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The Rt Hon. The Lord Whitty
Chair, EU Internal Market Sub-Committee
House of Lords
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Dear Lord Whitty

I would like to thank you and the Committee for your recent report on the *Impact of EU Exit on Competition and State aid*. The Government is considering the report's recommendations and will be responding in full in due course. In the meantime, we acknowledge the Committee's request for clarification on State aid responsibilities and would like to provide as much certainty as possible on how State aid will be managed going forward.

As you will be aware, the UK and EU negotiating teams have reached another important milestone in the Brexit process by agreeing the terms of a time-limited implementation period. The agreement, which was endorsed by the March European Council (22-23 March), will give businesses and citizens the time they need to put in place the new arrangements required, as the terms of our future partnership become clearer. This marks an important step towards finalising the full Withdrawal Agreement by October, across which the negotiating teams have made substantial progress.

The implementation period will be based on the existing structure of EU rules and regulations. This will include State aid, which means that for the duration of the implementation period, the UK will continue to apply the EU State aid rules and that the Commission would be responsible, as now, for approving and monitoring aid.

Longer-term decisions on the UK State aid regime are subject to further discussion with the EU as part of the negotiations on our future economic partnership. The Secretary of State for Exiting the EU set out in a recent speech in Vienna that, "it cannot be right that a company situated in the European Union would be able to be heavily subsidised by the state but still have unfettered access to the United Kingdom market. And vice versa. The UK has long been a vocal proponent of restricting unfair subsidies to ensure competitive markets. It is good for taxpayers. It is good for consumers. And it ensures an efficient allocation of resources. These principles are true across the globe and will continue to be true in the United Kingdom - European Union relationship." In her Mansion House speech, the Prime Minister similarly said that "the UK has much to gain from maintaining proper disciplines on the use of subsidies and anti-competitive practices. As with any trade agreement, we must accept the need for binding

commitments – for example, we may choose to commit some areas of regulations like State aid and competition to remaining in step with the EU's.”

It is right that a responsible Government works for all scenarios. This is without prejudice to future negotiations. The Government's view therefore is that the UK should be prepared to establish a full, UK-wide subsidy control framework, with a single UK body for enforcement and supervision, at the point this is required. In line with this objective, the EU State aid rules will be transposed under the European Union (Withdrawal) Bill – as is the case for EU rules more broadly under this Bill. The transposition of the existing rules will apply to all sectors, including agriculture, fisheries and transport and will replicate any existing exemptions from State aid rules.

To ensure the regime is operable, the Government has concluded that at the point an independent UK State aid authority is required, the Competition and Markets Authority (CMA) would be best placed to take on the role of State aid regulator. This reflects its experience and understanding of markets as the UK's competition regulator and the independence of its decision-making from Government.

By establishing a clear regulatory function, the Government believes we can provide assurance that the rules will be operated fairly throughout the UK internal market. We are continuing to engage with the Devolved Administrations about the regulation of State aid, so that the new framework works for the whole of the UK.

I am placing a copy of this letter in the Libraries of the House.

Yours sincerely



ANDREW GRIFFITHS MP

Minister for Small Business, Consumers & Corporate Responsibility