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Summary of replies to the questionnaire on

State aid and structural change in Europe's coal regions

Background

In order to achieve the climate policy goals, Europe's coal regions will largely have to abandon value chains which are currently based on coal production, or set them on a new foundation. In the short, medium and long term, they will also have to close coal mines (open-cast and underground).

In this context, it is clear that the transition to a greener and carbon-neutral future will inevitably result in a disproportionate burden on coal-producing regions, in terms both of the investments needed for phasing out and of the resulting unemployment and the related social challenges. Given the heavy dependence of these regions' local economies on coal, the transition may become the impetus for a variety of regional developments that influence each other, resulting in a ‘reinforcing circle’ of economic, social and unemployment-related effects on coal regions.

Successfully implementing the climate goal presupposes that coal regions and sites, in committing themselves to it, can lay down solid foundations on which the value creation and jobs lost can be offset, and the people of the regions can be offered a decent future. This process must be backed up by a comprehensive economic policy that includes targeted and properly calibrated use of public funding and incentives. Public funding is restricted by state aid rules, but, pursuant to the Treaty, government intervention necessary for a well-functioning and equitable economy can be considered, in certain circumstances, compatible with State aid for reasons of general economic development.

In light of the recent shift of key EU policies towards a greener future, and of the disproportionate challenges that the transition poses for some regional economies, the European Committee of the Regions (CoR) wanted to explore, via a questionnaire, whether the existing flexibility regarding State aid rules is still appropriate to help coal regions deal with the challenges, notably in terms of the investments needed to tackle the economic and social challenges, and whether this flexibility is still appropriate to serve the key objectives of the Treaty regarding economic, territorial and social cohesion. This findings will be forwarded to the European Commission, which is revising the state aid framework.

Participants

The questionnaire was sent to coal regions members of the CoR and the 11 Member States with coal regions. The CoR received 14 replies, from seven Member States: Bulgaria, the Czech Republic, Germany, Poland, Romania, Slovakia and Spain. In some cases, the CoR got the responses from the national level. National authorities from Bulgaria, Romania and Slovakia answered. In most cases, responses were drafted by the regional level, namely by Asturias, Castilla-La Mancha, Castilla y León (Spain), Brandenburg, North Rhine-Westphalia, Saxony, Saxony-Anhalt and Saarland (Germany), Wielkopolska and Wojewodztwa Slaskiego (Poland) and Moravia-Silesia (Czech Republic). Thus, the regions and Member States that are most heavily affected by the phasing-out of coal took part.

Questions asked

1. Do you think that the current state aid rules are sufficient to facilitate the structural change in coal regions?
2. Are there any projects that you would like to support financially, but you are restricted by state aid rules?
3. Do you think that some projects would need support for the operating costs in addition to investment aids? If so, could you please provide examples?
4. Do you think that state aids facilitating the structural change in the coal regions should be granted on top of regional state aids?
5. Where do you see most need for a greater flexibility in state aid rules? What could these rules look like?

Need to adapt the current state aid rules to facilitate the structural change in coal regions

All respondents think that the current state rules are not sufficient to address the enormous challenges faced by coal regions in transition. They believe that they have to accompany the necessary transformation processes also by incentivising the settlement of new enterprises in order to offset job losses as well as losses in value creation. In their view, the possibility to offer state aid will influence the decision of companies to invest in the regions concerned.

One respondent highlights that the argument that state aid aims to prevent distorting competition is not appropriate, since coal regions are mainly affected by state intervention measures and not by competition. While acknowledging that regional state aid is based on the idea that incentives are needed, especially in disadvantaged regions, some argue that the transition will affect both less and more developed regions, where significant value creation is under threat. In their view, regional aid also does not reflect the magnitude of the challenges faced by transition regions, given the fact that they have to end functioning value chains. Finally, regional aid only takes into account the current economic status quo of a region, but cannot reflect future developments. Thus, although on a purely statistical basis, mining regions, or industrial regions in general, may at first glance appear relatively rich and well developed, changes related to decarbonisation will significantly worsen the economic situation in such areas. Negative developments will only become fully apparent during the decarbonisation process, and therefore data on the current GDP level do not take into account future negative developments. Thus, it is argued that the justification for new state aid rules here is not the less economic power and greater need for development in comparison with the EU average, but compensation for the actual or planned removal of functioning value chains on climate policy grounds.

