Financing Sustainable Development through State Aid. Evidence from the SAM Reform[1]

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Abstract: - The current EU state aid policy has constantly evolved from a tool created to control and assess the efficiency of direct subventions granted in the Member States for their economic sectors to a complex set of regulations enabling sustainable and smart development especially through the so called horizontal objectives (environment protection, energy efficiency, renewable energy and RDI). Given the fact that the complexity of SAM Reform has influenced the effectiveness of state aid law and its enforcement in the Member States, this article examine its effects on two state aid categories (energy aids granted under General Block Exempted Regulation (GBER) and environmental aids) aiming to highlight the main achievements in boosting such aids across the EU. The research methodology combines selected evidence from the latest EU State Aid Scoreboard with relevant case studies (key schemes and measures granted at EU level). The final objective of our research is to assess the SAM Reform impact on the adequate implementation of the state aid policy to support the Member States for reaching the 2020 climate targets while providing sustainable and secure energy. The limitations of the current paper are given by the fact that there is not yet available a 2020 State Aid Scoreboard, but our purpose is to extend the current research based on the future statistics of state aid notified and approved by Member States during the next years.

Key-words: state aid, sustainable development, SAM Reform, state aid in the EU
JEL Classification: K10, K19, K29

1 Introduction

As stated in some analysis (Colombo, 2019) the SAM Reform has strengthened the Commission's dominance on state aid control while enhancing the instruments of administrative integration in the competition field. Although such evidence is undeniable, our paper aims to emphasize that SAM Reform has also increased the number of state aid granted without notification under the General Block Exempted Regulation (GBER), given the fact that one of the indisputable effects of the reform was the notable increase of state aid for horizontal objectives (that could be granted by the Member States without prior notification to the Commission).

In order to boost sustainable development the Member States have prioritized the environmental aids in their schemes and measures while also granting many aids for energy efficiency and renewable energies. Some papers (Brandtner, Vidoni, 2018) have argued that granting of the state aid under GBER may be considered one of the pillars of the SAM Reform, thus enabling Member State to accelerate the process of funding innovation projects without prior notification. In the context of limited resources and competing spending needs it is our believe that SAM Reform proved to be a great success for achieving the sustainable growth in all Member States, hence the main objective of this paper is to assess how the Member States have used the tools of the reform in order to finance green energies and environmental protection, while also underlining the challenges ahead.

Understanding the possibilities of state aid policy in the current economic environment is all the more important since, as the adoption of New Temporary Framework has proven that this policy may be an essential

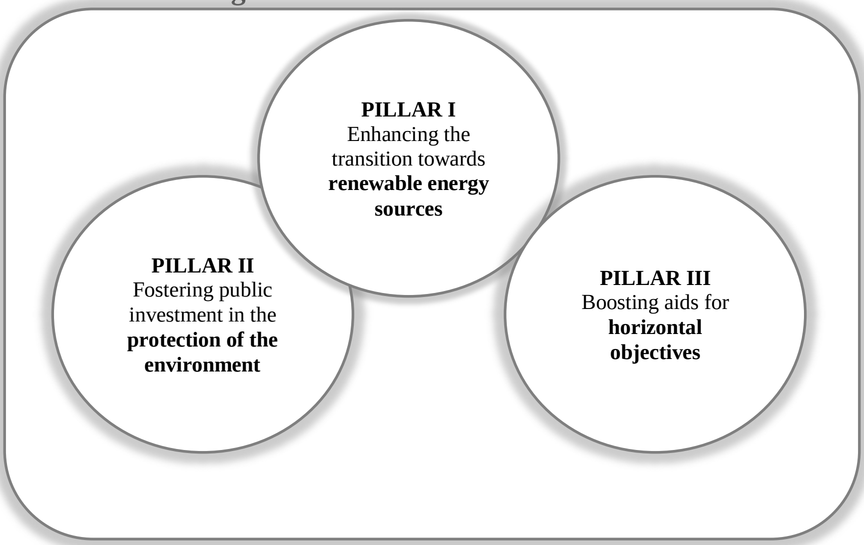
[1] SAM reform (State Aid Modernization Reform) started with the adoption of Communication Reform (EU State Aid Modernisation, COM 2012) aiming to boost a new framework for granting more horizontal state aid, those aids being considered vital for sustainable development and in line with Europe 2020 Strategy objectives (environment, energy efficiency, RDI) while having a minim distortion effect on the free competition on the internal market.

