



Danish Energy Agency

Public consultation:

State aid for decarbonisation of industrial processes in Denmark – operation aid scheme under the Danish Green Tax Reform

Office/department

Center for Industry
Transition and cross-sector
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1. Introduction

The Danish Energy Agency (DEA) invites potential bidders, relevant market operators and other interested parties to give their views on the forthcoming operation aid scheme under the Danish Green Tax Reform.

The DEA assesses that the scheme constitutes State aid as defined in Article 107(1) of the Treaty on the Functioning of the European Union (TFEU)¹. To ensure compatibility with the internal market under TFEU Article 107(3)(c) the scheme is designed following the Commission's Guidelines on State aid for climate, environmental protection and energy 2022 (CEEAG).²

According to section 4.1.3.4 of the CEEAG, Member States must conduct a public consultation, asking for opinions on the scheme's competition impact and proportionality. The requirement went into force on 1 July 2023.

For measures where the estimated average annual aid to be granted is below EUR 150 million per year the duration of the public consultation should, according to point 99(b) of the CEEAG, be at least four weeks and should cover the following topics: (i) eligibility; (ii) proposed use and scope of competitive bidding processes and any proposed exceptions; (iii) where new investments in natural gas based generation or industrial production may be supported, proposed safeguards to ensure compatibility with the Union's climate targets.

The structure of this memo is as follows: Sections 2-5 outline different aspects of the scheme, including the background, the objective of the scheme and the information relating to the topics listed above. Section 6 includes a list of questions covering the topics above, which the DEA kindly asks any interested party to answer. Section 7 provides practical information regarding the submission of contributions to the public consultation.

The DEA notes that the descriptions of the scheme below in this memo may be changed before the opening of the scheme due to answers received following this consultation or for other reasons.

¹ Consolidated version of the Treaty on the Function of the European Union of 9 May 2008 (2008/C 115/91).

² Communication from the Commission, Guidelines on State aid for climate, environmental protection and energy 2022 (2022/C 80/01) ("CEEAG").



2. The background and objective of the scheme

2.1. Operation aid scheme for decarbonisation of industrial processes

The DEA is engaged in the preparation of an operation aid scheme for the decarbonisation of industrial processes in Denmark. The planned aid scheme stems from an agreement concluded by a majority of the political parties of the Danish Parliament on 24 June 2022 concerning a Green Tax Reform for the industry (GTR agreement)³. The GTR agreement introduced a new CO₂ taxation of industrial processes to incentivise decarbonisation. The parties behind the agreement also decided to allocate funds to support the transition of sectors most impacted by the new CO₂ taxation and where shifting to a greener fuel is most difficult.

On 19 March 2024 a supplementary agreement concerning the transitional aid from the GTR agreement⁴ was reached. As part of the agreement DKK 1 billion (EUR 135 million) in total will be allocated to an operation aid scheme in 2025-2034. Aid will be disbursed as operating aid, covering the additional cost incurred by transitioning to a given carbon-free or carbon-low alternative fuel. The objective of the aid scheme is to incentivise decarbonisation through technological change and avoid industrial production moving to countries with no or significantly lower CO₂ taxation.

2.2. State aid model

The types of projects that will be relevant under the operation aid scheme will typically involve shifting from a fossil fuel to a less CO₂e-emitting but more expensive fuel and the project therefore entails increased operating costs. The scheme is expected to be technology-neutral, and, as such, the eligibility of a project will not depend on the beneficiary applying certain technology. It is expected that the scheme will include both undertakings covered by EU's Emission Trading System (EU ETS) and undertakings not covered by EU ETS.

Aid under the operation aid scheme will be granted based on the principle of pay-as-bid, meaning that the aid a given beneficiary will receive for each ton of CO₂e emission avoided will correspond to the bid the beneficiary submitted. The aid is expected to be paid as a fixed rate for documented reductions in CO₂ emissions corresponding to the bid price (DKK per ton avoided CO₂).

³ Agreement between the Government and the Liberal Party of Denmark, the Green Left, the Danish Social Liberal Party and the Conservative People's Party on: Green Tax Reform for Industry, etc. (24 June 2022). Available in Danish at: <https://fm.dk/media/26070/aftale-om-groen-skattereform-for-industri-mv-a.pdf>.