Some regions believe that there is a significant need to provide answers to the profound economic, structural and social changes that will flow from the early closure of coal-fired power stations and coal mines. The disappearance of coal mining and the use of coal for thermoelectric power generation impact particularly on this particular type of territory (NUTS 2), affecting direct, indirect and induced employment, industrial GDP, economic activity, energy relations with surrounding areas, supply to the industrial sector, etc.

Many regret that other state measures are not sufficient in this context: Art. 17 GBER is an instrument to support only SMEs. IPCEI help Europe to keep up in global competition – they do not suffice as an instrument for regional development. One respondent adds that also Art. 36 GBER on aid for environment protection is too narrow and that aid intensity for companies, which want to invest in coal regions in the GBER regions is too low. According to the Slovak Ministry of Economy, it would be helpful to consider the eligibility of some sectors, currently excluded from the state aid (e.g. steel sector; synthetic fibres sector etc.). One respondent[1] also noted that a recast of Council Decision of 10 December 2010 on state aid to facilitate the closure of uncompetitive coal mines in light of the Just Transition Mechanism, could help energy transformation, by extending the same type of measures to alleviate the social and regional consequences of the closure.

Thus, all the respondents argue that new rules for coal regions that would facilitate and accelerate the transition process are needed.

[1] Bulgaria

Are there any projects that you would like to support financially, but you are restricted by state aid rules?

Effective investment aid is to be considered as an incentive to help steer private investment into regions that need it most, to catch up or to counteract economic decline. Coal regions need an additional leeway taking into consideration the disproportionate challenges these regions face in order to serve the transition to a greener future. Member States should not be obliged to wait with the support for coal regions until the coal regions go down.

Respondents argue that, to attract enterprises that would otherwise not invest or not invest in a coal region, it is necessary to set incentives convincing companies to choose the region for a certain investment. This is a pivotal condition for all investments, which are needed to compensate for the loss of jobs and the resulting social challenges, especially in the mining sector and thus includes investments that are specifically needed to create new value chains and support a new approach for the region.

Coal regions can often only attract companies, which would not otherwise invest in that region if they have a special concept of support, which they use to advertise investments in the region. As long as coal regions do not know whether they can offer state aids they cannot advertise this. Companies that might be interested in investing in these regions only if they got state aids might then not show up. Thus, the coal regions do not know exactly which cases would be concerned. This refers most notably to the settlement of commercial plants by companies from sectors not specifically supported by horizontal guidelines (e.g. logistics).

Nevertheless, several respondents mentioned problems caused by state aid rules, which they encountered when they wanted to implement projects:

- Energy infrastructure and energy-related investment cannot be supported under the current state aid rules[2] as the GBER provisions on regional investment and operating aid exclude state aid in the sector of energy generation, distribution and infrastructure. Being able to support these investments would be very important, as energy-related investment forms an important part of regional smart specialisation, which is reflected in the considerable supply of companies and projects in this area. For this reason, Moravia-Silesia claims that it could not carry out several projects in this field.

- Member States should be able to better support energy efficiency in buildings[3]. Such measures can only be supported under the "de minimis" Regulation, but not under the GBER. According to the reply by Bulgaria, the thresholds under Regulation (EU) 1470/2013 prevent many municipalities and agricultural producers to receive aid for energy efficiency. GBER should be revised to facilitate provision of grants for energy efficiency (not only loans).