tool in boosting recovery in a post-pandemic world (Drăgoi, 2020). It is also important to note that the SAM Reform has proven the flexibility of EEAG (Guidelines on State aid for environmental protection and energy) as an instrument to achieve the objectives of the European Green Deal (EC, 2020). EEAG has successful supported the funding of green energies projects hence being one of the most successful regulations enforced during the SAM Reform. This flagship initiative has created for all Member States a framework to support the shift towards a resource-efficient and low-carbon economy, many state aids schemes and measures being granted through EEAG for supporting the "green" economy. In the following sections of our paper we will present through a comparative analysis key examples of state aids granted during the SAM Reform both under EEAG and GBER, aiming to assess what were the preferred tools and types of aids across EU.

2 Types of state aid for sustainable development granted in the EU. Main goals and tools

As shown in the latest State Aid Scoreboard[2] (EC, 2019) the success of SAM Reform in shifting the objectives of state funding toward "green" economic growth is undeniable, being strongly supported by three main pillars (Figure 1).

Figure 1: Pillars of SAM Reform



Source: Author based on State Aid EU Scoreboard (2019).

Presently it is widely accepted that one of the cornerstones of the reform is the revision of the General Block Exemption Regulation (GBER), which simplifies aid-granting procedures for Member States by empowering Member States to authorize aid without prior notification[3] especially for horizontal objectives (Pillar III). This is possible for a wide range of measures fulfilling horizontal common interest objectives and many Member States have used the New GBER (adopted through SAM Reform) to boost their sustainable development.

While the SAM Reform was key in modernizing many sectoral guidelines, the latest EU State Aid Scoreboard shows us that the reform had achieved its three main goals: to foster growth in a strengthened, dynamic and competitive internal market; to focus on sustainable growth-enhancing policies while encouraging budgetary consolidation; to limit distortions of competition while keeping the single market open.

Moreover, on the basis of the problems identified in achieving the 2020 energy & climate targets and the state aid policy objectives laid down in the SAM reform, there are two important achievements for environmental state aid: assisting in achieving the 2020 renewable energy targets while minimizing the distortive effects of

[2] The Scoreboard is the European Commission's benchmarking instrument for State aid. It provides a transparent and publicly accessible source of information on the overall State aid situation in the Member States but also on the Commission's State aid control activities.
[3] It should be noted that similar block exemption regulations have been adopted in the agricultural sector (ABER) and for fisheries (FIBER) all those regulations boosting the granting of such sectoral aids.

support schemes and reducing distortions to competition and trade resulting from the financing of support schemes to renewable energy sources, while limiting negative impacts on the competitiveness of EU firms.

Along with the mentioned EEAG, through the SAM reform the New GBER also devoted significant attention to environmental protection and the transition towards renewable energy sources. Section 7, Articles 36 to 49, of the GBER allows Member States to grant aid without prior Commission scrutiny for a variety of policy objectives. These include among others investment aid for energy efficiency and high-efficiency cogeneration (Arts. 38-39), operating and investment aid for the promotion of energy and electricity from renewable sources or small scale installations (Arts. 41, 42 and 43), aid in the form of reductions in environmental taxes (Art. 44) or investment aid for energy efficient district heating and cooling (Art. 46).

According to the latest EU State Aid Scoreboard, State aid spending for environmental and energy aid corresponded to 55% of total State aid spending in 2018. Environmental protection and energy savings is the prime objective in 20 Member States. Over the last 10 years, Member States have spent around 342 billion EUR on environmental protection and energy saving measures under GBER and Environmental protection and energy Guidelines. This corresponds to around 41.1% of total State aid expenditure in the same period for the whole EU.

State aid expenditure was primarily directed towards environmental protection measures (around 333 billion EUR or 97 % of the total) while only around 8.2 billion EUR (2.4% of the total) concerned energy saving measures, and 0.7 billion EUR (0.2% of the total) were dedicated to renewable energy.

