European Office

VDMA contribution to the consultation on the draft Guidelines on State aid for climate, environmental protection and energy (CEEAG 2022)

Comments on the draft Communication from the EU-Commission

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Background – Who we are

The Mechanical Engineering Industry Association (VDMA) appreciates the opportunity to contribute to the public consultation on the draft revised Climate, Energy and Environmental Aid Guidelines ("CEEAG 2022").

The mechanical engineering sector consists mostly of SMEs and midcaps that are highly export-oriented technology integrators and depend upon fair conditions as well as open, competitive markets, both on the supply and the demand side. The sector is also an example of the diversity of industry and value-added networks; VDMA alone represents 36 sub-associations that are representing essential cross-cutting areas of the EU's industrial pattern, for example robotics & automation, power systems, drives or machine tools.

Part A: General comments on economic policy

As a trade association, the VDMA represents the interests of the European mechanical engineering industry in a constructive way and is committed to economic and sustainable progress in Europe. Our economic policy positions are based upon the conviction that competition, individual responsibility and open markets are the indispensable basis for individual and overall economic success driven by innovation and investment. We also apply these criteria to the evaluation of the EU state aid guidelines.

The VDMA is committed to a competitive market economy. In the medium and long term, market-oriented viability is the requirement for all state support, funding 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.

Success story internal market:

The competition rules in the EU's internal market are a model of success and important for European unity. 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, a far-reaching softening of the state aid rules would give member states extensive possibilities to promote national companies and sectors. This would distort competition and put other competitive companies at a disadvantage and endanger the internal market itself. A return to a subsidy race between member states would do lasting damage to the EU and contradicts the European idea.

State aid is no panacea:

At the same time, the VDMA advocates for expanding the competitiveness of the European mechanical and plant engineering industry through a pioneering role of the EU in climate protection in the European home market, whilst taking into account the world market perspective. A readjustment of the state aid rules is a building block for this but must not be discussed in isolation. 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. Alternative funding options (EU initiatives/ EU funds) or competitive, market-based and global cooperative solutions must be sought. State aid law is not a panacea for solving the challenges on the path to climate neutrality; rather, a coordinated mix of instruments is needed. To avoid a general undermining of state aid law, exemptions should be integrated into the specific communications and guidelines, especially the CEEAG on which this consultation is based, and not into the horizontal GBER.

The VDMA takes a critical view of OPEX subsidies - if applied, they can only be a strictly rule-based exception, especially for the temporary market ramp-up of climate-neutral technologies that are not yet economically viable under today's framework conditions. Supporting operating costs can weaken entrepreneurial incentives and efforts for efficiency improvements and innovation.

An integration of CCfD into EU state aid law should in any case be limited to the CEEAG and take account of competition aspect by leaving a significant private contribution and linking it to the CO2 price. In view of possible 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.

Part B: Comments on specific passages of text

Reference to EU Taxonomy:

An additional use of the EU taxonomy for sustainable financing in the CEEAG should be rejected. The State Aid Guidelines already clearly formulate criteria for the eligibility of funding instruments, which are derived from the EU's sustainability goals. The use of additional criteria - which, moreover, were developed in a different context - leads to legal uncertainty and opacity. Given that the delegated acts under the EU Taxonomy are still under development, it would be premature to link the revised Guidelines to the DNSH values found in them.

Piloting, certifying and testing new types under market conditions:

An important aspect for the wind industry- i.e., access to renewable energy - is the conditions for piloting, certifying and testing new types under market conditions. The previous guidelines contained an ambiguous capacity limit of 6MW in point 127, up to which wind turbines can be subsidised without being subject to tendering. This was implemented, e.g., in the German context in the EEG, which now restricts the piloting of new installations, as installations now have greater capacity and can hardly be used in the tendering regime.

The VDMA calls for the abolition of this limit. It is important for innovation funding that such tender exemptions remain possible without obsolete technological limits. In the new guidelines, this limit is no longer to be found in its old form. However, the very ambiguous definition of demonstration projects continues to be unhelpful because of the "first of its kind" rule.

Conclusion:

The EU-competition rules have been an essential element of the success of European industry. Adaptations of the EU State aid framework, including the exemptions created for CEEAG, must strike a balance between the need to support the transition where markets fail and protecting the Internal Market. We call upon the EU Commission not to water down the criteria and maintain a level playing field and fair competition rules in the Internal Market.

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