European
Commission

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Dear Minister,

I am writing to you on an urgent matter. The competitiveness of European industry is facing a number of challenges. Most prominently, high energy prices, the need to re-skill and up-skill workers, and the US Inflation Reduction Act, which risks luring some of our EU businesses into moving investments to the US.

We need a strong European response. One that strengthens and builds on our Single Market.

We have three priorities. We need to accelerate the green transition. We need to work hard to eliminate the existing barriers within the Single Market. And, we need Member States equipped to give quick and targeted support to their businesses in key sectors in the meantime. This is our bridge to overcome the current crisis until the EU becomes decarbonised.

We have already done a lot. As you know, the Commission has mobilised **EUR 672 billion of national funding** so far under our State aid Temporary Crisis Framework, more than two thirds of which was notified by two Member States. But in this urgent context, more may be needed. In the coming weeks, I will launch a consultation of Member States on a proposal to amend our Framework, **into a "Temporary Crisis and Transition Framework"**.

As I am fully aware of the complexity of such proposal, the purpose of my letter is to lay the ground for that official consultation. In the Annex to this letter, I am first sharing what we have recently done to revise our State aid rules, listing the tools that you already have at your disposal and announcing the imminent revision of the General Block Exemption Regulation (GBER) to facilitate investments in key sectors in the long term. Thanks to the GBER, **more than 90%** of State aid measures can already be implemented **without the need to notify** the Commission beforehand. And second, I am setting out the changes that I propose to the existing Temporary Crisis Framework. I believe they will help ensure that Member States and industry have what it takes to lead the green transition without jeopardising the level playing field.

Last but certainly not least, not all Member States have the same fiscal space for State aid. That's a fact. And a risk for the integrity of Europe. That's why we are seeking ways to further **boost the EU's REPowerEU plan**, which is one of our main energy transition tools, and to **set up a collective European fund** to support countries in a fair and equal way.

But none of this can happen without your commitment and ownership. So, I would like to have your views on the following questions:

1. Process simplification comes with certain risks. Beyond the proposals listed below, is any further process simplification required to allow for public support to reach the right beneficiaries as quickly as possible?
2. Given the very recent revision of the relevant State aid rules for the upcoming Temporary Crisis and Transition Framework, is there anything missing to complement the rulebook and fast-track the green transition?
3. In your view, how to balance the need for granting additional flexibility for investments in sectors strategic for the green transition, for which public support in third country jurisdictions would lead to relocation, and the negative effects of State support for mass production, which include the possible fragmentation of the internal market, likely harmful subsidy races with third countries and within the EU and possible negative effects on cohesion within the European Union?

I am kindly asking you to answer before **25 January 2023** and I look forward to discussing further with you. This will be key to help the Commission formulate its response to the calls by the European Council of 15 December 2022 to enhance Europe's economic resilience and its global competitiveness while preserving the integrity of the Single Market.

Kind regards,

Margrethe Vestager

Annex

Competition and State aid policy play a key role to ensure Europe is a competitive and fair place to do business. State aid enables Member States to support the development of specific innovations, sectors and technologies that would be too risky for the market to undertake alone. As such, **it can turn the green and digital transitions into powerful drivers of growth**.

At the same time, State aid control **preserves the equality between European countries on the Single Market**. Because there can't be any profitable green and digital transitions for Europe as a whole if some countries win over others.

1. Revised State aid rules strongly support the twin transition

Let me start with how State aid can support the green and digital transition. In Europe, we have a wide range of tools that countries can use to support key sectors for the twin transition. Very recently, and in close cooperation with Member States, we worked hard to update our State aid rules and make them even better fit to deliver these objectives.

- We already made the delivery of State aid simpler. Today, thanks to the General Block Exemption Regulation (GBER), Member States can already implement a large part of State aid measures **without the need to notify** the Commission beforehand (**91% of new measures** in 2020). In July 2021, the Commission widened the scope of the GBER and simplified the application of certain provisions, for instance in the area of buildings' energy performance. A further revision of the GBER is imminent that will allow even **more flexibility for key sectors in the long term**, such as hydrogen and zero-emission vehicles.

- We enable supporting **cost-effective clean energy projects**. With the new Guidelines on State aid for climate, environmental protection and energy (CEEAG) Member States can for example support the installation of **wind and solar power generation**, or of electrolysers to produce **renewable hydrogen.** In 2022 only, this has resulted in the Commission approving aid schemes with an overall budget of **EUR 51 billion** to deliver new renewable energy production capacity and to unlock other decarbonisation initiatives, including in industry.