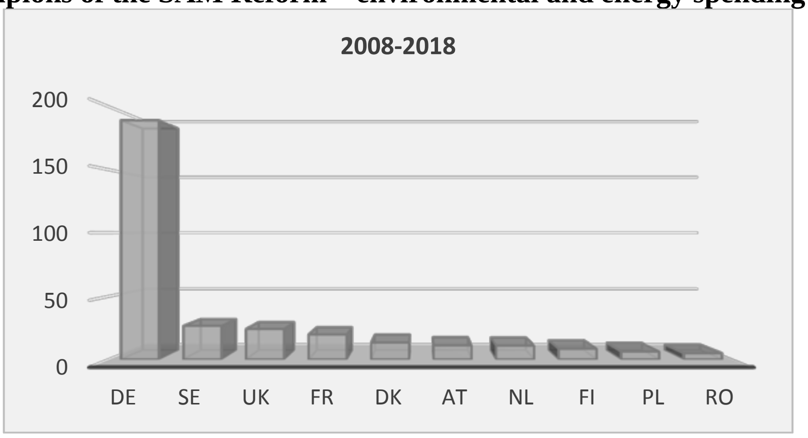
State aid spending supporting ‘green’ projects still mostly takes the form of notified State aid measures. The share of notified State aid spending for the last ten years corresponds to around 231 billion EUR or 67.5 % of the total, against around 81,5 billion EUR for GBER measures. However, despite the still predominantly notified nature of State aid measures for environmental and energy projects, block-exempted State aid has significantly grown since its introduction in 2008 and reached around 22.6% of total State aid spending for environment and energy measures in 2018, corresponding to around 15 billion EUR.

Overall, State aid spending in this area has remained highly stable between 2008 and the end of 2013 and relatively balanced between block-exempted and notified measures. After the 2014, we see a much more pronounced and sharp increase in spending for environment and energy measures. The total amount spent more than doubles in only one year, a +135% change on an annual basis, from around 15.8 billion EUR in 2013 to 37.3 billion EUR in 2014, reaching around 66.5 billion EUR in 2018. When looking at the number of active measures for which spending was reported in 2018, block exempted measures are around three times as many as notified measures and amount to 376 active GBER measures against 121 approved measures.

3 The impact of SAM reform on state aid for sustainable development in the Member States

Despite the impressive total State aid amounts at EU level, big differences between Member States remain, with around 79.7% of the total nominal State aid spending for environmental protection and energy projects highly concentrated in only five Member States: Germany remains the biggest spender with around 189 billion EUR over the last 10 years, followed by Sweden (26.6 billion EUR), the United Kingdom (24 billion EUR), France (19.7 billion EUR) and Denmark (13 billion EUR). However, Romania has also a good performance ranking 10th in the EU hierarchy (see Graph 1).

Graph 1: Champions of the SAM Reform – environmental and energy spending (billions EUR)

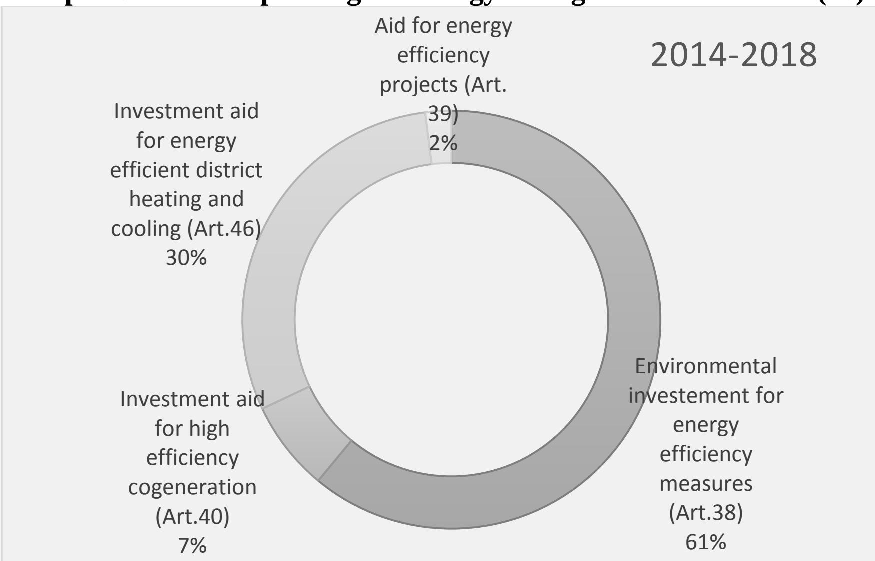


Source: Author, based on EU State Aid Scoreboard.

