Together we can do more

ELTI comments to the European Commission public consultation Targeted review of the General Block Exemption Regulation (State aid): extended scope for national funds to be combined with certain Union programmes (2nd consultation)

Brussels, 6 July 2020

1. Definitions

Commercial financial intermediary

In the opinion of members of the European Association of Long-Term investors (ELTI), the definition of commercial financial intermediary should not exclude National Promotional Banks and Institutions (NPBIs). In this context, it should be noted that any such possible exemption should refer rather to the nature and characteristics of the business conducted by a specific entity (regardless of whether it is a NPBI or not), and should not refer to the status granted to it by national law, which in accordance to EU State aid law should be in fact of secondary importance. In our opinion, there is no justification that, due to the sole role of the NPBI, a given entity should be excluded from the scope of the said definition.

In addition, the European Commission proposed for commercial financial intermediaries a State aid measure (under Article 56f) with simplified conditions. It should be noted that possible classification of financial intermediaries as '*commercial*' and '*non-commercial*' may lead to a situation when on the same market and at the same time, two or more financial intermediaries, due to the scope of definition on *commercial financial intermediaries*, will in principle be able to offer to the same final beneficiaries for the implementation of the same investments loans under different conditions.

ELTI proposal:

Commercial Financial Intermediary (168) "commercial financial intermediary" means a financial intermediary which operates on a for profit basis and at full own risk, without a public guarantee. ~~National promotional banks or institutions are not considered to be commercial financial intermediaries;~~

2. Social Housing

The definition proposed of "social housing" doesn't reflect the reality in many European Member States. Against this background a common definition of "social housing" won't be sufficient. We propose the following changes:

ELTI proposal:

<u>Social services</u>

<u>(173) "social services" means clearly identified services, meeting social needs, in particular as regards health and long-term care, childcare, access to and reintegration into the labour market, social housing</u> ~~(which means housing for disadvantaged citizens or socially less advantaged groups who due to solvency constraints are unable to obtain housing at market conditions)~~ <u>and the care and social inclusion of vulnerable groups (as explained in recital 11 of Commission Decision 2012/21/EU* or subsequent legal acts replacing said decision);</u>

3. **Article 25c**

Aid involved in co-funded research and development projects

ELTI welcomes the inclusion of European institutional partnerships based on article 185 and 187 of the Treaty in the new category targeting aids involved in co-funded projects. Unfortunately, this amendment would not allow the inclusion of Eurostars projects as it stands since the minimum level of funding provided by Horizon Europe is set at 30% whilst the envisaged projects top-up for Eurostars 3 would be set at 28%. Hence the minimum requirement to be exempted should be harmonised at 25% for all types of research rather than 30%. It is key to treat equally co-funded projects as well as European partnerships since they are equally co-funded and have a clear supranational dimension (36 Eurostars members).

ELTI proposal:

<u>Article 25c</u>
<u>(…)</u>
5. The funding provided by the Horizon 2020 or Horizon Europe programme shall cover at least ~~30~~**25**% of the total eligible costs of a research and innovation action or an innovation action as defined under the Horizon 2020 or Horizon Europe programme.

4. **Article 56e para. 1**

Interest rates for loans

ELTI would like to comment that, due to the fact that in case of Member States with the EUR currency the base rate is generally lower than the base rate in case of Member States with national currencies, it is reasonable to allow (at least to some of the InvestEU projects) to provide support below the base rate.

In addition, ELTI highlights that the possibility of granting loans at interest rates of up to 0% could be provided, especially in the crisis context following the COVID-19 pandemic. Indeed, it is necessary to enable support on the most preferential terms possible for impactful projects such as projects aimed at achieving sustainable and social goals rather than accumulating profit.

Moreover, the article should specify explicitly that loans with fixed and variable interest rates and corresponding to the base rate should be treated equally.

5. Article 56e para. 2-9

Consistency of GBER with InvestEU targeted sectors

Points 2 to 9 of article 56e refer to the sectors that will be supported by InvestEU. In principle, the sectors mentioned in the GBER should match the five windows that are detailed in InvestEU draft regulation and guidelines. However, some loopholes have been identified, i.e. sectors that will be supported by InvestEU but that do not seem to be mentioned in point 2 to 9. They should be added in the GBER to avoid individual notifications for projects supported by InvestEU.

