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HT.199352 Clean Industrial Deal State Aid Framework - CISAF Commission Consultation

On 11 March 2025 the Commission launched a consultation of the State Aid Framework accompanying the Clean Industrial Deal. The consultation is open until 25 April 2025.

Confederation of Norwegian Enterprise (NHO) is the main employer and business/industrial federation in Norway and is a full member of Business Europe. NHO's members currently include 34,000+ private enterprises within e.g. manufacturing, services, and handicrafts industry, covering virtually all sub-sectors. NHO manages both employer interests as well as political interests improving the competitiveness of its members and to provide the best possible framework conditions for Norwegian enterprises – nationally and globally.

NHO welcomes the opportunity to comment on the Commission's proposal.

The comments below may be published and do not contain confidential information.

Summary:

- *NHO supports the ambitions of the Clean Industrial Deal to ensure European competitiveness in a more uncertain geopolitical sphere. NHO supports the EU's new strategic direction for climate transition, competitiveness, and economic security.*
- *However, the use of state aid must be restrictive and facilitate technological neutrality and should to the greatest extent possible be broad proportional schemes that counteract undesirable market failures.*
- *Increased use of state aid entails a risk of distortions of competition, and different purposes of state aid make the market situation unclear.*
- *At the same time, investments in emission reductions are often not economically profitable for businesses. CISAF can contribute to harmonizing support for climate transition and a faster rollout of green projects.*
- *Support for green technology production for strategic reasons should primarily be done through European schemes rather than national aid instruments. It is crucial that EEA/EFTA companies have access to these schemes on an equal footing with EU competitors.*
- *The cost of flexibility schemes should not be borne by consumers.*

Introduction

For both Norwegian and European companies, climate commitments provide direction for the need for restructuring and competitiveness. If climate-friendly investments had low risk and were economically profitable for businesses, there would be no need for state aid. Climate transition often means that many companies in the future will produce for markets that barely exist today, use inputs that are currently unavailable, and utilize infrastructure that is not yet fully developed. Companies will need to develop new technology and undergo an expensive transformation towards new, more costly products with a low carbon footprint, for which there is currently little willingness to pay. Additionally, the situation for companies is complicated by greater geopolitical tensions and more protectionism for raw materials, energy, and green technology. This also drives up costs. Therefore, it is necessary to stimulate innovation and succeed in decarbonization with competitive solutions.

At the same time, it is important to be aware of pitfalls when designing state aid in these contexts. It is important to safeguard free and fair competition and strike the right balance to make sure the final aid intensities are proportionate. In this respect, CISAF, being a more permanent part of the state aid rule book, should have justified an impact assessment. This is even more important since CISAF builds on, and further develops TCTF, a regulation that was also not preceded by an impact assessment. With the potential of involving huge amounts of public spending, and simultaneously generating risks of distortion of competition, an impact assessment would be desirable.

NHO supports a strict State aid regime. The use of State aid should primarily be considered when there is a market failure. CISAF should facilitate technological neutrality to a larger degree: The business sector is best served by general framework conditions that create good prerequisites for independent companies. NHO fundamentally believes that the use of public support should be restrictive. If public support is used, it should to the greatest extent possible be broad proportional schemes that counteract undesirable market failures. The main building blocks of climate policy going forward should still be overarching market instruments. The ETS system is the core instrument for CO₂-emission reductions in the power sector and in industry. NHO believes that state aid should only be used when other, more effective measures such as CO₂ pricing and overarching requirements cannot be sufficient to address market failures.

The rules should be largely simplified to minimize administrative costs and facilitate greater transparency regarding support allocations. CISAF addresses key areas for companies related to the green transition - within renewable energy, decarbonization, and zero/low-emission technology (clean-tech). NHO's assessment of the CISAF proposal in isolation is that there are several positive aspects of the proposed design, but also aspects that may increase the risk of adverse consequences for the effective use of the market. Among other things, CISAF facilitates technological neutrality to a lesser extent by selecting individual technologies that can receive support in green technology support schemes. This also applies to individual sectors, such as hydrogen, where CISAF does not include the production and use of hydrogen produced by natural gas and CCUS ("blue hydrogen"), which may affect future production and use of low-carbon

hydrogen. NHO believes that schemes that include low-carbon hydrogen production must also include blue hydrogen.

The same goes for paragraph 82 of the proposal on decarbonization measures using hydrogen, where investments using low-carbon hydrogen alone seem not to qualify. A technology neutral approach is necessary, with equal consideration of other types of hydrogen contributing to the decarbonization objectives.

Moreover, paragraph 73 on investments aiming at the decarbonization of industrial heat clearly prioritizes renewable heat, flexible direct electrification and reuse of waste heat. All other technologies are only accepted with detailed justification. This justification burden seems disproportionate. All cost-effective decarbonization alternatives in the sector should be encouraged.

At paragraph 90, the large differences in aid thresholds among the technologies are not a technology-neutral design and should therefore be adjusted.

Additional provisions on State aid entail a risk of increased use of state aid, which in turn can lead to greater distortion of competition, and different purposes of state aid make the market situation unclear: Over the past few years, support levels have increased significantly, and allocated support has increasingly diverged between countries in the EEA. State aid is now also allowed to "match" support given in third countries. This increases the risk of market fragmentation and excessive use of support, which can lead to a subsidy race. This will undermine competition and could also contribute to the erosion of the internal market. The European Court of Auditors analyzed the impact of the increased use of state aid in the EEA in a report from 2024. The conclusion is that the Commission has responded quickly (via new provisions) to increasing and new needs in Member States but has not had sufficient control over the use of state aid. The new provisions have led to increasing discrepancies in the regulations intended to support green transition and have also had adverse effects on competition in the internal market. CISAF has become a new opportunity on top of several others to allocate state aid to green projects. It is not certain that the regulations will lead to more support being circulated, but it may involve a risk to it. It may mean that the same projects continue to receive support, but that these get faster rollout. In isolation, several regulations that open for support suggest that state aid will increasingly be used as a tool, which entails a risk of different framework conditions between countries. State aid has several adverse effects, such as the risk of market-distorting and inefficient effects when authorities pick winners and companies get incentives to align their operations with support schemes.

