EU STATE AID RULES AND THE EUROPEAN GREEN DEAL:

Will their stars align?
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ABSTRACT

The European Union (EU) is in the process of revamping its star cast for a greener production. While, economic growth and competition rules have dominated the centre stage and been the lead actors so far, the director (European Commission) is now trying to spotlight imminent issues such as ‘sustainability’, ‘environment protection’ and ‘climate change’ through its newest rising stars the ‘European green deal’, ‘European climate law’ and ‘Fit for 55’ package, albeit with some resistance from senior actors such as ‘competition rules’, more specifically the ‘state aid rules’. This paper covers the story of the rise, conflicts and probable conciliation between these actors on the grand EU stage.
# LIST OF ABBREVIATIONS

<table>
<thead>
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<th>Abbreviation</th>
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<tr>
<td>ACI</td>
<td>Airports Council International</td>
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<td>CEEAG</td>
<td>Climate, Energy and Environment Aid Guidelines</td>
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<td>CJEU</td>
<td>Court of Justice of the European Union</td>
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<td>CORSIA</td>
<td>Carbon Offsetting and Reduction Scheme for International Aviation</td>
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<td>COVID-19</td>
<td>Coronavirus disease</td>
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<td>EU</td>
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<td>IPCEI</td>
<td>Important Projects of Common European Interest</td>
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<td>RRF</td>
<td>The Recovery and Resilience Facility</td>
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<td>TFEU</td>
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1. INTRODUCTION

Mankind is at the crossroads of its existence and the present generation is faced with the dilemma of choosing environmental protection over economic growth. With the irreversible impact of climate change looming over its heads, countries are trying to strike a balance between the two. The European Union (EU) has taken the bold and ambitious decision of striving towards being the first climate neutral continent. This move comes with its own set of challenges since the existing legislative framework needs tweaking in order to be in sync with these new developments. Competition law being one such field which is demanding attention and consequently, a revision to align with the EU’s green agenda. In order to achieve and incentivise this transition across all industries and sectors, the EU has initiated numerous proposals and discussions seeking guidance for incorporating its green agenda into all spheres of the economy.

As is apparent, the aviation sector suffers from the inherent vice of largely being dependant on fossil fuels and is severely criticised for leaving behind a huge carbon footprint. With this background, provision of state aid to incentivise the aviation industry to reduce its greenhouse gas emissions or attaching green conditionality for grant of state aid is presently being discussed and debated. This paper aims to identify and analyse the existing EU competition law with a focus on state aid, in light of the initiatives proposed under the European Green Deal\(^1\) and whether the two are aligned or in conflict. It further identifies the existing roadblocks in the EU competition policy and analyses it with the lens of EU’s green agenda to measure the compatibility of the two. The paper concludes with some ideas and suggestions for consideration on the basis of the analysis.

2. EU COMPETITION LAW: STATE AID CONTROL

Competition law follows certain principles of the doctrine of laissez faire which encourages firms to compete with minimal intervention and in effect letting the markets forces work to foster fair trade and competition within the internal market. However, as the saying goes, ‘when the cat is away, the mice will play’, in the absence of the Competition Commission, industry players attempt to benefit themselves by distorting competition in the market. The competition rules work on the premise that markets forces may not always work optimally when left alone, due to externalities and this results in the need for state intervention to achieve the larger goal of consumer welfare.\(^2\)

The concept of State aid is explicitly defined in the Treaty on the Functioning of the European Union:\(^3\)

> “any aid granted by a Member State or through State resources in any form whatsoever which distorts or threatens to distort competition by favouring certain undertakings or


\(^3\) Article 107(1) of the Treaty on the Functioning of the European Union (TFEU), [2016] OJ C262/1.
the production of certain goods shall, in so far as it affects trade between Member States, be incompatible with the internal market.”

This definition can be broken down to lay emphasis on five distinct elements: advantage, provided to an undertaking, selectivity, state resources and effect on trade and competition. Therefore, while the general rule under Article 107(1) TFEU is that state aid is prohibited, Articles 107 (2) and (3) of TFEU leave room for exceptions which cater to specific policy objectives such as general economic development. The aid must be notified in advance to the Commission for approval before being granted except those measures which are exempted by block exemption (such as \textit{de minimis} aid\textsuperscript{5} and GBER aid). The EC assesses and approves/prohibits state aid while taking into account the market investor principle, well defined \textit{common interest} criterion, \textit{proportionality} principle while also taking into consideration the incentive effect and limited effect of the state aid measures.\textsuperscript{6}

