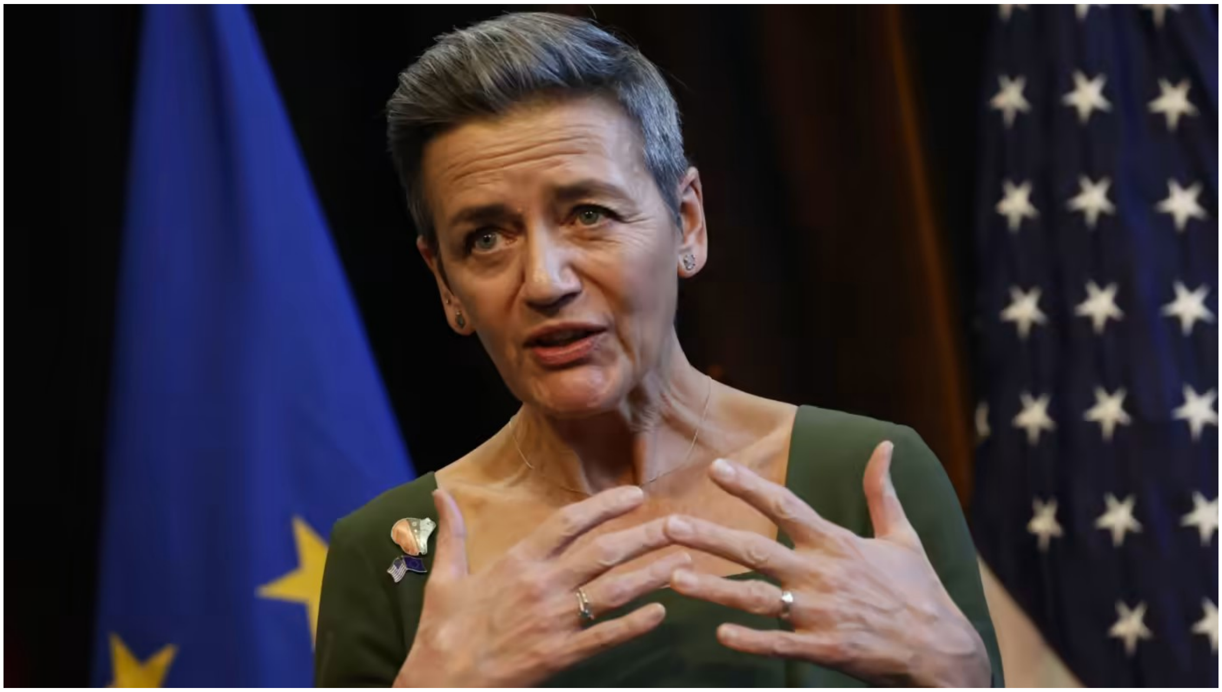
EU state aid

EU plans to relax curbs on tax credits in response to ‘toxic’ US subsidies

Covid recovery funds could also be redirected under proposed loosening of state-aid rules, according to draft plan



EU competition commissioner Margrethe Vestager said that when combined with stable, cheap energy prices in the US, the IRA could have a “toxic” effect on some European industries. © Ting Shen/Bloomberg

Sam Fleming, **Andy Bounds**, **Alice Hancock** and **Javier Espinoza** in Brussels
JANUARY 30 2023

The EU is planning to hit back at the US’s $369bn Inflation Reduction Act by easing restrictions to allow a wave of tax credits for green investment.

Under a draft plan seen by the Financial Times, the European Commission will relax state-aid rules to support investment in green sectors, including via the creation of tax benefits. Some of the €800bn in its NextGenerationEU Covid-19 recovery fund could also be redirected towards tax credits, according to the draft.

The proposed measures, which have yet to be finalised and could change by Wednesday, are part of a comprehensive Brussels plan to respond to the US legislation, which has provoked a flood of warnings that companies will decamp from the EU to the US to take advantage of the subsidies.

“What we are saying here is that if you want to give investment aid you can give that in the form of a tax credit if that’s more accommodating for the business,” commission vice-president Margrethe Vestager told the FT.

She said that when combined with stable, cheap energy prices in the US, the IRA could have a “toxic” effect on some European industries.

By further relaxing the EU’s state-aid rulebook, which aims to avoid a subsidy race

By further relaxing the EU's state aid rulebook, which aims to avoid a subsidy race between member states, Brussels is attempting to emulate one of the most-vaunted benefits of the IRA, namely the simplicity of companies accessing federal tax credits.

But the move strays into controversial territory within the EU, as it will be far easier for deep-pocketed countries such as Germany to dole out fiscal incentives than their fiscally stretched counterparts in the south.

Member states are divided over whether and for how long to allow big exemptions from rules to police state aid. Some countries in the south warn that it risks tilting the level playing field by disproportionately aiding rich countries to pour money into their companies.

Christian Lindner, Germany's finance minister, on Monday said Europe did not need an "excessive" overhaul of the rules but backed measures to streamline decision-making. "State aid must become more agile, we have to make decisions more quickly. But we don't need any excessive extension of subsidies in the EU," he said.

A temporary crisis and transition framework would allow greater aid for more mature technologies and renewable energies, going beyond those already defined by the EU's current renewable energy laws to include green hydrogen and biofuels, the draft proposal said.

"The provisions on tax benefits would enable member states to align their national fiscal incentives on a common scheme, and thereby offer greater transparency and predictability to businesses across the EU," it added.

Brussels also intends to simplify and accelerate approvals for projects of common European interest involving several countries and will set overall targets for green industrial capacity by 2030.

The reforms aim to expand the so-called "block exemption" regime, allowing more state support to be granted without explicit commission approval. That would make it easier for governments to subsidise hydrogen, carbon capture, zero-emission vehicles and energy efficiency measures.

Brussels estimates that industry needs to invest €170bn by 2030 in manufacturing plants for solar, wind, battery, heat pump and green hydrogen production.

Clean technology industries have criticised the funding regime in the EU for being too complicated to access the financing needed to scale up their businesses, saying the tax credits in the US were a simpler and more attractive system.

The document binds together several major legislative reforms that were already planned, such as an overhaul of the EU's electricity market and an act to boost domestic production of raw materials such as cobalt and lithium that are crucial elements for clean energy technologies.

The draft followed a letter from Vestager in which she acknowledged that not all countries have the same capacity to hand out state aid. Germany and France accounted for 77 per cent of aid given under looser competition rules introduced during the pandemic, she wrote.

The draft proposal stated Brussels would aim to set up a European sovereignty fund by the middle of this year to allow all 27 governments to fund state aid.

"To avoid fragmenting the single market due to varying levels of national support — and varying capacities to grant such support — there also needs to be adequate EU-level funding to facilitate the green transition across the union as a whole," it said.

Additional reporting by Guy Chazan in Berlin

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