EU Staff for Climate position paper

State aid and the planetary emergency

IN BRIEF

- Rigorous proactive State aid enforcement can help shift to a sustainable future
- A Chief Environmental and Foresight team should be set up
- This team would allow us to plan how our State aid rules can be reconciled with the new sustainable economic model
- It would also allow the Commission to push back against egregious fossil subsidies

'The principal challenge is to transform Europe's entire economy to carbon-neutrality by 2050. This implies nothing less than a new economic model – a sustainable economy in balance with our natural environment. This transformation … must make Europe's economy not only more sustainable, but also more competitive and resilient'

Commission's Competition Policy Brief, September 2021

A year and a half have passed since, yet there is scant evidence of any substantial shift towards a sustainable model. While it may not be solely responsible, the Commission must do everything possible to encourage and support this transition.

In our petition to EU leaders, EU Staff for Climate emphasised the need to ensure the coherence of all EU policies, to enable a fair and equitable transition towards a sustainable and carbon-neutral society and economy.

We commend the Commission's bold stance in pursuing cases of dubious tax rulings favouring multinationals on State aid grounds and, in the same vein, we suggest that all State aid enforcement, especially for environmental State aid, should be more proactive rather than simply reactive. By being proactive, the Commission can set the agenda and shape the direction of EU policies towards a more sustainable and equitable future. State aid can be a powerful tool in achieving this goal, and the Commission must explore innovative ways of using it to support sustainable industries and transition towards a low-carbon economy.

It is imperative that any aid authorised by the Commission serves society's and the planet's best interest or at the very least does not undermine them in the long run. However, despite the encouraging signals in the Commission's adoption of the Climate, Energy and Environment Aid Guidelines (CEEAG) and the upcoming revision of the General Block Exemption Regulation, there is little sign that these are facilitating the shift. In the meantime, the Temporary Crisis and Transition Framework seems to have partially undermined those goals, allowing unchecked subsidies for fossil fuels. While it expedites aid to allow for the rollout of renewable and other decarbonisation of industry, available estimates for 2021 show a significant rebound in total fossil fuel subsidies from USD 362 billion in 2020 to USD 697 billion in 2021, with further increases expected in 2022 due to current high-energy prices. According to the 2022 Report on Energy Subsidies in the EU, fossil-fuel subsidies reached EUR 50 billion in 2020.

Taskforce to investigate potential breaches of State aid

The shift to clean energy cannot happen on the demand side alone. Although many of the fossil subsidies paid by Member States fall under the Energy Taxation Directive (which is in the process of being revised), we currently do not know how many of such subsidies may fall afoul of State aid rules. This requires a taskforce focused on investigating pro-actively all potentially non-compliant fossil fuel subsidies, modelled on the Task Force on Tax Planning Practices. It is unclear what percentage of such subsidies would be caught by our State aid rules.

All forms of aid for all fossil fuels should be stopped

Currently, State aid is permitted for fossil gas with a few unclear limitations, which must be in line with certain vague compatibility standards, such as no lock-in effects. However, this goes against the science which is clear that all fossil fuels, including fossil gas, must be phased out not just the most polluting ones. With the fossil fuel industry enjoying record profits, it is unacceptable to continue supporting these industries, especially considering the limited remaining global carbon budget to stay within the 1.5-degree limit. The Commission must provide a clear timeline for the phase out of such support.

Chief Environmental and Foresight Team

Fundamentally, no matter how well-intentioned the Commission's rules are, the enforcer is not equipped to implement the shift needed. The task of ensuring the coherence with the Green Deal objectives cannot fall solely on the shoulders of the DGs for Climate and Environment. We propose therefore the creation of a Chief Environmental and Foresight Team, mirrored on the Chief Economist's Team, charged with making sure that the DG Competition's decisional practice across all of its instruments, but most importantly in State aid, reflects the latest scientific and policy consensus to remain within our planetary boundaries.

The remit of such a team should include reviewing all potentially problematic decisions. It should also explore sustainable economic models as an alternative to the profit-maximising one which is the current baseline through which the Commission, and by extension the DG for Competition, operates. This would enable the Commission to properly incorporate externalities in the heart of its assessment from the get-go. The failure to do so has led to worthwhile greening methods being abandoned whenever they have become economically inconvenient in the short term.

Compliance with EU Environmental and Climate acquis

Currently, in its assessment the Commission reviews whether there has been breach of EU law which is intrinsically linked to the measure at hand. However, this analysis can be rather perfunctory, often relying on unverified unsubstantiated commitments made by the Member State. To improve the Commission's assessment process, it could consider incorporating additional factors such as:

- Conducting independent assessments to verify the commitments made by the Member State and ensure compliance with EU laws
- Reviewing the environmental impact of the measure, including the potential for greenhouse gas emissions and the impact on biodiversity
- Considering alternative solutions that may achieve the same objectives but with lower negative externalities

Where a breach is found after a positive decision is adopted it should be made clear that this will result in a finding of incompatibility.

EU Staff for Climate is a bottom-up initiative bringing together colleagues from the EU institutions who are deeply concerned about the climate, ecological and social crises facing our planet.