PolicyBrief
for politics and economy

VDMA

02/2022

European Office

EU state aid law: Analysis of revisions

The EU Commission's revision of the EU state aid law aims at adapting the framework for public financing to current policy priorities of the EU such as the Green Deal and the Industrial and Digital Strategies. The VDMA's economic policy positions call for competition, individual responsibility, and open markets as indispensable basis for economic success driven by innovation and investment. Therefore, we expect EU policy makers to enable the market ramp-up of climate neutral technologies, while protecting competition on the EU's internal market. In the medium and long term, market-oriented viability is the requirement for all state support and subsidies. Support measures must be efficient, tailor-made and create incentives. Deadweight and habituation effects must be avoided by limiting exceptions in the state aid law, setting temporal limits, requiring significant private contributions as well as by a degressive design of the support measures.

Building upon the success story of the internal market

European competition law has promoted competition on the European market and thus not only prevented abuse of market power to the detriment of consumers, but at the same time also strengthened the innovation incentives of European companies. In contrast, softening the state aid rules would give member states extensive possibilities to promote national companies and sectors. A return to a subsidy race between member states would do lasting damage to the EU and contradicts the European idea. To avoid a general undermining of state aid law, exemptions should be integrated into the specific communications and guidelines, especially the Climate, Energy and Environmental Aid Guidelines (CEEAG), and not into the horizontal General Block Exemption Regulation (GBER). Far-reaching exceptions might increase the discrimination of non-benefitting companies.

State aid is only one part of a consistent mix of instruments

The VDMA advocates for a pioneering role of the EU in climate protection in the European home market, while expanding competitiveness of our industry in the world market. A readjustment of the state aid rules is a building block for this but cannot stand alone. On the one hand, the framework conditions for the affected industrial sectors must be considered (carbon border adjustment mechanism, free allocation of ETS certificates, market incentives). On the other hand, it must be taken into account that general state aid rules have an impact far beyond the climate and energy sector. A coordinated mix of instruments is needed.

Enable the market ramp-up of climate neutral technologies – and let them fly

A facilitation of operational aid, especially in the form of Carbon Contracts for Difference (CCfDs), has been introduced into the CEEAG. The VDMA takes a critical view of unlimited OPEX subsidies. A temporally limited support of differential costs compared to fossil-based technologies, however, is essential for the market ramp-up of climate-neutral technologies and the success of the Green Deal. These technologies are not yet economically viable under the current regulatory framework conditions but need to achieve scaling and broad application in time. OPEX subsidies for commercial production, especially with a 100%-coverage of operational costs over decades, however, are not expedient. Business risk and appropriate co-payment legitimate entrepreneurial profits and guarantee the social acceptance of private profits in general.

Support for operational production only under clear conditions

Operational aid must not weaken entrepreneurial incentives and efforts for efficiency improvements and innovation. CCfDs should be adjusted to changing carbon prices. An integration of CCfDs into the EU state aid law should be limited to the CEEAG and take account of competition aspects. CCfDs should solely fund differential costs compared to fossil-based technologies and need a temporal limit. In view of possible contract durations of 10-25 years, a monitoring system with dynamic adjustment of the contract price is required. The project awarding process should include competitive elements such as auctions and particularly consider the provision of co-payments.

Use the spill-over and network effects of IPCEIs

Given a thorough competitive assessment, Important Projects of Common European Interest (IPCEIs) can contribute to sustainable economic growth by creating spill-over and innovation effects. Especially network effects achieved by the cooperation between European partners from industry and research must be highlighted positively and should be strengthened further. However, to avoid an overstretching of the funding instrument, the terms “important” and “common European interest” must be clarified based on distinct criteria. IPCEIs must remain a special case.

Avoid over-ambitious innovation requirements for IPCEI applications

The IPCEI application process should be accelerated by removing double structures at the European and national level. When assessing IPCEI applications, more pragmatism is needed with regard to innovation requirements. IPCEIs should both create innovations and enable technological catch-up processes up to market maturity. Clear exit strategies and business strategies for the time after termination of the IPCEI must be developed in advance. If an IPCEI-project yields higher returns than expected, clawbacks are justified.

Conclusion

The modernization of the EU state aid law is an important step for achieving the EU climate and sustainability targets through a market ramp-up of climate-neutral technologies. Adaptations of the EU State aid framework must strike a balance between the need to support the transition where markets fail and protecting the Internal Market. We call upon the EU policy makers to follow a technology-neutral approach and to maintain a level playing field and fair competition rules in the Internal Market. Framework conditions enabling the market-based profitability of climate-neutral technologies are urgently needed.

Contact

Kai Peters, VDMA Eurpean Office
Phone +32 2 70682-19, email kai.peters@vdma.org

Florian Schneider, Competence Center Economic Principles
Phone +49 69 6603-1218, email florian.schneider@vdma.org

www.vdma.org

Responsible: Holger Kunze • Managing Director VDMA European Office
Dr. Johannes Gernandt • Head of the Competence Center Economic Principles