Public consultation - Review of the Communication on important projects of common European interest (IPCEI)

In its explanatory note accompanying the public consultation, the Commission pointed out that the current IPCEI Communication does not fully reflect recent EU policy developments, in particular the European Green Deal outlining the policies to make Europe the world's first carbon-neutral continent by 2050. The explanatory note then continues and states that to deliver the European Green Deal, there is a need for action by all sectors and that the current IPCEI Communication does not fully reflect such recent EU policy developments.

Judged against this preamble and the, with regard to the economic activities of energy intensive industries, deeply disruptive nature of the Green Deal, the proposed changes to the IPCEI rules do not match these ambitions. The whole approach as presented by the Commission appears to be still very R&D focused and it seems not suited to allow funding for the indispensable industrial deployment projects, which relate to production. This will make it difficult for the transformation activities of voestalpine (and all of the steel industry as well as the sectors, which need to supply the energy vectors of the future) to benefit from a so revised IPCEI notice.

Most importantly, the rules apparently do not allow for IPCEI-funding of the normal operation of industrial-scale first-of-a-kind installations. It should be provided that such installations may produce for the relevant markets and receive funding for the production volumes related to innovative aspects and as long as these pertain. Here is an indication how this could be constructed:

» "25. For the purpose of this Communication, first industrial deployment means the upscaling of pilot facilities, demonstration plants or of the first-in-kind equipment and facilities covering the steps subsequent to the pilot line including the testing phase ***and mass production with innovative elements***, but neither mass production ***without innovative elements*** nor commercial activities ***without innovative elements***...."

The expansion of what is now Article 26 to include the aspect of climate protection is very positive. By introducing the phrase "... to the extent that they are not covered by points 23 and 24,...", however, it is useful and necessary to add the phrase "... but not limited to those specific sectors ..." to replace with "but not limited to those specific areas". This is to prevent Article 26 from being viewed as being directed only at certain economic sectors. Here is an indication how this could be constructed:

» "26. Environmental, energy, transport, health or digital projects, to the extent that they are not covered by points 23 and 24, must be of ***substantial impact*** for the environmental, climate, energy (including security of energy supply), transport, health or digital strategies of the EU or contribute significantly to the internal market, including, but not limited to those specific ***areas***."

In addition to this, in Art 24 this thought could be added as follows:

- "24. Projects comprising of first industrial deployment must allow for the development of a new product or service with high research and innovation content and/or the deployment of ***a production process fundamentally innovative and/or with a substantial environmental impact***. Regular upgrades without an innovative dimension of existing facilities and the development of newer versions of existing products do not qualify as first industrial deployment."

According to the rules, the decision on the extent of the IPCEI-funding will rest on a comparison of the "funding gap" with the "eligible costs". For large-scale first deployment installations, as well as infrastructure investments (e.g. for Hydrogen), the lifetime of the investment will be at the usual industrial scales of several decades. Since no funding scheme will cover such long periods of time, the business case must foresee profitability after the initial years (especially when the innovative nature of the production ends). The functioning of IPCEI-funding would consist in covering the initial losses and thus make such investments feasible. If the funding gap would be calculated for the entire lifetime of the investment, as the rules now demand, in such cases the funding would not be permitted or only be made permissible by applying unrealistic discount rates (which will jeopardise access to financial markets). Therefore, in such cases, the funding gap should be calculated for the lifetime of the project. Here is an indication, how this could be constructed:

- "34. The maximum aid level will be determined with regard to the identified funding gap in relation to the eligible costs. If justified by the funding gap analysis, the aid intensity could cover all of the eligible costs. The funding gap refers to the difference between the positive and negative cash flows, ***in general*** over the lifetime of the investment ***but for projects comprising of industrial deployment and environmental, energy or transport projects over the submitted project duration***, discounted to their current value on the basis of an appropriate discount factor reflecting the rate of return necessary for the beneficiary to carry out the project notably in view of the risks involved."

This modification would also align well with the provision in paragraph 33, which refers to "*the lifetime of the project*".

Against the background of the large-scale-financing related to industrial climate protection investments and operations, it appears to be expedient to allow for combination of different funding sources. An example would be the combination of IPCEI-funding with funding from the ETS-Innovation Fund (who actually and effectively requests co-funding). Also co-funding from international fund may in the future be available, e.g. initiated by the Mission Innovation of the UNFCCC. Here is an indication, how this could be constructed:

- "20. The project must involve significant co-financing ***either*** by the beneficiary ***or by a union fund or international fund***."

The most likely combination of funding instruments is the one of IPCEI and the ETS-Innovationfund. In this respect, it should be clarified that the part of the "relevant costs", which is not funded by the ETS-Innovationfund, can be co-funded by an IPCEI and how this would work.

- Maybe by simply adding in Article 34: "If justified by the funding gap analysis, the aid intensity could cover all of the eligible costs ***or a part of the 'relevant costs' as calculated for an EU Emissions Trading Innovation Fund project, which are not funded by the EU Emissions Trading Innovation Fund, if this part does not exceed the size of the eligible cost covered.***"

The guidelines state that the maximum aid level "*will be determined with regard to the identified funding gap in relation to the eligible cost*". It would be quite helpful for a potential applicant to give some additional explanation, how the relation of the funding gap ("fg") and the eligible cost ("ec") will define the maximum aid ("ma") level (e.g. it could mean fg/ec = 1 ⇨ ma = ec).