to the economic crisis today (Wednesday). The organisation appreciated the EC's analysis of the current downturn and the measures it put forward on aid in form of guarantees, subsidised interest rates, subsidised loans for green products and risk capital measures. However, the new rules also foresee an increase of the so-called "de minimis" aid that can be given to private enterprises without prior notification to the European Commission from 200.000 EUR over a three-year period to 500.000 EUR per year for 2009 and 2010. According to UEAPME, such a sudden and steep increase is likely to distort competition both within and between Member States, hide funds from public scrutiny and trigger a subsidy race at taxpayers' expense with no concrete benefits for SMEs.

"We share the Commission's analysis and we certainly agree that State aid rules need to be adapted to the current economic downturn. While the diagnosis is correct, however, the therapy prescribed by the EC is not totally appropriate and might trigger serious side effects", commented Secretary General Andrea Benassi. *"For one thing, raising the amount of State aid that can be given without notification will increase the danger of these funds being misused to back all kinds of champions instead of small enterprises. This decision will generate unfair competition between enterprises, since only a lucky few will enjoy the aid, and a dangerous subsidy race at taxpayers' expense between Member States"*, he continued.

UEAPME has always pointed out that this "de minimis" aid is perhaps the most opaque and potentially market distorting instrument out of all possible State aid measures, explained Mr Benassi. Moreover, a seven-fold increase is definitely too much: *"companies that will not receive funding will find themselves at a competitive disadvantage that is now seven times bigger than before"*, he stressed. At EU level, this decision is likely to generate a spending spree among Member States, the costs of which will be borne by all taxpayers including SMEs, not to mention the fact that it will be harder to tell whether aid is being directed towards the recipients that would need it the most since no prior notification will be required.

That is why UEAPME has always preferred and advocated for the use of more effective, less distortive State aid measures such as guarantees, explained Mr Benassi. The organisation therefore very much appreciated the new rules on subsidised loan guarantees, which will be easier to obtain, less expensive and more generous, since guarantees can now be as high as the total wage bill of the beneficiary and can cover working capital as often requested by UEAPME. The organisation also welcomed the new chapter on subsidised interest rates, which provides a calculation method that will make it easier to grant public loans at a reasonable rate despite the abnormal fluctuations witnessed in the financial market. Positive news also came from the Commission on financing more environmentally friendly products, promoting more risk capital investments and covering marketable risks with previously forbidden public export-credit insurance if need be.

Despite these positive news and urgently needed measures, however, the increase of "de minimis" threshold remains a very risky point, said Mr Benassi. The Commission de facto temporarily relinquished its supervision powers on State aid, leaving the door wide open for a dangerous spending frenzy that will be very hard to resist at national, regional and local level. *"It is now up to Member States to ensure that aid goes to the enterprises suffering because of the crisis and not to those that are in difficulty due to structural problems and overcapacity. However, our experience shows that this is rarely the case. Put simply, the Commission has given Member States a licence to burn taxpayers' money today",* he concluded.

**** END ****

EDITORS' NOTES: UEAPME is the employers' organisation representing exclusively crafts, trades and SMEs from the EU and accession countries at European level. UEAPME has 83 member organisations covering over 12 million enterprises with 55 million employees. UEAPME is a European Social Partner. For further information: http://www.ueapme.com/

FOR FURTHER INFORMATION PLEASE CONTACT:

Gerhard Huemer, Director for Economic and Fiscal Policy, Tel. +32 (0)2 230 7599, Email: g.huemer@ueapme.com
Francesco Longu, Press and Communications Officer, Tel. +32 (0)496 520 329, Email: pressoffice@ueapme.com