Some are detailed below in the suggested amendments, the others include:
- Space sector
- Defence
- Offshore decarbonisation:
    - floating wind farms;
    - port developments to shift them from transport nodes to hubs for servicing offshore industry;
    - cabling for an offshore grid with a particular focus on AC connections from the turbines to hubs which then use DC interconnectors to shore;
    - devices for wave and tide energy;
    - offshore aquaculture.
- the new window “strategic investments” which will be supported for € 31 bn.

For “digital connectivity” the initial text has been replaced with a text deriving from the article 8 of the draft new regulation “Connecting Europe facility” CEF2. The CEF2 is the financial instrument for the Trans-European Networks; in digital connectivity, it targets five very specific types of project. Accordingly, the draft GBER mentions that projects in digital connectivity must be “projects of common interest” and costs have to be eligible to CEF2. The issue is that the draft GBER does not include the support to NGN and NGA; the only targeted end beneficiaries are undertakings entrusted with the operation of services of general economic interest, which will benefit from a bandwidth of 500 Mbps (download). This implies that projects like Fiber-to-the-home networks are not eligible, even in white areas. This is not consistent with the objective of InvestEU: *“Promote digital connectivity across the EU and projects supporting a broad range of communications and information technology-related products and services.”* As a consequence, it is suggested to include NGA and NGN in the scope of eligible sectors.

ELTI proposals:

Aid to digital connectivity

a) General cumulative conditions

It is suggested to delete paragraphs i) and iii) to vi) that are too restrictive. The specific conditions will provide an adequate set of rules.

In paragraph ii) it is suggested to raise the amount per project from € 100 mn to € 200 mn. Indeed, some large-scale projects require an amount of investment of several hundreds of millions of euros.

b) Specific conditions

In paragraph i) the first dash should be replaced by the following (deriving from the draft investments guidelines of InvestEU):

- Projects supporting broad range of communications and information technology-related products and services. This can include, for example, projects supporting a universal (i.e. including rural/peripheral areas) roll-out of infrastructure, deployment of very high capacity digital networks, including through the deployment of wired and wireless connection systems including fibre and 5G connection systems, and investments needed to reach the Union's strategic digital connectivity objectives.

The third dash should be amended as follows: (…) *capable of providing ~~symmetric download and upload speeds of at least 200 Mbps or~~ a download speed of at least ~~500~~* ***30*** *Mbps.*

Fourth dash should be deleted.

Fifth dash should be amended as follows: *(…) at least one very high capacity network capable of providing ~~symmetric~~ download ~~and upload~~ speeds of at least ~~1Gbps~~* ***30 Mbps*** *is present or is credibly planned within the next three years or within the same time frame of the planned supported intervention.*

It is suggested to insert the following paragraphs (deriving from the draft investments guidelines of InvestEU):

vi) satellite systems, storage/cloud infrastructure (data centres & HPC), edge infrastructure (IoT/Smart City), and public protection and disaster relief networks

vii) projects supporting the digital transformation of key public services.

viii) projects aiming at reduction or avoidance of greenhouse gas emissions of digital connectivity infrastructure, for example through more energy efficient networks, digital connectivity services and data centres.

Aid for energy generation and energy infrastructure

a) investments in energy infrastructure in gas and electricity

Paragraph a) should be amended as follows: *aid shall only be granted for investments in energy infrastructure in gas and electricity that is subject to third party access, tariff regulation and unbundling in line with the internal energy market legislation****, or those that have been exempted from this***

obligation according to EU legislation, *for the following categories of projects:* Paragraph i) should be amended as follows: *~~as regards~~ energy storage~~,~~ when compliant with the objectives of ~~projects included in the Union list of Projects of Common Interest in Annex VII of~~ Regulation (EU) No 347/2013 of the European Parliament and of the Council **

In paragraph ii) the following items should be added:

- *Modernization of transmission and distribution networks*

- *Projects that include carbon-capture storage and use ('CCS' / 'CCU') technologies and infrastructure related to the production of electricity, low-carbon gases (such as hydrogen) or industrial processes as well as bio-energy plants and manufacturing facilities towards the energy transition.*

b) investment aid for generation of energy from renewable energy sources

Should be amended as follows: *investment aid for generation of energy from renewable energy sources* ***or renewables-based hydrogen or other low-carbon gas production and supply***

Indeed, hydrogen and other low-carbon gas, such as biomass gas, are not included in the definition of renewable energy sources.