At EU level there are several spending 'sub-categories' for the two main policy objectives of 'Environmental protection' and 'Energy saving' under SAM by classified after GBER articles under which expenditure was reported. Accordingly, aid for energy savings, whose total GBER spending from 2014 to 2018 amounts to around 2.5 billion EUR, is mainly disbursed under two GBER articles: Article 38 - 'Environmental investment aid for energy efficiency measures' (61% or around 1.53 billion EUR) and Article 46 – Investment for energy efficient district heating and cooling' (30% or around 0.75 billion EUR).

These articles allow Member States to support the cost of investments aimed at complying with Union energy efficiency standards and building production plants to operate energy efficient district heating and cooling systems.

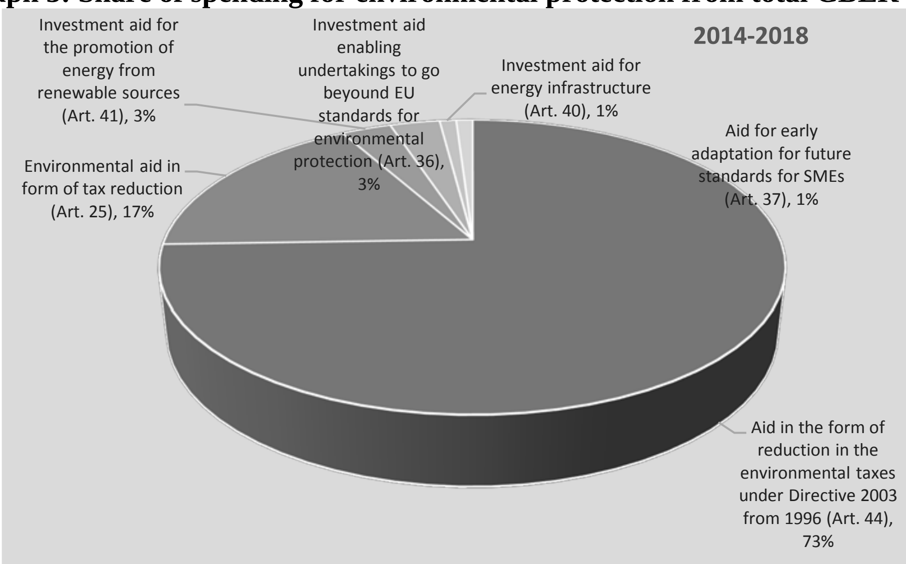
Graph 2: Share of spending for energy saving from total GBER (%)



Source: Author, based on EU State Aid Scoreboard.

As the latest Scoreboard shows aid for environmental protection has also been largely channeled via GBER. The amounts spent for this objective are much bigger than those devoted to aid for energy savings and correspond to around 57.6 billion EUR (from 2014 until 2018). State aid spending for environmental protection under the GBER is highly concentrated (Graph 3). Around 90% of the total is spent under two articles both entailing tax reductions and exemptions for energy intensive users. These articles are Article 44 – Aid in the form of reductions in environmental taxes under Directive 2003/96/EC' (2014 GBER) absorbing around 41.8 billion EUR or 72.5% of the total spending and Article 25 - Environmental aid in the form of tax reductions (2008 GBER) corresponding to around 9.7 billion EUR or 17% of the total.

Graph 3: Share of spending for environmental protection from total GBER (%)



Source: Author based on State Aid Scoreboard.

When we look at the success of SAM Reform we may see that Investment aid for high efficiency co-generation (Art. 40, GBER) and Environmental aid in the form of tax reductions (Art. 25, GBER) have both been boosted. Spending under Article 25 instead is significant, with around 28.3 billion EUR over the period 2009 – 2018, while the use of tax measures varies before and after SAM.

