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State of the Art

# **Government of Flanders Position Statement on European State Aid Policy**

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## **SUMMARY**

European Commission President von der Leyen has ordered the reform of the European state aid framework as a tool for implementing the announced Clean Industrial Deal. The Commission believes that this should build on the experience gained from the Temporary Crisis and Transition Framework (TCTF). With the present note, Flanders aims to comment on this initiative and share its views on the state aid framework.

The Government of Flanders actively advocates for the restoration of a 'level playing field' at the European level regarding state aid rules. For this reason, we strive for a stable and minimalist state aid framework that safeguards the single market's integrity. The Government of Flanders believes that state aid is not the most suitable instrument, especially in those cases where less disruptive existing tools are available. Alternatives to relaxing state aid rules (as was done through the TCTF) are at hand. We must focus on maximising the use of available European funds and resources.

## 1. CONTEXT

The European Commission has launched a new institutional cycle, emphasising the competitiveness of our industry in the context of global challenges. Commission President von der Leyen has ordered the reform of the European state aid framework as a tool for implementing the announced Clean Industrial Deal. The goal is to facilitate sufficient public funding to accelerate renewable energy deployment, decarbonise industries and ensure sufficient production capacity for clean technologies. The Commission believes that this should build on the experience gained from the Temporary Crisis and Transition Framework (TCTF). The Commission's proposal for reforming the state aid framework is expected in the second quarter of 2025.

With the present note, Flanders aims to comment on this initiative and share its views on the state aid framework. The present note complements the Government of Flanders position statement on the recommendations formulated in Mario Draghi's report "The Future of European Competitiveness" and does not make preliminary assumptions about future positions on the Multiannual Financial Framework for 2028-2035.

## 2. GENERAL POSITION

The Government of Flanders actively advocates for the restoration of a 'level playing field' at the European level regarding state aid rules. The Government of Flanders believes that state aid is not the most suitable instrument, and should not be the primary means, especially in those cases where less disruptive tools are available. Flanders emphasises, as we have done before, that alternatives to relaxing state aid rules should first be considered and that we must focus on maximising the use of available European funds and resources, such as the Innovation Fund and the Connecting Europe Facility. Also, the European Investment Bank could be given a more prominent role in this context.

Furthermore, Flanders also sees merit in scaling up an instrument such as contracts for difference for decarbonisation technologies in energy-intensive industries to the EU level and coordinating it there. High energy prices are putting our industries, especially the energy-intensive industry, under pressure and creating a competitive disadvantage. To accelerate the industry's green transition, in line with climate and energy targets, the industry must be properly supported.

A more flexible application of state aid rules may indeed be justified in certain specific situations, but this should always be done within a strictly defined framework with clear rules and sufficient control to maintain the internal level playing field. Market failure is a requirement in those cases (or a high priority), and the aid must always be proportional, necessary, and evidence-based. Specific aid frameworks for individual sectors can be required to safeguard our competitiveness but also risk leading to fragmentation and disadvantaging smaller member states in particular.

Companies want to have a strong business case, including on their path to decarbonisation, and above all demand clear and predictable preconditions<sup>1</sup>. These preconditions include: administrative simplification

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<sup>1</sup> See also Council Conclusions, approved on 24 May 2024 under the Belgian Presidency, on 'A competitive European industry driving our green, digital and resilient future'.

and reduction of the regulatory burden; access to finance; ambitious but achievable and pragmatic targets; faster licensing procedures; affordable energy prices; increased innovation capacity; a skilled workforce; reduced single market barriers; a large trade network with third countries; and well-functioning capital markets.

### **3. STATE AID FRAMEWORK REFORM**

At this stage of the process, Flanders advocates for the following priorities:

- Return to the regular state aid framework. In this, the primary focus should be on restoring a level playing field and preserving the integrity of the single market;
- Evidence-based approach: Before introducing any major policy changes to the state aid framework, conduct an evidence-based problem analysis and impact assessment of different policy instruments and options;
- European cooperation: Instead of unilateral initiatives, we should focus on European cooperation to tackle common challenges, utilising frameworks such as Important Projects of Common European Interest (IPCEI).

### **4. TEMPORARY CRISIS FRAMEWORKS**

The TCTF has led to fragmentation. It is therefore necessary to return to a stable and minimalist state aid framework that ensures the integrity of the single market.

Flanders does not support a continuation of the crisis frameworks that led to a relaxation of the state aid framework, for the following reasons:

- The measures allowed for rapid and substantial aid (mainly by larger member states), thereby disrupting the level playing field.
- Crisis frameworks should effectively be 'temporary'. These measures were justified in light of the exceptional circumstances at the time. Europe's competitiveness problems, however, require structural measures;
- The TCTF relies on a special legal basis<sup>2</sup> in the treaty, only applicable in cases of temporary and severe disruption of a member state's economy; and
- These frameworks were established after limited consultation of member states.

The recent report by the European Court of Auditors<sup>3</sup> also raises several valid points, such as the need to further evaluate the impact of crisis-related state aid on competitiveness and to improve the analysis of the need for state aid to support the EU's industrial policy objectives. For these reasons, Flanders is concerned about a continuation of the TCTF. A reform of the state aid framework must allow for

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<sup>2</sup> Article 107, 2b and 3b TFEU instead of the usual Article 107, 3c TFEU.

<sup>3</sup> "Swift reaction but shortcomings in the Commission's monitoring and inconsistencies in the framework to support the EU's industrial policy objectives" (dated 23/10/2024)

adequate consultation of member states, be legally sound, and prioritise preserving the integrity of the single market.

## **5. IMPORTANT PROJECTS OF COMMON EUROPEAN INTEREST (IPCEI)**

In case of market failure and in the absence of adequate alternatives, we can take targeted action through government subsidies or other incentives, for example through IPCEIs. Flanders welcomes the rationale of this instrument. It can serve as an alternative to unilateral support measures and has the potential to enable several member states to cooperate in addressing common strategic challenges. In addition, IPCEIs are a valuable tool for achieving socially significant transitions that exceed the capacity of individual member states. However, Flanders has long advocated for procedural improvements. The instrument must remain focused on effectively addressing market failures and should not lead to a subsidy race between member states.

Specific recommendations from Flanders include:

- The scope of potential projects must be more strictly monitored, and their strategic importance as well as the market failure that the IPCEI aims to address should be clearly defined.
- Governance should be further refined with greater involvement from the European Commission and a more balanced share of member states, including in terms of project coordination;
- The administrative process must be simpler and faster, and the access of SMEs to IPCEIs must be significantly improved, for example, by establishing SME-specific rules.

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