⁴ Agreement between the Government, the Green Left, the Danish Social Liberal Party and the Conservative People's Party on: Transitional aid from Green Tax Reform for Industry, etc. (19 March 2022). Available in Danish at: <https://kefm.dk/Media/638464473286741456/Aftale%20om%20omstillingst%C3%B8tten.pdf>.



Currently, aid is expected to be paid quarterly, based on documented CO_{2e} emissions avoided. An adjustment mechanism will, however, be applied, whereby future aid payments will be reduced if the bid price and expected reduction in CO_{2e} emissions would result in a higher aid than the funding gap of the project.

The funding gap is expected to be recalculated by the DEA yearly for each project for its lifetime. If for example, an undertaking is expected to receive DKK 1 million yearly in aid, but their project-specific funding gap after a recalculation is estimated to be only DKK 800,000, their future yearly aid payments will be reduced by DKK 200,000. Further, if the funding gap after a later recalculation is expected to be DKK 1 million, the future yearly aid payments will be raised by DKK 200,000. There will, nevertheless, be no payments from the beneficiaries to the state, i.e. the aid payments may be adjusted to zero but never become negative.

3. Eligibility

3.1. Sectors eligible for aid

The sectors expected to be eligible for the operation aid scheme include:

- Industrial processes (for example, manufacturing of chemical products, fish processing, dairy production and slaughterhouses)
- Mineralogical processes etc.
- Domestic ferries
- Refineries
- Oil and gas production

3.2. Sectors excluded from the scheme

The sectors expected to be ineligible for the operation aid scheme include:

- Primary agriculture activities and forestry
- Horticulture
- Primary fishery and aquaculture
- Railway
- Domestic aviation
- Fossil-fueled electricity production

3.3. Delimitation of undertakings

The target group for the operation aid scheme is expected to be further delimited by two criteria – in addition to those that follow from the relevant State aid guidelines.



Firstly, companies need to have a CO₂ intensity of at least 6%, measured as the increase in CO₂ taxation from 2022 to 2030 multiplied by historic yearly CO₂ emission divided by historic yearly gross value added (GVA). This criterion is intended to show the economic burden a company will bear due to the new CO₂ taxation (which is differentiated between sectors) and the capability of the company to bear this burden. Applying the criteria will exclude some companies. The criterion is, however, intended to ensure that the target group for the scheme will be companies that have more difficulty shifting to a greener fuel and will be more affected by the new CO₂ taxation than others – and that the companies covered compete on equal terms despite the differentiated CO₂ taxation.

Secondly, companies need to have a total (historic) yearly CO₂ emission of a minimum of 1,500 tons. It is also expected as a criterion on a project level that a project has to entail an estimated yearly reduction in CO₂ emission of minimum 1,000 tons. These two criteria have been chosen to ensure that the covered companies, in addition to a high CO₂ intensity, have large CO₂ emissions and, therefore, will be more affected by the new CO₂ taxation than others. This is in line with the political agreement concerning transitional aid from which it follows that companies with very small emissions and thus a relatively small absolute increase in tax payment are not to be included in the target group.

3.4. Projects where there is no “start of work”

Projects where undertakings have invested before applying for aid will also be eligible for operation aid – if the investment has only *facilitated* the use of a greener energy source, but the use of the greener energy source may entail higher operating costs. Receiving aid to cover all or part of these costs will give the beneficiaries an incentive to actually start *using* the greener energy source and, thereby, reduce CO₂e emissions.

As initial investments costs are expected to constitute only a small part of the overall additional costs of the projects, the DEA believes that it will not affect the competition between undertakings that have invested before applying for aid and undertakings that have not.

4. Proposed use and scope of competitive bidding processes

Aid will be granted through up to two competitive bidding rounds and disbursed from 2025 to 2034. Subject to the European Commission’s approval, the DEA intends to initiate the first competitive bidding process in early 2025 in order for granting of aid in 2025 to be possible. Undertakings are expected to compete solely based on their bid for price pr. ton avoided CO₂e. A maximum bid price of DKK 500 per ton of CO₂e emission avoided is expected.



The DEA will ensure that the competitive bidding processes will be open and based on clear, transparent and non-discriminatory criteria. The conditions for the scheme, including the timeline for the bidding process(es), the criteria for ranking the bids and the delimitation for the projects eligible for aid, will be set out in an executive order, which will, thus, form the legal basis of the scheme. The executive order is expected to enter into force on 1 January 2025. The executive order will be supplemented by a handbook with guidance on the scheme for the bidders.