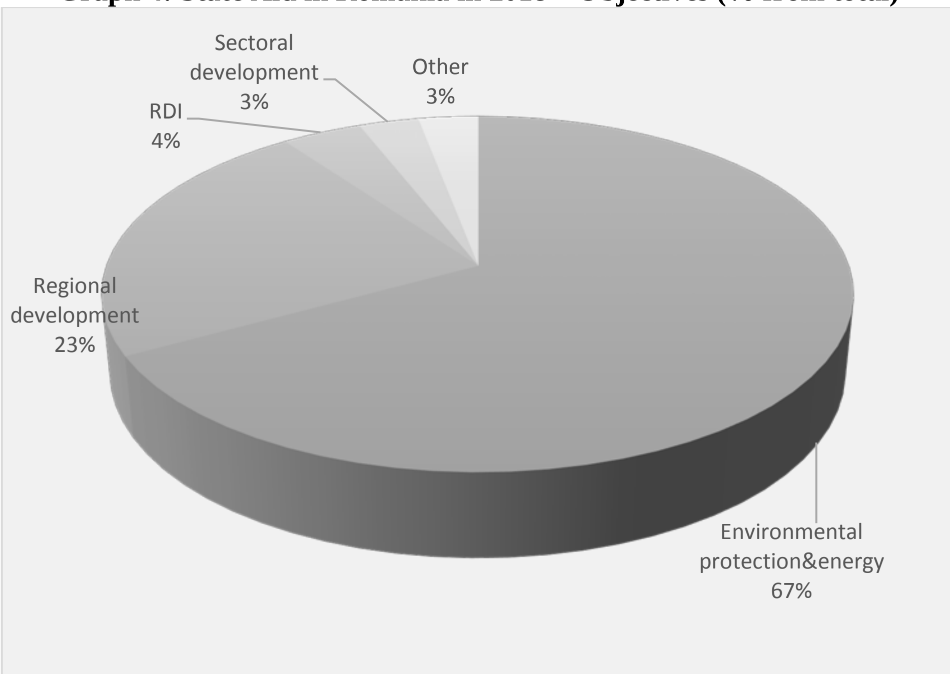
In the pre – SAM context, only 18.6 billion EUR were paid out under Article 25 – Environmental aid in the form of tax reductions. In the post – SAM period, the use of Article 25 continued (9.7 billion EUR) while aid under Article 44 (41.8 billion EUR) increased remarkably. Out of 60.1 billion EUR spent over the period 2014 – 2018, around 70% of total GBER aid for environmental protection and energy saving was paid out under this latter article in the form of reductions in environmental taxes. By means of comparison, the second most widely used State aid instrument, direct grant or interest rate subsidy, covers around 10.6 billion EUR between 2014 and 2018, corresponding to only 17.6% of the total.

3.1. Case study – Romania

According the latest Scoreboard, in Romania the total number of active measures corresponded to 35 in 2018, of which 24 under GBER and 11 notified. In 2018, the share of GBER measures in Romania reached 69% of the total, with 87.5% of all newly implemented measures falling under the GBER, against the European average of 94.7%. State aid spending in terms of GDP in Romania in 2018 was below the EU average, 0.52% against 0.76%.

Around 90% of State aid spending in Romania was concentrated in two main policy objectives (Graph 4). Around 67% of the spending was directed towards ‘Environmental protection including energy savings’, while 23% of spending was used for ‘Regional development’ and only 4% was used for the financing of ‘research, development and innovation’. Romania devoted around 3% to ‘sectoral development’.

Graph 4: State Aid in Romania in 2018 – Objectives (% from total)



Source: Author based on State Aid Scoreboard.

As shown by national data in Romania GBER spending is mostly concentrated in three key articles that absorb 85% of total GBER spending. The most widely used is ‘Regional aid - investment aid (Art. 14) for scheme’ (39%), followed by ‘Aid in the form of reductions in environmental taxes under Directive 2003/96/EC (Art. 44)’ (30%). ‘Regional aid - scheme (art. 13)’ accounts for 16% of total GBER spending. The remaining amounts are evenly distributed across a variety of articles. In terms of State aid instruments, Romania privileged the use of direct grant/interest rate subsidies (around 448 million EUR, corresponding to 42% of total State aid spending).

3.2. SAM main achievements in fostering sustainable development. Challenges ahead

Among SAM achievements the most important ones are as follows: fostering smart and inclusive growth in a competitive internal market; focusing on the Commission's ex ante scrutiny on cases with the biggest impact on the internal market whilst strengthening the Member States cooperation in State aid enforcement and enabling faster decisions in the member states. When discussing GBER achievements, as key part of SAM reform, one must notice the following progresses: increasing state aid as tax reduction for energy and environment, providing new criteria to assess whether State aid measures for environmental protection can be declared compatible with the internal market. Despite the important progresses of SAM Reform many challenges are laying ahead. Energy investments undertaken today will still be in use up to and beyond 2030. Investors therefore need already today certainty over the energy and climate framework a goal that will be difficult to achieve in the current economic framework considering the new challenges brought by the pandemic crisis.