- We make the **development of key cutting edge technologies** possible.
  - Thanks to our Important Projects of Common European Interest (IPCEI). Overall, we have five IPCEIs in strategic areas: one in **microelectronics**, two in **batteries** and two on **hydrogen**. Public support for approximately EUR 18 billion is expected to unlock an additional **EUR 36 billion** in private investments. That means for every one euro of public money, the private sector is expected to put two.
  - Under the Framework for research, development and innovation, we have also recently approved significant schemes in Spain and in France, with overall budgets of more than **EUR 6.5 billion**. Those investments are key to consolidate Europe's strengths, especially for the development of **electric vehicles and clean energy**.

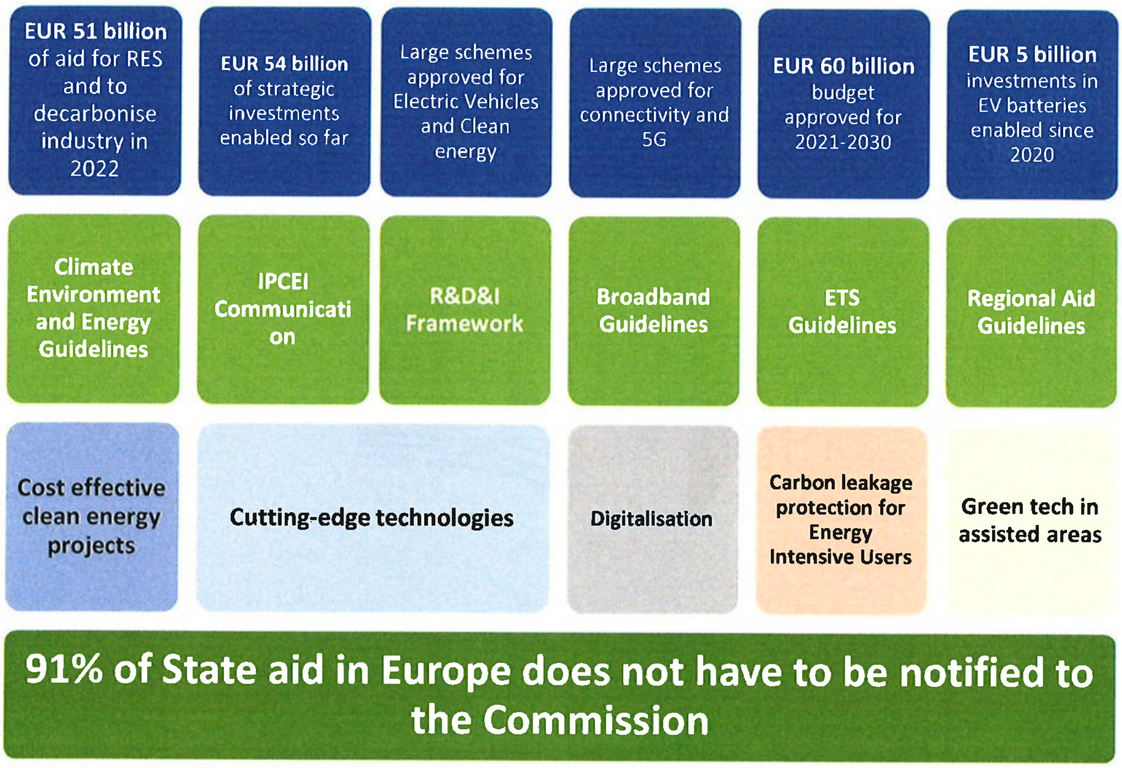
- We enable **productive investments, including in green technologies,** in disadvantaged areas in the EU. Under the Regional Aid Guidelines, we have approved aid for more than EUR 560 million in the **Electric Vehicle battery sector** only, supporting investments for more than EUR 5 billion since 2020.

- We enable a **strong, reliable connectivity and 5G coverage**, no matter where people live in Europe. This is essential to support the green transition, especially by enabling SMEs to increase the efficiency of their production processes. For example, we have recently approved under the

Broadband Guidelines two Italian schemes financed under the Recovery and Resilience Facility totalling **EUR 5.8 billion**.

- We also **protect our energy intensive industry** against the risk of carbon leakage. Our revised Emission Trading System Guidelines enabled more than **EUR 60 billion** of approved budget to compensate electricity costs in the most affected sectors such as aluminium, steel, and certain chemicals in the current ETS trading period (2021-2030).