5. Proposed safeguards to ensure compatibility with the Union's climate targets

The Danish Climate Act of June 2020 sets a legally binding target for Denmark to become climate neutral in 2050 and two intermediate goals in 2025 and 2030 of achieving 50-54% and 70% reduction of national greenhouse gas (GHG) emissions compared to 1990.⁵ The current Danish government has since moved up the goal of climate neutrality to 2045 and set a new goal of 110% reduction of national GHG emissions compared to 1990. These goals complement the EU's climate protection target in the EU Climate Law of reducing GHG emissions by at least 55% by 2030 and becoming climate neutral by 2050.⁶

As mentioned above, the operation aid scheme is part of the Green Tax Reform which constitutes the largest single contribution to Denmark's 2030 climate goal. With the reform, Denmark is set to reduce CO₂ emissions by 4.3 million tons in 2030, with the majority of the reductions stemming from the Danish industry. Aid under the scheme will be awarded based on CO₂ reductions and as such the scheme is expected to reduce CO₂ emissions further by 0.05 million tons in 2025 and 2030. The scheme will therefore contribute to Denmark's climate goals and thereby EU's climate targets.

The DEA believes that the eligibility of projects where beneficiaries make a transition to natural gas is justified because they will entail reductions in CO_{2e} emissions. Though Denmark does not have a national decarbonization plan with binding targets, cf. CEEAG point 129, concerning phasing out natural gas usage or production of biogas, the Ministry, Energy and Utilities projects that 100% of the gas usage in Denmark will be biogas from 2029. Therefore, the DEA believes that the risk of a lock-in effect is minimal. Furthermore, the operation aid scheme is expected to incentivize the use of biogas instead of natural gas as the calculation of CO_{2e} emissions avoided, on which basis the aid is granted, will take into account the lower

⁵ Consolidated Act no. 2580 of 13 December 2021 on the Climate, available in Danish at: <https://www.retsinformation.dk/eli/lt/a/2021/2580>.

⁶ Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and mending Regulations (EC) No 401/2009 (EU) 2018/199 (European Climate Law).



emissions from biogas (if documented by certificates of origin) compared to natural gas. If an undertaking has bought certificates showing that (part of its) gas usage for the project is biogas that has been produced without state aid, the CO₂e emissions from this usage will be viewed as 0. The DEA, therefore, believes that the scheme includes sufficient safeguards to ensure the Union's climate targets.

6. Consultation questions

The DEA invites potential bidders, relevant market operators and other interested parties to comment on the following:

1. Criteria to delimit eligibility

The DEA finds that the two criteria that are expected to be used to delimit the eligibility of undertakings are based on objective considerations and will accommodate the political agreement on transition aid, ensuring that all competing activities may participate in the competitive bidding process in accordance with principles in the CEEAG. However, the DEA welcomes any comments regarding whether the thresholds accommodate the undertakings that face the most difficulties shifting to greener fuels and will be most impacted by the new CO₂ taxation and comments on the effect of the criteria on the competition for the funds under the scheme.

2. Non-exclusion of projects where there is no “start of work”

As elaborated above, the DEA finds the inclusion of projects where the work has started, i.e. equipment purchased and installed, in the scheme to be justified and that such projects do not have a noteworthy advantage compared to other projects. Nonetheless, the DEA welcomes reflections on the matter.

3. Proposed use and scope of competitive bidding process

The DEA believes that, though the target group for the operation aid comprises many different sectors and therefore different projects, the undertakings from the different sectors will compete on a level play field. Nevertheless, the DEA welcomes opinions on how the bidding process can be amended to achieve more fair competition for the funds.

4. Aid for industrial production based on natural gas

As elaborated above, the DEA believes that the inclusion of projects where beneficiaries make a transition to natural gas is justified and that the risk of a lock-in effect is minimal, thereby ensuring compatibility with the Union's climate targets. However, the DEA welcomes considerations on whether additional safeguards might be needed to further reduce the risk of a lock-in effect.



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7. Participation on the consultation

The deadline for submitting input to the public consultation is 2 September 2024.

Input to the public consultation can be submitted in writing by e-mail annotated with j.no. 2024-1180 to the DEA, ens@ens.dk with copy to antgm@ens.dk, or by regular mail to Energistyrelsen, Carsten Niebuhrs Gade 43, 1577 København V.