[2] Asturias, Saarland, Wojewodztwa Slaskiego, Wikopolska, Bulgaria, Moravia-Silesia
[3] Bulgaria

- State aid solutions for investments in renewable energies or some alternative energy investments, e. g. gas power plants, hydrogen storage or cogeneration are requested[4].

- State aid rules do not support enterprises (especially large enterprises) to revitalize brownfields and after-mining areas.

- It is also argued that rules on state aid for environmental protection are too restrictive[5]. Investment in new technologies[6] and in recycling and reuse of waste generated by households[7] should be supported.

- One respondent regrets that state aid is only granted "on the site". This might pose a problem in the case of ITC projects in which software is used for which it is difficult to limit use to one site, the beneficiary of the aid carries out work in a wider scope that goes beyond the site, or provides services using that software, thus sharing it with other market participants[8].

- Normally state aid cannot be granted to large companies[9]. However, large companies are also necessary for a successful transformation. It would thus be necessary to allow also granting state aids to them.

- Another concern is that the general restriction for aid to undertakings in difficulty under most state aid regimes could be inconsistent with the transformation goal because it might exclude support for a large number of undertakings that would prepare modernisation and transformation projects under available financing options[10].

[4] NRW, Brandenburg, Saxony, Saxony-Anhalt, Saarland, Moravia-Silesia
[5] Romania
[6] Wielkopolska
[7] Moravia-Silesia
[8] Wojewodztwa Slaskiego
[9] NRW, Brandenburg, Saxony, Saxony-Anhalt, Asturias, Wielkopolska, Wojewodzka Slaskiego, Moravia-Silesia
[10] Bulgaria

Do you think that some projects would need support for the operating costs in addition to investment aids? If yes, could you please provide examples?

Normally state aid is restricted to investments. However, most respondents[11] believe that in certain cases also operating aids should be granted:

- In suitable cases, support for the operating costs in the sense of initial aid in connection with new investments could be necessary within a limited period of time in order to compensate for an increased expenditure most notably due to the regional circumstances. For new business developments (e.g. production, logistics, services), for example, operating aid may be necessary as an incentive to companies for choosing the transition region. These incentives may refer to personnel or possible costs for electricity and water supply as well as waste disposal.[12]

- Some projects in the area of technological development might require a certain level of aid for operating costs (at least during the initial stages of the project), in addition to investment aid, like projects relating to the exploitation of certain renewable energies, applications concerning hydrogen or electrical energy storage projects[13].

- For R&D projects and integrated systems, such as combined-heat-and-power, power-to-heat and power-to-hydrogen plants focusing on investment is deemed not to be enough,[14] An example of this is the Saarland HydroHub Fenne project. As a living laboratory, this project will also test the underlying conditions in the energy sector, which by definition also include variable costs, determined by state taxes and levies. The closer an R&D project comes to marketability, the more flexible its support should be. Another example is the Saarland steel industry's transition to hydrogen metallurgy which will likewise require operating grants from the EU and the federal government.

- One respondent wants to grant operating aids to the training of workers, improvements in infrastructure, for the attraction of new value-added investments, support for companies as they introduce low-carbon technologies, including the retrofitting of existing power stations to use lower-carbon technologies and the settlement and expansion of companies in the affected areas to create new local jobs[15].

The support for operating costs should include costs, such as[16]:

- costs of materials and products directly incurred as a result of an investment project;
- promotional costs related to requirements to provide information;

[11] NRW, Brandenburg, Saxony, Saxony-Anhalt,Saarland, Asturias, Wielkopolska, Romania, Bulgaria
[12] NRW, Brandenburg, Saxony, Saxony-Anhalt,
[13] Asturias
[14] Saarland
[15] Romania
[16] Wielkopolska

– administrative and staff costs for managing the investment project (costs of statutory employees and external consultants/experts);
– costs related with the cleaner production cycle.[17]

However, one respondent[18] believes that operating aids distort the functioning of the internal market and should never be granted.