Paragraph i) should be amended as follows: *aid shall only be granted for new installations* ***where construction components are*** *selected on a competitive, transparent, objective and non-discriminatory basis;*

Indeed, the current wording could be understood as limiting eligible projects to those having won an auction of the national regulatory authority, excluding operators selling on the free market.

In paragraph c) the maximum amount should be € 150 mn for a) and for b). This level is consistent with the amounts currently observed in infrastructure projects.

Aid for social, educational, cultural and natural heritage infrastructure and activities

Should be amended as follows: *Aid for social, educational, cultural,* ***tourism, urban renewal,*** *and natural heritage infrastructure and activities*

Paragraph i) should be amended as follows: *EUR 100 million per project for investments in infrastructure used for the provision of social services, for education, ~~or~~ for cultural purposes**, for tourism, for urban renewal including building renovation,** and activities set out in Article 53(2), including natural heritage*

Paragraph ii) should be amended as follows: *EUR ~~30~~* ***40*** *million for the ~~activities~~* ***projects*** *related to social services and culture**, or having a social and environmental impact;***

Indeed, such projects can be supported through investment funds (indirect financing).

Accordingly, Article 56d, point 4 should be amended as follows:

4. The maximum thresholds laid down in Articles 56e and 56f shall apply to the total outstanding financing, in so far as that financing contains aid, provided under any financial product supported by the InvestEU Fund. The maximum thresholds shall apply:

(a) per project in the case of aid covered by Article 56e(2) and (3), Article 56e(4)(a)(i) ***and (ii)****, Article 56e(5) and (6), Article 56e(7)(a) and (b) and Article 56e(8);*

(b) per final beneficiary in the case of aid covered by Article 56e(4)(a)~~(ii) and~~ (iii), Article 56e(7)(d), Article 56e(9) and Article 56f.

Aid for transport and transport infrastructures

a) aid for infrastructure, except ports

Paragraph iv) should be amended as follows: *urban transport****, smart and sustainable urban mobility projects, in particular multi-modal hubs for passenger transport, active modes, inland waterways and innovative mobility solutions, digital transport infrastructure for seamless and effective connection of travel modes****;*

Aid for other infrastructures

Paragraph i) of section a) should be amended as follows: *investment in water supply and waste water infrastructure for the general public****, flood protection, networks efficiency, leakages reduction, coastal infrastructure and other water-related green infrastructure***

Paragraph ii) should be amended as follows: ***investment in waste-to-energy,*** *waste recycling and preparation for re-use in line with Article 47(1) to (6) of this Regulation, insofar as it is aimed at managing waste generated by other undertakings*

The following paragraphs should be added in section a):

iii) Projects and enterprises that implement circular economy, including the sustainable supply of raw materials. This shall include, among others, projects integrating resource efficiency aspects in the production and product life cycle and all strategies aimed at ensuring that the value and lifespan of material resources is maximised, as well as infrastructure fostering industrial symbiosis between industrial plants across sectors and urban and rural communities. Investment projects should also encompass actions covering the entire value chain of primary and secondary raw materials, from sustainable exploration, extraction, processing to recycling.

iv) Support to operations that support the decarbonisation of and substantial reduction of emissions of energy-intensive industries, including deployment of innovative low-emission technologies including CCS and CCU as well as operations that promote the decarbonisation of the energy production and distribution chain by phasing out the use of coal and oil.

Aid for environmental protection, including climate protection

The following paragraphs should be added in section a):

i) renovations of existing buildings that target or achieve an increase of their energy performance as determined through one or more of the criteria laid down in Article 10(6) of Directive 2010/30/EU on the Energy Performance of Buildings;

ii) construction of highly energy efficient new buildings, including the modernisation of buildings thanks to smart ready technologies and their integration into a connected energy, storage, digital and transport system including through the deployment of infrastructure for e-mobility in line with Directive 2010/31/EU on the Energy Performance of Buildings;

iii) reduction of energy intensity of enterprises through improved efficiency of processes or production of products with lower carbon footprint as well as the development of innovative zero and low emission heat supply systems and combined production of electricity and heat;

iv) projects targeting the decarbonisation of buildings;

v) the use of renewables in industrial processes;

In paragraph c) the maximum amount should be € 100 mn for a) and for b) instead of 50. This level is consistent with the amounts currently observed in infrastructure projects. In paragraph d) the maximum amount should be € 60 mn instead of 30. This level is consistent with the amounts currently observed in infrastructure projects.

