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EUROPÄISCHE UNION DES HANDWERKS UND DER KLEIN- UND MITTELBETRIEBE
EUROPEAN ASSOCIATION OF CRAFT, SMALL AND MEDIUM-SIZED ENTERPRISES
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Comments on the draft **Community Guidelines on State Aid for Environmental Protection** (Version from 5 October 2007)

UEAPME thanks the European Commission for making a second round of consultation on the new “Environmental Aid Guidelines”.

UEAPME reminds the European Commission on the [first set of comments the European Craft and SME organisation made in June 2007](#)¹, in which UEAPME:

- welcomed the review of the existing guidelines and specifically the provision of so-called “safe harbour measures” as well as the differentiation between small and medium sized companies;
- criticised the definition of eligible cost as too narrow and warned that this definition in combination with the proposed aid intensities will not create incentives to invest in environmental protection or energy saving;
- tried to demonstrate the specific situation of SMEs as regards investment in energy efficiency and environmental protection (lack of awareness; difficulties to finance such investments, etc.), and
- made some proposals to overcome the specific problems of SMEs.

With the new draft version (5 October 2007) for Environmental Aid Guidelines the European Commission has replied to some of our concerns and has included a number of our recommendations. Therefore, UEAPME thanks DG Competition for having recognised the some specifics of SMEs.

Nevertheless, there were other concerns from SMEs that have not been answered by the new draft and which are still present. With this second set of comments, UEAPME wants to underline again its remaining concerns and asks the European Commission to reconsider its current approach, in order to fulfil the practical needs of SMEs and their providers of environmental aid.

¹ http://www.ueapme.com/docs/pos_papers/2007/070702_pp_StateAidEnvironment.pdf

1. Remarks on the definition of eligible costs for investment aid and aid intensities

In its first position paper UEAPME argued (page 2 and 3) that the method the Commission used in the first draft for the calculation of eligible costs for investment aid, but also in the existing guidelines for environmental aid, is (a) in conflict with its own theoretical approach, (b) does not provide sufficient incentives for investments and (c) has been proved as not practicable in the past.

DG Competition reacted in its second version on these arguments by increasing the allowed aid intensities, which will also increase the incentive effects for environmental protection and energy saving investments.

Furthermore, the new version included a specific provision for SMEs as regards the calculation of eligible cost of energy saving investments. Paragraph 81c asks in the case of SME investments to deduct the benefits arising from such investments during the first 3 years, instead of 5 years.

UEAPME welcomes both adaptations as an important progress, but is not convinced that it solves already all problems.

Many experts agree that the chosen definition of eligible costs (net of all benefits arising during the first five years) requires a theoretical aid intensity of 100% for the remaining eligible costs. In spite of this, UEAPME accepts the argument from the Commission that there are practical difficulties in defining exactly the extra investment costs necessary for environmental protection or energy saving purposes, especially in cases where the investments are combined with investments improving the production process itself.

However, this argument is not true for investments which are made exclusively for energy saving or environmental protection purposes (i.e. increasing the energy efficiency of buildings). In such cases all costs are extra costs necessary for the environment goal, consequently higher intensities are justified.

Therefore, UEAPME asks DG Competition again to reconsider a differentiation between investments in production technologies including improvements of environment protection (extra costs for environment protection purposes has to be defined) and investments aiming exclusively to increase energy efficiency or environmental protection and to provide higher aid intensities or a wider definition of eligible costs for the later type of investments.

2. Remarks on the specific situation for SMEs

Smaller companies face specific problems and shortcomings as regards investment in energy efficiency and environmental protection, which trigger underinvestment not only from the point of view of the whole society, but also from a business perspective.

- a) Many SMEs are not aware about their potential to increase energy efficiency. A recent [survey](#)² made by KfW (Germany) shows that SME owners believe that their potential for energy saving is below 10%, while experts and researchers expect it to be 20% on average.
- b) Furthermore, an overwhelming majority of SMEs has an energy intensity about 3 to 4 %, which reduces the economic incentive to invest in energy saving.

² http://www.kfw.de/DE_Home/Research/Sonderthem68/Energieeff15/Befragung_Energieeffizienz_12.05.pdf

- c) Investments in new production facilities must be calculated very carefully and must be used during the whole amortisation period. If new standards force SMEs to undertake new investments before the existing ones are fully depreciated, the additional costs may seriously endanger the existence of a company.
- d) Most SMEs have a very low equity ratio and depend mainly on debt finance, which reduces the possibility to invest and forces SME owners to prioritise the most important investments from a business point of view.
- e) Therefore, any investment in energy efficiency has to compete against other investments that may be more important for competitiveness or have a higher potential for cost saving (i.e. labour costs).

Due to these shortcomings, public support for SMEs to increase investments in energy efficiency or environmental protection measures seems justified from both perspectives: public interest in energy saving and environmental protection as well as state aid policy principles (market failures).

The most important areas for support are consulting services (such as awareness raising, project definition and project implementation) and financial support for the investments, which should not endanger other expenses that might be more important for competitiveness reasons.

As regards consultancy services, UEAPME proposes to include a specific chapter with “safe harbour” measures on energy consulting for SMEs in these guidelines. UEAPME doubts that the provision for general consulting services made in the General Block Exemption Regulation (GBER) on which the second drafts makes a reference (paragraph 57) is sufficient. The GBER provides only for aid intensities of 50%, which may be sufficient for normal business consultancy services, but will not be enough to raise awareness for additional (or sufficient from a public point of view) investments in environmental protection or energy saving measures.

Therefore, UEAPME asks the Commission to include consultancy services for environmental protection and energy saving measures in scope of the environmental aid guidelines and to allow aid intensities at the same level as for investments in these areas.

As regards the implementation of new community standards, the proposal allows support only for early adaptation. The specific situation of SMEs justifies keeping at least the current provision, which allows support during the first three years after the adoption of new standards, which also may lead to early adaptation in all cases where the implementation period is longer than three years.

3. Further specific remarks on the second draft of environmental aid guidelines

- **Paragraph 69 b) – identifying cost directly related to environmental protection**

The last sentence states that in case of an increase in production capacity, eligible costs include only costs corresponding to the original capacity. This does not make sense. If aid is meant to compensate costs related to environmental protection, this should also be the case for the part of environmental protection costs related to the additional capacity, net of the additional benefits.

- **Paragraph 85 and 86 – aid for renewable energy sources**

Aid schemes for renewable energy sources are often targeted towards a specific source (wind, biomass, etc.) and ignore the fact that different sources are variably efficient and need a different amount of support. In order to ensure the most efficient use of public financial resources, state aid schemes should be defined in a way which ensures that investments are channelled towards the most efficient renewable source available.

UEAPME asks to demand neutrality for investment aid as regards technology and the energy source, like the draft does for operational aid (option 2 - paragraph 94) and to delete the differentiation between biomass and other renewable energy sources (paragraph 86).

- **Paragraph 93 and 94 – different options for the provision of operating aid for renewable energy sources**

UEAPME would prefer option 2, which is neutral as regards technology and energy source, but is aware that option 1 is currently used by many Member States. Therefore, UEAPME suggests ensuring neutrality as regards technology and energy source also in option 1. (See also comment on paragraph 85)

UEAPME asks DG COMP to consider our comments in the interest of SMEs in Europe during the ongoing consultation process and the discussion with the Member States.