CISAF can contribute to the harmonization of support for climate transition: Climate transition should, as far as possible, be met with cross-sectoral and technology-neutral instruments and a policy that ensures the polluter pays, making it profitable to produce low emissions. However, instruments for climate transition are complicated by the fact that different countries competing in the same markets have different conditions, making it practically impossible to use CO₂ pricing as the sole instrument. Different countries also have different starting points for climate transition due to varying industrial structures. Therefore, in European

climate policy, several other instruments besides carbon pricing are planned, and there will be a need for state aid schemes for business transformation in Norway as well. Different uses of state aid instruments for transition lead to different framework conditions for companies in the European market, and it is therefore important that the use of direct support is as harmonized as possible. The CISAF rules for renewable energy and decarbonization of industry can contribute to more harmonized state aid and faster rollout of projects.

Support for green technology production for strategic reasons should be done through other instruments than national state aid: Parts of the instruments in the CISAF proposal are not directly aimed at climate transition, but at the production of green technology used as an input in green transition. Climate transition increasingly overlaps with value chain issues, geopolitical considerations, and industrial development, and the ambitions and measures in CID are aimed at both climate transition, competitiveness, and economic security. Strategic considerations and geopolitical security are different types of consideration for support schemes than the market failure associated with climate transition. This makes the use of instruments more complicated – the assessments of the need for instruments may look different if support is given to green investments for strategic reasons in Europe or due to the need to achieve national climate goals.

The EU considers it strategically important to have the production of green technologies in Europe. NHO supports such an ambition but believes that in a situation/time with different geopolitical objectives as a backdrop, public subsidies with such a starting point should be designed and administered more at the EU level rather than giving member states greater leeway and responsibility. Competing especially against China, which is gaining increasing market shares in green technology, is a challenging strategy to handle as individual countries. A coordinated EU approach will provide a better basis for the most efficient use of resources and address the issues at a strategic level. It will ensure that the best projects are implemented, both in terms of innovative potential, scaling, and costs. Leaving the production of green technology to member states based on increased state aid frameworks will entail the risk of both insufficient investment and the risk of a "subsidy race" and overinvestment. The Clean Industrial Deal contains several strategies and funding schemes at the EU level to increase investments in strategically important technologies.

There are currently large and global value chains for many green technologies. In recent years, there has also been attention to "overcapacity" globally in some of these markets, and both China and the USA have clear strategies to gain market shares in the value chains within green technology, minerals, and raw materials. Under these conditions, it is far from certain that continued allocation of state aid will make such investments economically profitable in Europe over time. Schemes aimed at developing Europe's strategic autonomy must therefore be seen in conjunction with other instruments to avoid investments becoming unprofitable due to price pressure from other regions.

Provided the provisions on green technology production remain in CISAF, we question the reason to prioritize support for green technology to so-called a)-areas – regardless of whether the justification is green transition or strategic reasons. Not all countries in the EEA qualify for a)-

area status, and it is not given that these areas have the best market conditions. Moreover, the Commission has several times acknowledged that both a)- and c-areas struggle with the same challenges, namely low population density and poorer economic development, and thus less reason to distinguish between them. There is also no logical connection between considerations of dispersed population growth and geopolitical considerations or considerations of green transition.

Furthermore, the provision on "matching aid" seems to have received an even wider scope than the current provision in TCTF. "Matching aid" is the most harmful form of support for a well-functioning market and can lead to a subsidy race between member states and third countries. The provision also fundamentally deviates from the basic compatibility criteria (necessary, suitable, and proportionate) on which state aid rests. The background for the provision's introduction - IRA - is now also more uncertain, so the justification for opening for ad hoc support is not as strong now.

NHO therefore believes that support for the strategic development of green technology should not be included in CISAF, but that it should instead go through other more general schemes at the EU level, such as IPCEI and the Innovation Fund. Such an approach makes it crucial that EEA/EFTA companies have access to these schemes on an equal footing with European competitors.

It is positive that CISAF proposes simplified procedures: For companies, it is positive that CISAF has a simplified procedure, which will make it faster to get support schemes in place and provide predictability for companies about what support is possible. From an economic efficiency perspective, it is positive that the regulations frame the support with clear limits on amounts and percentages that can be allocated, and that it clarifies that the amounts to be allocated should be the minimum amount that makes a project profitable. NHO is positive that the regulations follow the structure of TCTF. This increases predictability for companies and allows the Commission/ESA to build on existing practices. A 5-year time horizon seems to be predictable enough for both member states and companies.

The cost of flexibility schemes should not be borne by consumers: It is concerning that the proposal for support schemes for flexibility mechanisms suggests placing the costs of the support schemes on inflexible consumers. This will, for example, apply to many industrial consumers and will be an additional cost on top of higher electricity prices. Flexibility schemes should not unfairly burden predictable and stable industrial consumers for flexibility needs caused by the systemic issue of an increase in intermittent generation.

Sincerely,

Confederation of Norwegian Enterprise



Per Øyvind Langeland

Director

NHO's registration number in the EU Transparency Register is 07442991338-05.