The aviation sector came within the ambit of the state aid rules as the first set of guidelines were put forth in the mid-1980s\textsuperscript{7}. With the liberalisation programme being completed in 1993, all the remaining restrictions were removed from the industry by 1997.\textsuperscript{8} The EU aviation sector which was represented by ‘flag carriers’, had a high level of state intervention for a long period. While aid was initially granted by Governments to their flag carriers in the form of restructuring aid with capital injections. Subsequently, there was an increase in the instances of publicly owned airports granting aids in the form of reductions in airport charges and grants by airports to low cost airlines on start-up routes.\textsuperscript{9} The tremendous growth and infusion of state funds into the industry resulted in numerous revisions to the sector specific state aid guidelines and currently the 2014 State aid guidelines\textsuperscript{10} are in force. The State Aid Guidelines as a ‘soft law’ have been a tool used by the EC to guide Member States.

So far the EU competition policy’s primary focus has solely been on the distortion of competition within the internal market and without giving much consideration to aiding sustainable development through such policy making. The next section deals with the European Green Deal and the interplay between state aid and EU’s sustainability goals.

\section*{3. EUROPEAN GREEN DEAL AND CLIMATE LAW}

The EU has recently started taking serious and visibly active steps towards sustainability, environmental protection and reduction of greenhouse gas emissions. This it targets to achieve

\textsuperscript{6} P. Mendes de Leon, \textit{Introduction to Air law} (Wolters Kluwer, 2017), Chapter 3.
\textsuperscript{7} Civil Aviation - Memorandum No. 2 - Annex IV, COM (84) 72 final (Commission of the European Communities), Brussels, 15 March 1984. See also B. Adkins, \textit{Air Transport and E.C. Competition Law} (Sweet & Maxwell, 1994), Chapter 7.
\textsuperscript{8} S. Truxal, \textit{Competition and Regulation in the Airline Industry: Puppets in chaos} (Routledge, 2013), Chapter 4.
through the European Green Deal framework which has been made a priority and the EU is consciously aligning its policies keeping in mind sustainable economic development. The European Green Deal primarily sets out two targets among others. One, being the reduction of greenhouse gas emissions by a minimum of 55% from the previously agreed 40%, when compared to the 1990 levels by 2030 and the other, being climate neutrality or in other words zero net greenhouse gas emissions by 2050. The overarching objective of the EU is to become a climate neutral continent by 2050.

In July 2021, the EU codified its vision of the European Green Deal by introducing the European Climate law\textsuperscript{11}, which enshrines the increased interim milestone for 2030 and the 2050 climate neutrality objective. The New European Climate Law is the legislative tool of the EU to create binding obligations on the Member States. Subsequently, the European Commission also announced the ‘Fit for 55’ package\textsuperscript{12} to support EU’s climate policy, in line with the European Climate Law. The EU Green Deal Investment Plan\textsuperscript{13} sets out the proposed financing framework through which it plans to channel at least One Trillion Euros over the next 10 years to support and contribute to the European Green Deal objectives. Reaching the ambitious target of climate neutrality by mid-century requires substantial transformation across all sectors, in the form of investments such as the above mentioned investment plan and state aid. This raises questions of whether the existing competition policy requires any changes to foster EU’s green deal objectives, which is dealt in the next section.

4. CAN SUSTAINABILITY RHYME WITH COMPETITION RULES?

Under the current state aid policy, Member States continue to provide aid to projects that are detrimental to the environment and thus, countering the green deal objective. A glaring example of this is the continued provision of fossil fuel subsidies. To set the wheels in motion towards sustainability, the EC initiated a public consultation in September 2020 calling for contributions and hosted a high profile conference in February 2021 for stakeholders to debate and put forth ideas on how the EU competition rules and sustainability policies can be aligned and made to work together. This exercise yielded in the Directorate - General Competition publishing the ‘Competition Policy Brief’\textsuperscript{14} on the basis of the contributions received by it. The brief provides examples of suggested policy reform across the three pillars of competition rules, namely: state aid, antitrust and merger control. Since the focus of this paper is state aid, the policies regarding antitrust and merger control are not dealt with hereunder. Addressing the concerns raised, the EC proposes to carry out changes and additions to the following areas of the existing competition law regime:\textsuperscript{15}

\begin{itemize}
  \item Regulation (EU) 2021/ 1119 of 30 June 2021 establishing the framework for achieving climate neutrality. (“European Climate Law”).
  \item European Commission, ‘Fit for 55: delivering the EU’s 2030 Climate Target on the way to climate neutrality, COM(2021) 550 final (14 July 2021)
  \item Also referred to as Sustainable Europe Investment Plan (SEIP).
  \item Directorate-General for Competition (European Commission), Competition Policy Brief 1/2021 - Policy in Support of Europe’s Green Ambition, published on 10 September 2021.
  \item Competition Policy Brief, Supra n.14.
\end{itemize}
1. Climate, Energy and Environment Aid Guidelines (CEEAG)
2. General Block Exemption Regulation (GBER)
3. State aid rules on Important Projects of Common European interest (IPCEI):
4. Revised regional aid guidelines