Apart from setting long-term goals with its 2050 Roadmap, if to success in further achieve its Green Deal targets the Commission need to emphasize new features as follows: an EU-wide energy efficiency target and the review of the Energy Efficiency Directive; other elements such as key indicators (e.g. energy price differentials with the major trading partners of the EU) to prepare for a potential policy response if necessary, in order to ensure a competitive, secure and affordable energy at European level. According to the analysis of the European Commission regarding the SAM success (launched in January 2019), it is important to see that SAM has created a framework with rules that fit to purpose. Based on all the evidences from the Member States SAM was a big success regarding the "fitness check"[4], enabling an important growth of aids for sustainable development while cutting the red tape and granting more autonomy at the national level.

The importance of SAM Reform is undeniable in order to achieve the true sustainable development at EU level, especially because the European Green Deal is considered by some studies the prelude and the foundation of a daunting, but necessary, environmental-centric industrial revolution (Verschuur, Sbrolli, 2020). However when discussing the future of state aid reforms at EU level we must take into consideration the COVID-19 crisis impact. As stated by some analysis (Sierra, 2020) the sudden onslaught of **COVID-19** has already made a huge impact in the world of state aid in a manner not seen since the banking crisis of 2008, and is bound to surpass it in severity. Although key recovery is essential, in our opinion sustainable development must also remain a key focus of state aid policy, hence the objectives of SAM Reform remain as important as ever especially because the flexibility of state aid policy can be used for fostering green transition and sustainable development. Moreover, the specificity of some regulation as GBER and EEAG may prove in fact to be a solution enabling many Member States to adopt the necessary aids for boosting the green economic development (Delarue, 2019).

4 Conclusions

Our analysis on the use of environmental and energy State aid in the EU has shown some key insights on the use of this type of aid. While it currently represents one of the most widely pursued policy objectives in the European Union, both in 2018 spending and as spending trend over the last ten years, it still remains highly concentrated in only five Member States, with more than 50% of the total spending in Germany. In addition, the same spending concentration in one country (Germany) drives most of the increase in total spending for this policy objective since the SAM enforcement.

The analysis has also revealed a marked preference of Member States for the use of tax measures, progressively replacing direct grants, for GBER environmental and energy measures. As long as market and regulatory failures persist, Member States are likely to continue using State aid to meet the Union's environmental, energy and climate policies. The Commission, which has exclusive competences in State aid control, should however ensure an effective and efficient State aid control framework.

An important challenge lay ahead in order to transform the state aid policy in a tool for fostering the achievement of environmental objective in EU: while the existing regulation does not include compatibility criteria on measures aimed at compensating undertakings for the costs of financing renewable energy policies, many Member States are confronted with legal uncertainty.

In order to become more effective, state aid for environmental and energy should focus on creating such clear criteria and on competitiveness issues such as those that arouse from financing renewable energy, otherwise as a result of electricity price increases, certain industrial sectors may relocate their production outside the EU.

It is our opinion that SAM Reform may still support clean energy and environmental protection in the near future in EU especially because long-term political commitments and robust administrative planning for a successful transition to low-carbon economy requires supportive measures, of which some may qualify as state

[4] The progress of the fitness check can be followed on the Better Regulation Portal: https://ec.europa.eu/info/law/better-regulation/initiatives/ares-2018-6623981_en.

aid. Such measures may include: compensation for the closure of coal facilities; efforts to achieving a fair and just transition in regions dependent on coal mining or coal use; and adequate interventions to ensure security of electricity supply. Smaller states such as Romania have reoriented their state aid policy to cope with Union standards, but especially in the current economic crisis (created by the pandemic economic consequences), more exemptions should be allowed, if such positive trend is to be maintained.

The New Temporary Framework should allow, not only aids for affected SMEs, but also for renewable investors affected by the crisis. SAM reform has proven that state aid policy can be a flexible tool for supporting the future economic challenges in the EU as a whole, while also pursuing ambitious environmental targets. While the future of a post-pandemic world will most certainly create new and complex challenges state aid policy can prove itself a vital tool for supporting both economic recovery and sustainable development across the Member States.

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