

State Aid Fitness Check

Response from the Zero Emission Technology and Innovation Platform (ZEP)
10th July 2019

Effectiveness

Have the objectives been met?

In this section, we would like to have your opinion on the extent to which the State aid rules subject to the current Fitness check met their objectives.

1. Based on your experience, has the State aid modernisation package led to clearer rules? (Y, N, I Don't Know, Partially, Not relevant. If no/partially Explain 5000 characters)

- General Block Exemption Regulation
- De Minimis Regulation
- Regional Aid Guidelines
- Research Development Innovation Framework
- Important Projects of Common European Interest Communication
- Risk Finance Guidelines
- Airport and Aviation Guidelines
- Energy and Environmental Aid Guidelines ---- IDK
- Rescue and Restructuring Guidelines
- Railways Guidelines
- Short Term Export Credit Communication

I Don't Know:

It is difficult to assess the impact of the State Aid Modernisation Package as, to date there has been a very limited development of CCS and utilisation of State Aid rulings on the topic.

1.2. Which specific areas still remain unclear / could be clarified to improve the implementation? (3000 Characters)

Currently, the interaction between different elements of State Aid Rules remains unclear. For CCS there are a number of dimensions which relate to State Aid guidelines:

1. Technological support to fund new, state-of-the-art and first of a kind projects which help achieve greenhouse gas emissions under the EEAG, for example CCS.
2. Infrastructure development support for the cross-border construction of CO₂ pipelines which are key to enabling CCS deployment at scale in Europe. These infrastructure

projects can be considered eligible under the IPECI, EEAG, Regional Aid, and as Projects of Common interest under CEF funding.

3. Regional Aid to support the transition to low-carbon industry and economy. For heavy industry regions transition to a low-carbon economy Regional Aid may become an increasingly important source of funding. These heavy industry regions or clusters are ideal for CCS to help decarbonise hard to abate sectors, such as steel, glass and ceramics, whilst maintaining international competitiveness. In a scenario with Regional Aid and State Aid for CCS in the EEAG, it is still unclear as to how these mechanisms will interact.

Overlapping eligibility creates uncertainty and risk for projects. Clarity on how these guidelines will interact will encourage investment and help enable deployment of CCS projects in Europe.

4. Based on your experience, have the State aid rules reduced the risk of subsidy races in the EU? For example, by setting maximum ceilings for public support, by laying down the conditions at EU level to grant public support, or by increasing the transparency of public support. (Y, N, I Dont Know, Partially, Not relevant. If no/partially Explain 5000 characters)

- Rules for the categories of aid covered by the General Block Exemption Regulation
- Rules for De minimis aid
- Rules for aid for development in assisted areas
- Rules for aid for research, development, innovation
- Rules for aid for important projects of common European interest
- Rules for aid for access to finance for SMEs *
- Rules for aid for airports and aviation
- Rules for aid for energy and environmental protection (Partially)
- Rules for rescue and restructuring aid
- Rules for aid for railway and coordination of transport
- Rules for aid for short term export credit

For Energy and Environment Protection (Partially)

State Aid is needed to support the deployment of new first of a kind and state-of the art technologies such as CCS and CCU. However, this has not come to realisation for CCS and CCU in Europe. As highlighted in response to Question 2 there is uncertainty on the State Aid process, for CCS projects this may have hindered development and increased a layer of project investment risk.

Furthermore, it is still unclear as to how state aid will be treated, including the mechanisms for awarding of aid; for example; whether funding is received upfront, during construction, or received post-construction, for a project in concept state this is an uncertainty which adds another level of risk to projects and is ultimately an inhibitor to development.

6. Based on your experience, have the State aid modernisation or the State aid rules under evaluation had any positive or negative impacts that were not expected or not intended? Please explain and reference the rules in question (5000 Characters)

Currently the state aid guidelines for CCS (see Section 3.6, Energy and Environmental Protection Guidelines) are too technically narrow, and do not allow for future innovation or whole chain design flexibility. The guidelines as it stands assume a capture plant which feeds into CO₂ transport and storage infrastructure, with a CO₂ capture module/facility as additional to the CO₂ emitting process. It is possible that CO₂ capturing facilities can be an integral component of an industrial process, rather than additional.

