Department for Transport

Future Fuels for Flight and Freight Competition

State Aid Guidance Notes for Applicants

This guide provides information on the State Aid background to applying to the Future Fuels for Flight and Freight Competition (F4C). This document should be read in advance of submitting any application, and should be referred to throughout the F4C process. If applicants have any questions about these guidelines they should send these to F4C@ricardo.com. These notes are intended only by way of summary of the relevant provisions of the General Block Exemption Regulations, applicants must read the full text and if in doubt obtain advice from their own professional advisers

The F4C was launched on the 27th April 2017 by the Department for Transport (DfT) to promote the development of an advanced low carbon fuels industry within the UK, including supplier capabilities and skills in relevant technologies, while maximising value for money for the taxpayer. The F4C will provide up to £20 million in capital grant funding over 33 months (2019-21) for major demonstration projects providing transformative and innovative solutions. The F4C will also provide up to £2m of project development funding in 2018 to support the development of proposals and will therefore operate in two stages; Stage 1 (Project Development) and Stage 2 (Capital Funding).

The European Commission's State Aid regulation is designed to prevent Government funding from causing unfair competitive advantages within a given market. General Block Exemption Regulations (GBERs)[1] provide a list of specific conditions under a number of Articles through which Member States may design a funding scheme. These articles set out conditions around maximum grant awards, eligible costs and eligible activities/technologies.

The F4C has been designed to comply with Article 41: the State Aid Block Exemption for investment in the promotion of energy from renewables.

[1] Commission Regulation (EU) No. 651/2014 of 17 June 2014 declaring certain categories of aid compatible with the internal market in application of Articles 107 and 108 of the Treaty (OJ L 187, 26.06.14, p.1)

Article 41: Investment aid for the promotion of energy from renewables

The table below summarises the key points of Article 41. In particular, Article 41 contains specific provisions for biofuel production from sustainable feedstocks and covers other renewable fuels.

Article and title	**Scope & Eligible Costs**	**Maximum aid intensity**	**Maximum Threshold**
Article 41 – investment aid for the promotion of energy from renewables.	**Eligible Costs** – the extra investment costs to promote the production of energy from renewable source. Restrictions apply regarding biofuels which must use sustainable feedstocks that are non-food-based.	Aid intensity may be set by the funder subject to the process being a competitive application.	15m Euros per recipient, per project.

DfT has set the maximum aid intensity at 50% of total capital costs for F4C.

Key concepts:

1. **Eligible costs**

   a. The Eligible Costs are those costs relating to a project that, subject to the permitted aid intensity (50% in the case of F4C), can be funded under Article 41.

   b. As a general principle, the Eligible Costs are the extra investment costs which are directly linked to the environmental objective of the project, which are established as follows:

      i. Where the costs of investing in the production of energy from renewable sources can be clearly identified in the total investment costs as a separate investment, for instance because the environmental objective is a readily identifiable add-on component to a pre-existing facility, the costs of the separate investment constitute the Eligible Costs;

      ii. In all other cases, the Eligible Costs are the extra investment costs established by comparing the aid investment with the counterfactual situation in the absence of state aid. Reference is made to the cost of a technically comparable investment that does not achieve the environmental objective that would have been credibly carried out without the aid. The Eligible Costs are then the difference between the costs of both investments;

      iii. For small installations, where a counterfactual investment cannot be established (as comparable plants of that size do not exist), the total investment costs to produce energy from renewable sources constitute the Eligible Costs[2].

[2] DfT expects that many early demonstration projects may be classified as small installations, without a relevant reference plant.

2. Aid intensity

a. The GBERs specify an "aid intensity" that applies to each Article. The aid intensity is expressed as percentage and represents the maximum amount of grant funding that is permitted under the GBER. Under Article 41(10), the funder is able to determine the aid intensity subject to the application process for funding being competitive. DfT has set the maximum aid intensity at 50% of total capital costs for F4C.
b. The maximum aid permitted under an Article = the aid intensity multiplied by the Eligible Costs.

3. Maximum cap

a. There is a maximum threshold for aid that can be granted under each Article of the GBER.
b. For Article 41, this maximum threshold is 15 million Euros.
c. This can be equated to pounds sterling by using the rates shown on the EU website: http://ec.europa.eu/budget/inforeuro/index.cfm?fuseaction=currency_historique&currency=GBP&Language=en
    i. It is important to note that the 15 million Euros threshold will be converted into sterling at the exchange rate prevailing on the date on which the grant is awarded. If your proposed grant application exceeds the maximum threshold on this date, the maximum grant that DfT can award will be limited by the maximum threshold.
    ii. Applicants should not assume that the 15 million Euros threshold will be calculated at an exchange rate prevailing on any earlier date.

4. Cumulation with other forms of aid

a. It is possible to rely on both the Article 41 exemption and the exemption available under the general de minimis regulation[3].
b. Aid exempted under the GBER cannot be cumulated with any *de minimis* aid in respect of the same Eligible Costs if such cumulation would result in the permitted aid intensity under the GBER being exceeded. However, the *de minimis* exemption could be applied in relation to different costs.
c. The *de minimis* exemption permits aid of up to 200,000 Euros to an individual recipient (from all sources) in any rolling three-year fiscal period.

Please note: It is the responsibility of any applicant to the competition to determine their compliance with State Aid Regulations if the potential project falls outside the scope of Article 41 and the de minimis exemption.

[3] Commission Regulation (EU) No 1407/2013 on the application of Articles 107 and 108 of the Treaty on the Functioning of the European Union to de minimis aid (OJ L 352, 24.12.2013, p.1