Do you think that state aids facilitating the structural change in the coal regions should be granted on top of regional state aids?

Nearly all respondents agree that an on-top solution (and not a substitute) could allow a higher aid level in coal regions, which are less developed and thus take into account the differences in development among coal regions. They acknowledge that state aid rules ensure that all Member States respect the same restrictions when supporting projects of an economic nature - thus the rules guarantee a level playing field. Regional aid is necessary because higher developed regions tend to attract more private investment than poorer regions, which means that without intervention by regional aid the gap between European regions would get bigger instead of smaller. However, they stress that coal regions in transition face additional socio-economic challenges in comparison to other comparably developed regions and need therefore the possibility to grant state aids to attract further investments.

However, views differ as the amount of additional aid is concerned:

- Some[19] believe that the additional amount has to satisfy the criteria of having an incentive effect as well as being compatible to the existing system of regional aid. This means that the relative differences in development should be reflected accordingly.

- Romania proposes an aid intensity of at least additional 25 %.

- Slovakia suggests applying the same intensity as the least developed regions – 50 %[20].

- Wielkopolska thinks that the aid intensity for coal regions should be at least 60 %.

- One respondents believes that an additional 25 percentage points aid intensity should apply to all types of aid (e.g. for SMEs, research infrastructures or energy efficiency measures), and not only

[17] Bulgaria
[18] Castilla-La Mancha
[19] NRW, Brandenburg, Saxony, Saxony-Anhalt
[20] The proposal was also supported by Bulgaria, which suggested an option that aid intensity in transition regions be granted based on their NUTS3 level GDP per capita, if such calculation would result in higher aid intensity

to regional state aid. For example, aid for energy efficiency in the case of a large enterprise in a region relating to Art. 107(3)(a) TFEU which is at the same time a region threatened by structural change would be 45% + 15 pp + 25 pp = 85%.[21]

- Moravia-Silesia considers an additional 15 % necessary. In the coal regions, a fixed aid intensity of 50 % for investments in energy infrastructure should apply.

- On the other hand one respondent[22] thinks that state aid facilitating structural change in the coal regions should not be cumulated with any other state aid at all.

Where do you see most need for more flexibility in state aid rules? What might these rules look like?

Many respondents point out that the state aid rules are not flexible enough. They ask that state aid rules should be made more flexible for coal regions with energy intensive industries. Apart from the points already raised under point 4. the following items were mentioned.

The respondents see the need for flexibility in the following areas:

- Respondents[23] believes that the notification process is too long. Thus, it can happen that some rules change during the process.

- Greater flexibility is requested in the field of environmental and energy aid and especially renewable and alternative energy[24], in sectors that contribute to technological changes such as training in new technologies, RDI and the diversification of economic activities[25].

- Several believe that the maximum aid intensity should be increased[26]. One respondent[27] argues that the aid ceilings should be increased by at least an additional 20 % for large business and an additional 10 % for SMEs, provided that the projects present a verifiable capacity for change and have significant effects on the activity in question and on employment. This 20% increase in the intensity of maximum aid should also apply to projects headed by major companies that have a driver effect. With regard to de minimis aid, which could also be differentiated, the total amount of aid granted to a specific company over any period of three tax years should be increased by 50 %. Other respondents[28]point out that the aid intensity for decarbonisation measures should be at least 80 % in order to create incentives.

[21] Wojewodztwa Slaskiego
[22] Bulgaria
[23] Wojewodztwa Slaskiego; Moravia-Silesia
[24] Castilla-La Mancha, NRW, Saxony, Saxony-Anhalt, Brandenburg, Moravia-Silesia
[25] Asturias
[26] Asturias Slovakia, Castilla-La Mancha, Moravia-Silesia
[27] Asturias
[28] NRW, Saxony, Saxony-Anhalt, Brandenburg, Castilla-La Mancha

- The state aid regime should also take account of future developments. The existing regional aid system does not consider the future challenges the transition regions will face. For this reason, it is necessary to allow additional aid facilitating structural change. If this is the case regions can set incentives for the private sector to invest in spite of seemingly adverse circumstances.[29] In particular, a support mechanism for regions threatened by structural change should be incorporated into the GBER[30]. Respondents[31] also request Commission guidelines based on Art. 107(3)(b) or (c) TFEU or to define a new kind of regions, namely coal regions, in Art. 107 (3)(b) TFEU[32].

