

on

EU Public Consultation: “State aid for environmental protection and energy – revised guidelines”

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VIK welcomes the opportunity to comment on the revision of the State Aid Guidelines for Environmental Protection and Energy (EEAG) and supports the Commission’s intention to align the EEAG with the objectives of the European Green Deal and the EU Industrial Strategy.

The EEAG are a key instrument in the industrial transformation towards a climate neutral economy. The revision must support the right framework for European Energy Intensive Industries (EIIs) to contribute to the transition, while remaining competitive on a global scale.

However, the transition to a climate-neutral economy entails challenges. For industrial energy users, these challenges relate to the availability and access to climate-neutral energy at globally competitive prices. Secondly, the transition will require enormous investments to develop, upscale and implement new or existing decarbonization technologies, both in new and existing plants. These investment costs cannot be borne solely by the energy intensive industries and must be limited for EIIs, given the high level of global competition EIIs face from competitors operating under less constrained conditions. A revised state aid framework is extremely important to provide producers with the much-needed financial support and long-term regulatory certainty. In that regard, the following issues will have to be considered.

Improve current regime to ensure global competitiveness of the European industry

Currently, climate policies in other regions do not follow the same ambition level as the EU, which leads to a decrease in competitiveness of the European industry. The new Guidelines should therefore address distortion on international markets and the need for a level playing field between EU EIIs and global competitors. European industry can only achieve the necessary investments for climate neutrality with an expectation of reasonable profitability, and consequently comparable costs to those incurred by competitors in other extra-EU countries.

The importance of continuing to ensure effective carbon leakage protection for European industry must be emphasized. In this context, existing measures such as the free EU ETS allowances and indirect cost compensation should remain in place.

Against this background, and in view of the increased European Green Deal ambition, the new EEAG rules should 1) define European industrial competitiveness as an objective of common interest and 2) protect the competitiveness of EIIs by alleviating regulatory costs that are not

borne by competing industries worldwide. Such costs would otherwise hamper European industry's ability to invest in green technologies and will de facto increase carbon leakage.

Aid for Energy Intensive Users to protect their competitiveness

As outlined in the Inception Impact Assessment, the EEAG revision will focus on two main building blocks: i) a review of compatibility criteria for aid to promote higher environmental objectives, and ii) assessment of State aid to energy intensive users.

As far as the second building block is concerned, the EEAG revision should maintain and strengthen current provisions allowing reduction in or exemption from renewables support and should be extended to shield the industry from the extra costs resulting from energy transition support, higher climate ambition and the EU Green Deal in order to avoid carbon leakage.

These extra costs should involve all costs necessary for achieving the 2030 climate targets and climate neutrality objectives. They include direct funding support for additional infrastructure, storage that enables low carbon electricity uptake in the power mix, financial support to generation adequacy. Additionally, funding of capacity mechanisms surcharges, system balancing costs, redispatch costs and extra network investments are also extra costs that should be compensated.

Give long-term certainty

The EEAG should provide long-term certainty to make investments and operations in Europe more attractive. In this regard, the approval of state aid should not be made subject to future policy changes. Companies need predictability of the legal framework to enter into decarbonization projects.

Openness to support all low-carbon technologies

The green transition will require enormous investments in the development and uptake of existing as well as still to be commercialised decarbonization technologies and energy carriers.

Since a mix of different pathways will be required to achieve transformation, the framework will have to be adapted. While the existing EEAG only mentions the support of CCS, it is essential that the revision widens the scope to all technological innovations.

Financial support for breakthrough or immature technologies must not be limited to technology innovation support but should also cover scale-ups and the market entry of new products and applications necessary to bridge the so-called 'valley of death' for new projects.

Building on the project-based approach in the renewable energy industry, Contracts for Difference or similar instruments financed by e.g. consumption charges could be considered to de-risk investments and make low-carbon solutions competitive with carbon intensive ones. Both initial investment costs and operating costs that are incurred during the lifetime of a climate-friendly investment should be included here, e.g. for investments necessary to switch to a hydrogen economy.

Conditionality

Finally, the European Commission intends to consider some form of environmental conditionality for granting any aid. In that regard it should be noted that energy costs are an essential part of the operating costs of many of our member companies. To remain competitive in the international markets, EEIs inherently have a strong incentive to be as energy efficient as possible and have been reducing their specific energy consumption for decades through extensive efficiency measures. The energy savings achieved so far are not automatically transferable to further efficiency increases in the future, and absolute energy savings and energy efficiency potentials are limited by physical constraints.

Moreover, we strongly oppose the notion of the European Commission to align the new state aid rules with indirect cost compensation within the ETS. Since the number of sectors at risk for carbon leakage that are eligible for compensation was recently reduced, specific and independent state aid will still be required to provide adequate carbon leakage protection without hampering industries' competitiveness. In this regard, it is important that the complete value chain is being included and protected.

Moreover, the sectoral lists in annexes 3 and 5 of the current EEAG are already too narrowly defined. The underlying criteria that are used to set up these lists leave out two important aspects:

- The concept of trade intensity, calculated from statistical data, does not address potential competition: i.e. the fact that there might be no cross-border trade for a certain product yet, but that such international trade may be triggered immediately by the introduction of energy cost-increasing measures on one side of the border, which would lead to the immediate need for Carbon Leakage measures.
- In addition to focusing on EIs alone, value chains need to be taken into account: Aid in the form of reductions should be possible for companies which are especially burdened through a high energy intensity and international competition with competitors which do not face an equivalent burden. This must also include companies active in intermediate elements of the manufacturing value chains even though only indirectly exposed to international trade and competition (e.g. pressurized air, industrial gases)

The energy-intensive industry accounts for a high share of Europe's total economic output. Companies need to remain internationally competitive to be able to invest in new, climate-friendly technologies and greater efficiency gains in the use of energy. No transition will be achieved without a strong industrial base in Europe.

Der VIK ist seit über 70 Jahren die Interessenvertretung industrieller und gewerblicher Energienutzer in Deutschland. Er ist ein branchenübergreifender Wirtschaftsverband mit Mitgliedsunternehmen aus den unterschiedlichsten Branchen, wie etwa Aluminium, Chemie, Glas, Papier, Stahl oder Zement. Der VIK berät seine Mitglieder in allen Energie- und energierelevanten Umweltfragen. Im Verband haben sich etwa 80 Prozent des industriellen Stromverbrauchs und rund 90 Prozent der versorgerunabhängigen industriellen Energieeinsatzen und rund 90 Prozent der versorgerunabhängigen Stromerzeugung in Deutschland zusammengeschlossen.