For the first CCS projects in Europe, support will be required to help finance the transport and storage infrastructure. It is not clear if CCS transport and storage infrastructure is encompassed in the Infrastructure Guidelines or the State Aid Guidelines, specifically Section 3.6 of the Energy and Environmental Aid Guidelines. This is of particular importance as extra investment is required which can facilitate the oversizing of infrastructure essential to realise the economies of scale from CCS deployment.

7. Since mid-2016, the details of all individual State aid awards above EUR 500,000 are published on a public website.

7.1. Did the publication of individual awards above EUR 500,000 contribute to reaching the following objectives? (to a large extent, some extent, not at all, i don't know, explain 1000characters)

- To promote accountability and enable citizens to be better informed about public policies and spending
- To enable companies to check whether legal aid was granted to competitors
- To reduce the administrative burden of Member States as regards reporting to the Commission State aid expenditure

To A Large Extent

The publication of individual awards above EUR 500,000 is encouraged as good practice as it helps achieve the above outlined targets. This is particularly of importance for the deployment of innovative technologies such as CCS, which can benefit most from early project knowledge sharing and reduced administrative commitments.

7.2. Is the EUR 500,000 threshold appropriate to achieve the desired objectives listed above? (yes, too high, too low, i don't know, Explain 3000characters)

I Don't Know

The majority of CCS, CCU and low-carbon hydrogen projects require funding support which far exceeds the EUR 500,000 threshold. As such we are unable to make a statement on whether the EUR 500,000 is appropriate, too high, or too low.

8. Since mid-2014, the largest (annual average budget above EUR 150 million) State aid schemes are subject to ex-post evaluation studies to assess their effectiveness. Do you think that this threshold is appropriate? (yes, too high, too low, i don't know, explain 3000 characters)

I Don't Know

Relevance

Is EU action still necessary?

In this section, we would like to understand if the State aid rules analysed under the Fitness check are still relevant considering the changes in EU priorities and/or new market and technological developments

11. Based on your experience, how well do the objectives of State aid modernisation and of individual State aid rules still correspond to the current EU priorities?

11.1. On the State aid modernisation as a whole (fully, Partially, not at all, i don't know, explain 3000 characters)

Partially

One of the 10 EU priorities for the 2014-2019 period is '*Making energy more secure, affordable and sustainable*' within this priority is a policy aim to **decarbonise the economy to help fulfil the EU's commitments to the Paris Agreement**.

Although State Aid Guidelines exist for CCS technology, as mentioned in response to Question 1, there has been limited uptake of CCS in Europe. As a result, recent studies suggest that wide scale deployment CCS is now becoming increasingly urgent for Europe to achieve its commitments to the Paris Agreement¹²³. Widespread deployment of CCS at scale will be an

¹ Energy Transition Committee, 2017. Better Energy, Greater Transition.

Available at: http://energy-transitions.org/sites/default/files/BetterEnergy_fullReport_DIGITAL.PDF

² Material Economics, 2019. Industrial Transformation 2050: Pathways to Net-Zero Emissions from EU Heavy Industry

Available at: https://materialeconomics.com/material-economics-industrial-transformation-2050.pdf?cms_fileid=b9785e8b652ba47f227181543fc5d1e8

³ IPCC, (2018) Summary for Policymakers. In: *Global Warming of 1.5°C. An IPCC Special Report*

Available at: <https://www.ipcc.ch/sr15/>

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important target over the next EU priority period if the EU is to be placed on the correct trajectory to achieve its climate targets.

11.2. On the individual rules (full, partially, not at all, i don't know, not relevant, if no/partially 5000 characters)

- **General Block Exemption Regulation***
- **De Minimis Regulation**
- **Regional Aid Guidelines**
- **Research Development Innovation Framework**
- **Important Projects of Common European Interest Communication**
- **Risk Finance Guidelines**
- **Airport and Aviation Guidelines**
- **Energy and Environmental Aid Guidelines**
- **Rescue and Restructuring Guidelines**
- **Railways Guidelines**
- **Short Term Export Credit Communication**

Partially for the Energy and Environmental Aid Guidelines

The deployment of widespread renewable energy has been a success across Europe to help decarbonise the electricity generation sector. However, for CCS (Section 3.6 of the Energy and Environmental Aid Guidelines), the State Aid policy has not proven a success due to a lack of uptake of CCS projects in Europe.