- Other contributions concern requests to enable the payment of structural aid directly to companies[33] or the definition of disadvantaged workers which should be revised, so that also workers who have worked for the last 3 years in the coal industry could be regarded as disadvantaged workers.[34]

Some respondents[35] also highlight that in addition to more flexibility new rules are needed. They ask for an additional allocation in the MFF for 20121 – 2027.[36]In their view, the Commission proposal for a Just Transition Fund rightly acknowledges the need to support the most affected regions. In order to have a clear and sustainable state aid approach, one respondent[37] considers that GBER needs to include a dedicated section for Just Transitions Fund scope, containing all the specific state aids measures (regional and other types of aid) in order to obtain a structural change in regions affected by coal issues and the necessary economically development.

Another respondent[38] requests to apply preferential rules on state aid not only within the Just Transition Fund, but also in the Cohesion Funds and other funds and instruments at EU level, which would make it possible to combine different funding sources in a complementary manner and to build potential for investment at a crucial moment for the economies of coal-dependent regions on the road to economic, energy and social transformation.

Conclusions

The transition to a greener and carbon-neutral future will inevitably result in a disproportionate burden for coal-producing regions in terms of investments needed for the phasing-out but also in terms of the

[29] NRW, Saxony, Saxony-Anhalt, Brandenburg
[30] Wojewodztwa Slaskiego
[31] Wojewodztwa Slaskiego, Moravia-Silesia
[32] Moravia-Silesia, s. also Castilla-León
[33] Saarland
[34] Moravia-Silesia
[35] NRW, Saxony, Saxony-Anhalt, Brandenburg,
[36] Castilla-La Mancha
[37] Romania
[38] Wojewodztwa Slaskiego

resulting unemployment and the related social challenges. Given the strong dependence of their local economy on coal, this transition may constitute the impetus for a variety of regional developments that influence each other, resulting in a ‘reinforcing circle’ of economic, social and unemployment-related effects in coal regions. Successfully implementing the climate goal presupposes, however, that coal regions and sites, in committing themselves to it, can lay down solid foundations on which the value creation and jobs lost can be offset and the people of the regions can be offered a decent future. This process has to be backed up by a comprehensive economic policy that must include targeted and properly calibrated use of public funding and incentives. Although public financial support is restricted by state aid rules, the Treaty considers government intervention necessary for a well-functioning and equitable economy in certain circumstances compatible with State aid for reasons of general economic development.

From the answers the following conclusions can be drawn:

- ✓ All respondents from coal regions believe that the transition process should be backed up by state aid in order to attract companies which could offset job-losses and losses in value creation.
- ✓ In several cases companies did not invest in coal regions as they could not get state aid. This applies especially to possible investment projects in the area of energy infrastructure, energy efficiency, energy-related investment and renewable energy.
- ✓ The state aid rules should allow more flexibility as regards especially the investment in energy infrastructure, energy efficiency, energy-related investment and renewable energy. The maximum aid intensity should be increase for coal regions. Large companies should also be beneficiaries of state aid in coal regions. But also the length of the duration of state aid procedures need to be shortened. When drafting state aid rules, also future developments should be born in mind so that also future challenges coal regions face can be addressed.
- ✓ In certain areas, even operating aids are needed.
- ✓ The state aid facilitating the structural change in coal regions should be granted on top of regional state aids.
- ✓ Coal regions do need additional support out of structural funds.