European Office

VDMA contribution to the consultation on the targeted review of the General Block Exemption Regulation (GBER)

Comments on the draft COMMISSION REGULATION (EU) amending Regulation (EU) No 651/2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty

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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 review of the General Block Exemption Regulation (GBER).

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.

Introduction: General comments on economic policy and competition framework

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 European Commission is proposing a series of modifications to the General Block Exemption Regulation (GBER) to adapt the framework for public financing to current policy priorities of the EU such as the Green Deal and the Industrial and Digital Strategies. It complements the ongoing revision of other State aid frameworks (e.g., Climate, Energy and Environmental Aid Guidelines, Research and Development and Innovation and the Regional Aid Guidelines.)

VDMA, in principle, welcomes these updates in the light of the policy priorities. We also see the need to ensure that the different frameworks are aligned and consistent. The competition rules in the EU's internal market, however, are an asset of the EU and have ensured a level playing field. Too much softening of the state aid rules would distort competition and put competitive companies at a disadvantage and endanger the internal market itself. Horizontal frameworks such as the GBER must continue to ensure fair competition in the single market. 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.

In general, the draft provided by the EU-Commission strikes a balance between necessary updates of categories and thresholds and the goal of protecting the Single Market. We identified, however, a few topics where we suggest amendments or clarifications.

Part B: Comments on specific chapters of the GBER

Definitions

In Art. 2 (Definitions), a new definition for "green cogeneration" is introduced: "(108b) 'green cogeneration' means cogeneration using 100 % renewable energy sources as an input for the production of heat and power". Limiting the definition to equipment <u>using 100%</u> RES excludes investments in equipment that is ready but where renewable gas is not yet available. This does not allow, for example, blending of renewable gases with natural gas. We would propose a modified definition, such as "'sustainable cogeneration means high-efficiency cogeneration using <u>or being ready to use</u> renewable energy sources as an input for the production of heat and power".

Regional Aid

The expansion of operating aid for avoiding and limiting business delocalization within the scope of regional aids requires a clear and practicable definition of areas with (very) low population density. In general, sharp delineations could discriminate companies located close to but outside of the respective area.

Research & Innovation

We appreciate that the framework for R&I funding is only carefully adapted and that proven procedures can be continued.

An exception are the modifications in Article 25: in principle, the approach to apply a simplified cost approach for the calculation of indirect costs is positive. However, the proposal in Article 25 (3) e) GBER means that companies still must perform a detailed accounting and the impact on simplification might be small or even counterproductive (the new wording of Art. 25 (3) e) will change the basis of assessment for flat-rate settlements which might make existing simplified settlement options impossible). We suggest considering an even broader use of simplified cost methods because it can significantly reduce bureaucracy and facilitate access for funding for smaller companies. In addition, we suggest adapting the percentage from 15% to 25% (to align it with Horizon Europe).

Environmental protection, including climate protection

In general, we suggest that the provisions in this chapter should take a more technological neutral and impact-oriented approach. The conditioning on the actual use of climate-neutral energy tends to bar the way to accelerating the change (for example, a ramp-up of the hydrogen market). A greater recognition and support of the capacity of existing technology to run or switch to renewable operation might help to accelerate the transition and, for example, to kick-start a hydrogen market.

Examples:

The revised Art. 36 requires that measures for investments in equipment, machinery and industrial production using fossil fuels (other than natural gas) are excluded from the scope of the GBER. This would mean that climate protection investments, including CCUS, ore only eligible if climate-neutral fuels or natural gas are used in the installation. This might even hamper efforts to reduce CO2.

In Art. 41 (Investment aid for the promotion of energy from renewable sources) it would be good to allow for the use of hydrogen as well, e.g. in point 3: *Investment aid for the production <u>and use</u> of hydrogen shall be exempted from the notification requirement of Article 108(3) of the Treaty only for installations producing <u>or using</u> exclusively renewable hydrogen*; or in point 4: *Investment aid for new or refurbished high-efficiency cogeneration* *units, <u>including to adapt the units to run on hydrogen</u>, shall be exempted from the notification requirement of Article 108(3) […]";*

E-fuels should be included and their use as raw materials should also be considered in the scope of Article 41.

SME-Definition

We propose to use the opportunity of the revision of the state aid framework to also adapt the SME definition. In particular, lifting the threshold from a maximum of 250 employees to at least 499 is overdue. Otherwise, important parts of the industrial SME sector will be left out. Furthermore, an adjustment of the financial criteria is urgently needed.

Conclusion:

The EU-competition rules have been an essential element of the European industry's success. Adaptations of the EU State aid framework, including the GBER, 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 to follow a technological-neutral approach and to maintain a level playing field and fair competition rules in the Internal Market.

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