

Workshop on Environmental State Aid

The review of the Community guidelines on State aid for environmental protection as a contribution to the achievement of the objectives of the Environmental Technologies Action Plan (ETAP)

Rome, 3 October 2005

Summary conclusions

Introduction

In the framework of the implementation of ETAP, **Priority Action 6 (Review of State aid Guidelines)** underlines the necessity to examine the possible modifications and simplifications to bring to the Community Guidelines on State aid for environmental protection, in order to adapt to the increasing sophistication of investments in environmental technologies and to new forms of public/private partnerships.

The **Report on the implementation of ETAP** identifies two activities to be carried out in order to further implement the abovementioned Priority Action 6:

- examine whether the Guidelines for environmental State aid should further facilitate the development of eco-innovations and their introduction to the markets (page 5 of the Report);
- identify the needs and areas for adaptation of the Guidelines in the light of experience so far (page 5 of Annex I to the Report).

On 7 June 2005, the European Commission adopted a **State Aid Action Plan** outlining the guiding principles for a comprehensive reform of State aid rules and procedures over the next five years.

The reform aims to rationalise and streamline procedures, so that the rules are clearer and less State aid has to be notified, and to accelerate decision-making.

In this context of the comprehensive reform of State aid rules and procedures by the European Commission, Italy hosted on 3 October 2005 in Rome the ETAP workshop on Environmental State Aid with the aim of contributing to the implementation of ETAP and in particular to the review activity of the Community guidelines on State aid for environmental protection.

To this end, the workshop focused on sharing experiences among EU Member States on the implementation of the Community guidelines and identifying with the European Commission the needs and areas for their improvement, in line with ETAP objectives.

It was generally recognized that the current guidelines can prevent state aids from contributing effectively to the achievement of environmental objectives of common interest and stimulating environmental technologies. Moreover, the debate confirmed a wide consensus on some of the principles that the revision of the environmental guidelines should follow.

On the basis of the stimulating discussions, the participants concluded that there are common views on the following:

ENVIRONMENTAL GUIDELINES REVISION

The top line conclusions of the different presentations and of the debate are the following:

- 1) State aids are a good instrument to foster environmentally beneficial investments taking into account that there is a clear **market failure** in the environmental field.
- 2) The current Community environmental guidelines are generally considered **too complex and restrictive**. This has brought in many cases to prefer to notify environmental State aids under other guidelines, in particular, where applicable, regional aid, which provides greater aid intensity and less burdensome procedures. A more **flexible and facilitative** set of guidelines would be better able to keep pace with developments in the sector and achieve environmental benefits.
- 3) Despite the interest of many enterprises in investing in a voluntary improvement of the environmental protection, the level of environmental aid authorised according to the current guidelines is not significant with respect to the total financial burden that they have to face in order to pollute less and often discourage them to pursue the investment.
- 4) The approach taken in the environmental guidelines should much more consider the **environmental benefits**. In addition, their scope should be enlarged to give a wider definition of environmental benefit. At present, many direct and indirect environmental benefits are ignored, not just to the recipient of the aid, but to the wider Community in terms of a better use of natural resources, reduced emissions of greenhouse gases and other pollutants, increased recycling of waste, reduction and remediation of pollution, reduced landfill etc.
- 5) The calculation of costs should be adapted to better reflect true costs, and simplified. Considering that the determination of the **allowed aid** is based on a combination of calculation of eligible costs and aid intensity, two options appeared as the most practicable in order to provide levels of aid sufficient to incentivise improved environmental performance: to use the total additional costs that should also consider the avoided external costs as basis for calculation of aid (100% of eligible costs – that is the minimum cost necessary to achieve environmental policy outcomes), or to apply a given aid intensity percentage to the total investment.
- 6) The introduction of a block exemption regulation for environmental aid would be valuable. A general criteria is to exempt from notification State aids that have negligible distorting effects through a proper economic assessment. For example, if a company has no real commercial advantage from aid, but can provide wider environmental benefits. It was recognised that many environmental investments reflect such principle and therefore could qualify for exemption. Investments in the fields of renewable energy and soil remediation appear to be good candidates for block exemption.
- 7) Other guidelines and frameworks for State aid, such as the R&D guidelines and the risk capital guidelines, should take into account **environmental factors** in order to address environmental challenges.
- 8) If environmental factors are covered in more than one guidelines, then it must be ensured that there is a very **coherent approach** in the different guidelines and in overall State aid policy and that there are no gaps.

ECO-INNOVATION

The main conclusions of the presentations and of the debate are:

- 1) The environmental guidelines should be adapted in order to create the appropriate framework conditions to foster eco-innovation.
- 2) Environmental innovation is crucial to improve **competitiveness**.
- 3) Looking at the environmental guidelines, the **extra risk** involved in the introduction of new technologies and innovative processes and products is not incorporated in the calculation of eligible costs and in the definition of the reference investment.
- 4) Looking at the R&D guidelines in the context of eco-innovation there are **top ups** for SMEs, assisted regions, cross border cooperation etc. but no top up for the environment.
- 5) Moreover the R&D guidelines keep research very separate from **close-to-market activities** which may not be the best way to stimulate innovation. The Commission should keep in mind the need to make provisions for all stages from basic R&D to real market. There is a **gap** between the R&D and environmental guidelines that needs to be filled as well as a **double market failure** in innovation and in environmental protection that should be addressed. The Commission consultation on State aid for innovation is a good opportunity to address the gap on aid for eco-innovation, in the middle of the chain from research to market introduction.
- 6) A possible way to close that gap is to include eco-innovation activities, for example development of commercial scale pilots, feasibility studies, marketing costs, management and marketing training, in some way within the R&D or in the environmental guidelines.
- 7) **Performance targets** (PTs) are a good instrument to stimulate eco-innovation. The advantage of PTs is that they allow a long term perspective but at the same time they are dynamic and flexible because the targets can reset overtime. Another advantage is the ability to “name and shame” or equally reward people who do comply with the targets and point out those who do not.
- 8) However, taking into account that PTs do not always work (example of CO2 targets for vehicles in the EU) three ways to back PTs up were identified: through legislation, through economic incentives or through market demand (labelling, verification systems, information and publicity, public procurement, etc).
- 9) Finally, because of their incremental nature, targets generally will only stimulate incremental improvements in a technology or in a product but not big innovative leaps and new products and are therefore only one way of stimulating innovation.
- 10) The linkage between PTs and State aids for eco-innovation should be further explored in order to identify possible synergies.