Though the EC is considering adoption of a new compatibility assessment test formulating certain criteria for assessment and approval of state aid, the same is unclear from the brief. Therefore, the following criteria are recommended to bring some clarity. ‘Do no harm’ principle which is envisaged in the European Green Deal should be built into state aid control policy. Further, an approval of aid by the EC should be made conditional on furnishing conclusive evidence of having complied with the obligations under the EU environmental law and the Treaty provisions. This would result in aid granted to an environmentally hazardous project to be deemed incompatible with state aid policy however being subject to the existence of environmental safeguards where the positives outweigh the negative effects of such aid. Further, as a part of the assessment the EC should also ascertain from Member States if there are alternatives which are less harmful to the environment and the reasons for not supporting them.

The EC is broadly proposing a model that appears to act through a ‘carrot and stick’ approach to achieve the goals of sustainable development and climate neutrality.

4.1 THE CARROT: Incentive effect

Under Article 107(3)(b) TFEU, aid granted ‘to promote the execution of an important project of common European interest’ can be considered compatible with the internal market. Environmental protection can be classified as one such project.\(^{16}\) To further add, projects in pursuance of the European Green Deal could also qualify for aid under the incentive effect, if it can be showcased that it ‘induces the beneficiary to change its behaviour to increase the level of environmental protection […], a change in behaviour which it would not undertake without the aid’.\(^{17}\)

To make it more attractive, the EC is also considering to implement a green bonus system and granting of aid on easier terms to renewable energy communities and other projects that have a positive impact on the environment. However, setting out a clear criteria for systematic assessment of who would be eligible for the green bonus is critical for this incentive to work.

4.2 THE STICK: Green conditionality

The coronavirus (COVID-19) crisis presented a unique opportunity to push airlines towards a green recovery from the ravages of the pandemic. To tide over this sudden and unprecedented

\(^{16}\) S. Truxal, ‘State Aid and Air Transport in the Shadow of COVID–19’, Air & Space Law 45, Special Issue (2020):61-82

crisis, States came forward to bail out airlines and airports through various state aid mechanisms. In the EU, temporary measures\textsuperscript{18} were put in place to assist and speed up the state aid approval process while relaxing the ‘one time, last time’ principle of the Rescue and Restructuring State Aid Guidelines\textsuperscript{19} for aids granted under the temporary measures. Given the extraordinary circumstances, the EC took a flexible approach for approval of state aid granted by Member States. Here, it is interesting to note that some Member States chose to impose green conditions on airlines for grant of state aid. The French government took the lead by playing the role of a model European Green Deal supporter. As part of the rescue package of €7 billion in state aid received by Air France, the French Government announced ‘climate conditions’ as prerequisites for the grant of state aid, with the objective of making it the most environmentally friendly airline on the planet.\textsuperscript{20}

5. ISSUES & RECOMMENDATIONS

5.1 Enforceability of green conditionality

Before delving into the enforceability of green conditionality it is worthwhile recalling the competence structure in the EU competition regime. On the one hand, the EC has exclusive competence in the field of state aid control, however, it cannot enforce the same against strong Member State opposition; and while, the ultimate decision of whether to grant state aid or not, rests with the Member States, the EC uses its power to influence state aid policy via incentive instruments in a “soft” manner.\textsuperscript{21} The list of beneficiaries and applicable aid intensities in the GBER is a perfect example of this.\textsuperscript{22} Despite that, the extent to which the EC can push Member States to accelerate green transition by imposing pre-defined green conditions for granting state aid, is debatable. The issue has been touched upon by the Court of Justice of the European Union (CJEU) in the case concerning the approval of state aid granted to the Hinkley Point C nuclear power station.\textsuperscript{23} The CJEU held that the discretion of determining which economic activities would be subject to Article 107(3)(c) TFEU was with the Member States, so long as it is not contrary to the ‘common interest’ requirement. Though the CJEU upheld the grant in favour of the nuclear power station, it acknowledged that the EC should verify if the aid is in compliance with EU environmental law.\textsuperscript{24} The proposal for the new CEEAG 2022 also incorporates this check by stating that there should be ‘no breach of any relevant provision of Union law’.\textsuperscript{25}


\textsuperscript{22} Ibid.

\textsuperscript{23} Austria v. Commission, C-594/18P dated 22.09.2020 (“Hinkley Point C”).