As mentioned in Questions 4 & 6, the State Aid Guidelines do not provided clarity, and as a consequence increased uncertainty and investment risk. Furthermore, given the increasing necessity for CCS, the current Energy and Environmental Aid Guidelines will need to consider updated flexibility for investment in CCS and CCU, including:

- Technological flexibility to enable investment in new CO₂ capturing, transport, and storage technologies. For example, following technological capture advancements, the CO₂ capture process could now be envisaged as integral to certain manufacturing process, not additional (as highlighted in Paragraph 165, Section 3.6 of the Energy and Environmental Aid Guidelines).
- Part-chain CCS investment to enable separate investment in an individual component link of the CCS chain, rather than the whole chain, as envisaged in the EEAG.
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- Funding support for infrastructure oversizing. To ensure all possible CO₂ emitters with capture facilities can geologically store their CO₂ emissions, support will be required to enable the oversizing of early project infrastructure. This oversized infrastructure will then have sufficient capacity to remove CO₂ as an increasing number of emitters construct

capture facilities and look to regional CO2 pipelines to move captured emissions to the storage site(s).

12. Based on your experience, how well adapted are the following State aid rules to recent developments in markets and technology? (Fully, Partially, Not at all, I don't know, Not relevant, if not/partially explain 5000 characters)

- General Block Exemption Regulation
- De Minimis Regulation
- Regional Aid Guidelines
- Research Development Innovation Framework*
- Important Projects of Common European interest Communication
- Risk Finance Guidelines
- Airport and Aviation Guidelines
- Energy and Environmental Aid Guidelines
- Rescue and Restructuring Guidelines*
- Railways Guidelines
- Short Term Export Credit Communication

On a global scale the European deployment of CCS is lagging behind the curve compared to other nations, including Canada and the United States of America. As mentioned in response to Question 11, this leaves the EU with an increasing necessity for CCS to achieve its climate goals whilst maintaining industrial targets in a 'just transition'.

The State Aid Rules are not well developed to accommodate potential technological and design innovation for CCS (Section 3.6 Energy and Environmental Aid Guidelines); this has been highlighted in responses to Questions 4 & 6. Should more clarity be provided, this will help State Aid play an important role in initiating the vast changes required to achieve the energy transition in Europe, and deliver on the EU's climate goals for a net-zero Europe in 2050

Coherence

Does the policy complement other actions or are there contradictions?

In this section, we would like to understand the extent to which the State aid rules subject to the current Fitness check are coherent with each other and with other EU rules

13. Based on your experience, are the State aid rules subject to the current Fitness check coherent with each other? (fully, partially, not at all, i don't know, if no/partially explain 5000 characters)

No

As mentioned in response to Question 1.2, the interaction between different elements of State Aid Rules remains unclear. For example if a CCS or low-carbon hydrogen project is accepted as a priority for development as a value chain in a **IPCEI**, how does this interact with the CCS state aid guidelines outlined in **Section 3.6 of the EEAG**.

Furthermore, as heavy industry regions transition to a low-carbon economy **Regional Aid** may become an increasingly important source of funding. These heavy industry regions or clusters are ideal for CCS to help decarbonise hard to abate sectors, such as steel, glass and ceramics, whilst maintaining international competitiveness. In a scenario with **Regional Aid** and State Aid for **CCS in the EEAG**, it is still unclear as to how these mechanisms will interact.