Figure 1: Existing State aid tools for the twin transition



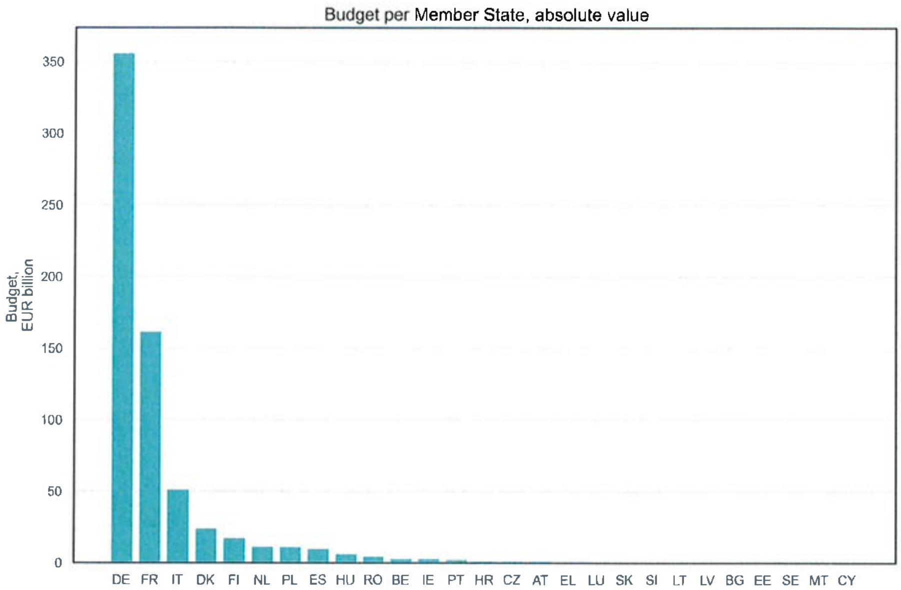
We also used our State aid rules to cushion the crisis. With our **temporary State Aid frameworks** we used the full in-built flexibility of State aid to enable Member States to provide necessary, appropriate and proportionate support to the struggling economies. And do so in a way that would avoid harmful subsidy races and undue competition distortions. That's what we did during the Covid-19 crisis. That's what we do again now in this energy crisis.

- In March 2022, following Russia's war of aggression against Ukraine, **the Commission adopted a Temporary Crisis Framework.** Since its introduction, it has enabled direct support to all companies affected in terms of small aid amounts, subsidised loans or public guarantees, and targeted support to cover increased energy costs.

- Two new sections of the Temporary Crisis Framework introduced in July 2022 provide additional flexibility. For instance, we have **allowed Member States to focus support for specific renewable energy or decarbonisation technologies** without asking for a thorough justification. We have also simplified the assessment of the necessity, incentive effect and proportionality of the aid.

All this so far translates into **EUR 672 billion of State aid approved under the Temporary Crisis Framework and related Treaty measures**. More specifically, 53% of State aid approved has been notified by Germany while France represents around 24% and Italy over 7%. We are of course carefully monitoring how these budgets in the 182 national measures approved to date are translating into actual spending.

Graph 1: Budget per Member State, absolute value



2. *My proposal for the Temporary Crisis and Transition Framework*

Nevertheless, the magnitude of the challenges ahead may require us to go even further to go greener. This is precisely the proposal of the changes to the current Temporary Crisis Framework, on which I will formally consult you. More specifically, our proposal sets the two following amendments.

- **Make the calculation of the aid amount simpler and the approval faster**. In addition to the revision and simplification of the existing State aid rules which recently took place, I am proposing to enlarge the scope of the existing simplified provisions to cover **all renewable energy technologies**. And to provide **simpler options to Member States to quantify how much aid they can grant to each project**.

- **Introduce new anti-relocation investment aid possibility for green investments in strategic sectors.** I envisage dedicated provisions to support new investments in production facilities, including via tax breaks. These new provisions aim to counter the risk that investments might be unfairly diverted to third countries outside Europe. Given that this proposed section will go beyond existing possibilities under the Regional Aid Guidelines, it should be limited in time, targeted to those sectors where such risk really exists, and proportionate in terms of aid amounts.

In parallel, we will continue working in collaboration with Member States to make our IPCEIs even stronger, especially by making the design and assessment phases more efficient.