\textsuperscript{24} Supra n.21.

Likewise, the European Climate Law plays an important role in this regard since it codifies into law the goals envisaged in the European Green Deal of net zero emissions by 2050. It goes a step further by creating a binding obligation - “The relevant Union institutions and the Member States shall take the necessary measures at Union and national level, respectively, to enable the collective achievement of the climate-neutrality objective”. This puts in place the necessary legal sanction on the Union and Member States for achieving the climate neutrality objective on the one hand and thereby eliminating inconsistent measures between the Union and State level on the other. In effect, any state aid that is inconsistent with the climate neutrality objective will be considered as being in violation of the European Climate Law.

5.2 State aid to environmentally harmful projects

A closer look at the primary legislations would suggest that the statutory tools are already in place to support the green transition albeit vaguely. Article 11 TFEU mandates integration of environmental protection into the Union’s policies and activities to support and promote sustainable development, read with Article 3 TFEU which confers exclusive competence to the EU in the area of competition and internal market policies, supported by Article 7 TFEU and Article 4(3) which set out the ‘coherence principle’ and the ‘duty of cooperation’, respectively. In this backdrop, it may be argued that positive support in the form of state aid to activities which are directly detrimental to the environment would not only violate the polluter pays principle but also infringe the Treaty provisions. The continued support being granted to fossil fuels through state subsidies is a glaring example of state acts not being in line with the Treaty provisions. Therefore, the EC would have the power to assess and declare aid granted in support of fossil fuels as not being in line with EU law, unless certain environmental safeguards are incorporated into the measure. Safeguards could include conditions for demonstrating that there are no other lower or zero emission alternatives to replace the higher greenhouse gas emissions activities or that the support is granted for a limited time period while being committed to switching to zero emission technology as the earliest. This approach could provide the necessary boost to phase out the environmentally harmful subsidies such as fossil fuel subsidies.

5.3 European Green Deal v. 2014 guidelines: Underlying conflict

The Recovery and Resilience Facility (RRF) was established earlier this year to facilitate economic growth while promoting the six pillars identified therein; one of it being green transition. It stems from the COVID-19 crisis, and is one of the tools adopted to put EU on the path of climate neutrality by 2050. While, any aid granted to the aviation sector under RRF ought to comply with the existing competition law framework and more specifically the 2014 Guidelines on EU Aviation State aid, it is pertinent to note that the 2014 guidelines restricts

26 Supra n.11, Article 2(2) European Climate Law.
investment aid being made to medium and large sized airports. This could eventually render the objective of the regulation futile, since most EU airports would be unable to procure the RRF funding. The Airports Council International (ACI) is demanding that the 2014 guidelines be revised to address this conflict immediately.\textsuperscript{29} While the 2014 guidelines are due for revision only in 2024, it is highly probable that the EC would relook at the 2014 guidelines as part of its ongoing assessment to check if the competition policy is in line the European Green Deal and European Climate Law.

6. CONCLUSION

As a trailblazer constantly setting higher standards for itself and its people, the EU is yet again in the spotlight. While, the European Commission President Ursula von der Leyen calls the European Green Deal as ‘Europe’s man on the moon moment’\textsuperscript{30}, she also acknowledges the mammoth task it has put itself up to by promulgating the ambitious European Green Deal. The EC has received various suggestions and inputs from industry players, stakeholders and the public, on how to streamline the existing competition laws and the European Green Deal and clearly, there is a disconnect between the two which the EC is now trying to bridge through the proposed revisions\textsuperscript{31}. With the new Climate Law in place, the existing competition laws and guidelines need to be tweaked keeping in mind the end goal. Reimagining state aid is the need of the hour which does not necessarily entail softening of the existing state aid rules. In order to effectively utilise the state aid tool for reaching the 2050 climate neutrality goal, the right incentives need to be incorporated into EU’s legislative framework. Laws are meant to evolve with the needs of the society but it remains to be seen how far the EC would be willing to bend its existing competition laws to accommodate its green agenda.

Recalling the famous poem of the American Poet, Robert Frost, similarities can be drawn between EU and the person in the poem ‘The Road Not Taken’\textsuperscript{32}, -

\begin{quote}
"Two roads diverged in a wood, and I—
I took the one less travelled by,
And that has made all the difference."
\end{quote}

At this stage, the message of the EC is clear. The EU’s green agenda would be prioritised and the competition rules would need to be realigned with the EU’s new goals. The EU has started preparing for its environmentally conscious journey on this less travelled road, towards a greener and sustainable tomorrow, with the optimism that this would make all the difference.


\textsuperscript{31} Supra n 14.

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