6. Article 56f

Commercially-driven financial products

The explanatory note mentions that “the Commission has simplified the conditions included in Article 56f to facilitate intermediated, commercially-driven debt products implemented under InvestEU.” However, based on paragraph 2, the article can be understood to cover all financial operations, including equity.

To avoid possible misunderstandings, the title should explicitly mention that the article is limited to aid involved in commercially-driven financial products below € 7,5 mn.
Additionally, while the obligation to retain 20% of risk exposure is usual for debt operations, it does not meet market practice for equity operations. In accordance with Article 21, a 10% minimum requirement of all investments made by private investors could be assessed at the level of the financial intermediary or the underlying project when it is early stage. This requirement could go up to 30% for later stage projects.

"Together we can do more"

The European Association of Long-Term Investors – ELTI

ELTI members represent an European-wide network of National Promotional Banks and Institutions who offer financial solutions tailored to the specific needs of their respective country and economy. Multilateral financial institutions complement the activities at national level with specific cross-boarder solutions or investments with an European impact. Following the specific public mission of each member the business model of each institution differs from country to country including different products and approaches. This is the same for multilateral ELTI members. Most of the members offer various debt-products but not all members have a mandate for investment in equity.

The 32 members of the European Long-Term Investors Association (ELTI) a.i.s.b.l. are major long-term investors and represent a combined balance sheet of EUR 1.8 trillion. The Association promotes and attracts quality long- term investment in the real economy, including:

- strengthening cooperation, including at an operational level, between European financial institutions as well as with other Institutions of the European Union (EU) acting as long-term financiers;
- informing the EU and its Institutions on the role and potential of the Members as institutions and agencies for long-term financing;
- strengthening the access of the Members to information on matters related to the EU;
- exchanging information and experiences among Members and with national and international organisations sharing the Association's interest in the promotion of long-term investment;
- developing the concept of long-term investment within the economic and financial sector and promoting academic research on long-term investments;
- representing, promoting and defending the shared interests of its Members in the field of Long-Term Investment in full transparency.

The Full Members of ELTI are generally national official financial institutions dedicated to the promotion of public policies at national and EU level[1]. The European Investment Bank (EIB) as the status of a permanent observer. ELTI also includes Associate Members notably multilateral financial institutions, regional financial institutions and non-banking institutions[2].

[1] Oesterreichische Kontrollbank (OeKB) Austria, Federal Holding and Investment Company (SFPI) Belgium, Bulgarian Development Bank (BDB) Bulgaria, Croatian Bank for Reconstruction and Development (HBOR) Croatia, Ceskomoravska Zarucni a Rozvojova Banka (CMZRB) Czech Republic, Caisse des Dépôts et Consignations (CDC) France, La Banque publique d'Investissement (bpifrance) France, KfW Bankengruppe (KfW) Germany, National Bank of Greece (NBG) Greece, Hungarian Development Bank (MFB) Hungary, Strategic Banking Corporation of Ireland (SBCI) Ireland, Cassa Depositi e Prestiti (CDP) Italy, Latvian Development Finance Institution (ALTUM) Latvia, Public Investment Development Agency (VIPA) Lithuania, Société Nationale de Credit et d'Investissement (SNCI) Luxembourg, Bank of Valletta (BOV) Malta, Malta Development Bank (MDB), MaltaInvest-NL Netherlands, Bank Gospodarstwa Krajowego (BGK) Poland, Instituição Financeira de Desenvolvimento (IFD) Portugal, Slovak Investment Holding(SIH) Slovakia, Slovenska Izvozna in Razvojna Banka (SID) Slovenia, Instituto de Credito Oficial (ICO) Spain

[2] Nordic Investment Bank (NIB), Council of Europe Development Bank (CEB), Long-Term Infrastructure Investors Association (LTIIA), Participatiemaatschappij Vlaanderen NV (PMV) Belgium, Fund Manager of Financial Instruments in Bulgaria (FMFIB) Bulgaria, NRW.Bank Germany, Consignment Deposits and Loans Fund (CDLF) Greece, INVEGA Lithuania, Turkiye Sinai Kalkinma Bankasi (TSKB) Turkey