14. Based on your experience, to what extent are the State aid rules subject to the current Fitness check coherent with changes in EU legislation which have occurred since the State aid rules were adopted (such as for instance in the Cohesion and Regional policy, Research and Innovation, Energy Union and Climate, Environmental protection and Circular Economy, Entrepreneurship and SMEs, Capital Markets Union, Investment Plan for Europe)? (fully, partially, not at all, i don't know, not relevant, if no/partially 5000 characters)

- **General Block Exemption Regulation**
- **De Minimis Regulation**
- **Regional Aid Guidelines**
- **Research Development Innovation Framework**
- **Important Projects of Common European interest Communication**
- **Risk Finance Guidelines**
- **Airport and Aviation Guidelines**
- **Energy and Environmental Aid Guidelines**
- **Rescue and Restructuring Guidelines**
- **Railways Guidelines**
- **Short Term Export Credit Communication**

I Don't Know

Since the State Aid Rules were adopted, the discussion on the Energy Union and Climate has proceeded at a significant pace. It is now widely accepted that net-zero emissions in Europe by 2050 should be strived for. State aid will play a key role in enabling a just transition in a net-zero Europe. However, the guidelines must be clear, coherent, and consistent across sectors to ensure the State Aid Guidelines are an enabler, not a hindrance towards 2050 climate targets.

No Answer from ZEP

2. Based on your experience, did the factors below facilitate the compliance with the State aid rules by the Member States? (Y, N, I Don't Know, Partially, Not relevant. If no/partially Explain 5000 characters)

- Clear definition of the scope of the rules by excluding sectors or types of aid and clear definitions of those sectors and types of aid that are excluded
- Clear definition of the scope of the rules by explaining the overlaps between the different rules
- Common principles to assess the compatibility of the State aid measures
- Clear rules to identify the need for State intervention
- Clear rules to identify the incentive effect of the aid measure
- Clear rules to ensure that the aid is limited to the minimum necessary
- Clear rules to identify the distortive effects of the aid measure
- Publication of aid awards above EUR 500,000 on a public webpage
- Evaluation of novel or large schemes with budgets above EUR 150 million
- Clear and simplified definition of a company in difficulty
- Simplified rules for projects that are financed with EU funds (including structural funds)
- Simplified rules for SMEs

2.2. Please mention any other factors that led EU Member States to being more compliant with the State aid rules (3000 characters)

3. Based on your experience, since 2014 has the Commission focused its scrutiny on cases having a significant impact on the internal market?

3.1. For the State aid modernisation as a whole (yes, no, partially, I don't know) (3000 characters)

3.2. Have the scope and notification thresholds for the following types of aids allowed the Commission to focus its scrutiny on cases with a significant impact on the internal market? (Y, N, I Don't Know, Partially, Not relevant. If no/partially Explain 5000 characters)

- Scope and amounts under the De minimis Regulation
- Scope and notification thresholds under the General Block Exemption Regulation (in general)
- Scope and notification triggers for aid for regional development in assisted areas
- Scope and notification thresholds for aid for research, development, innovation
- Scope and notification thresholds for aid for SME access to finance
- Scope and notification thresholds for aid for airports and aviation
- Scope and notification thresholds for aid for energy and environmental protection
- Scope for aid for Important projects of common European interest
- Scope for aid for rescue and restructuring firms in difficulty
- Scope for aid for railways
- Scope for aid for short term export credit

5. Based on your experience, to what extent have the State aid rules achieved the objectives listed below while maintaining a competitive internal market? [see consultation document for questions 5.1 -5.13]

9. Based on your experience, to what extent have the following State aid rules ensured efficient State expenditure? (to large extent, some extent, not at all, i don't know, not relevant, where you answered not at all or to some extent and reference the respective rules – 5000 characters)

- General Block Exemption Regulation
- De Minimis Regulation
- Regional Aid Guidelines
- Research Development Innovation Framework
- Important Projects of Common European Interest Communication
- Risk Finance Guidelines
- Airport and Aviation Guidelines
- Energy and Environmental Aid Guidelines
- Rescue and Restructuring Guidelines
- Railways Guidelines
- Short Term Export Credit Communication

10. Based on your experience, have the State aid rules subject to the current Fitness check reduced the administrative burden compared to the State aid rules in force before the State aid modernisation? (yes, partially, no, i don't know, not relevant. For no/partially –explain 5000 characters)

- For the public authorities
- For the beneficiaries

15. Based on your experience, have the State aid rules subject to the current Fitness check helped to deliver EU policies more efficiently? (yes, partially, no, i don't know, if no/partially - explain 3000 words)