IFIEC response to EU Commission IIA on EEAG revision

IFIEC 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 provide the right framework for European Energy Intensive Industries (EIIs) to contribute to the transition, while remaining competitive on the global scale. Nevertheless, State aid is limited to Member States resources, which makes it insufficient to provide (i) for the necessary financial means at EU level and (ii) equal access to all companies, both necessary to finance the transition.

European EIIs are enablers of the green and digital transition envisioned by the EU Green Deal[1]. No transition will be achieved without a strong industrial base in Europe. EIIs are solutions providers, being at the start of long value chains that provide products, materials and technologies that enable emissions reductions in other sectors of the economy. Further, EIIs have already contributed to decreasing GHG emissions in the EU in the past few decades. Between 1990 and 2015, they have reduced their GHG emissions by 36% and accounted for 28% of the total EU-wide economy emissions reductions[2].

But the transition to a climate-neutral economy entails challenges. For industrial energy users, these challenges relate first of all to *the availability and access to* ***climate-neutral energy at globally competitive prices[3]***. Secondly, the transition will require enormous ***investments to develop, upscale and implement new or existing decarbonization technologies***, both in new and existing plants[4]. 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.

Looking ahead, the EEAG revision should take into account the following recommendations:

---

[1] COM(2020)/102 Final A New Industrial Strategy for Europe (point 2.2): *" Industry has a leading role to play in what is the greatest challenge and opportunity of our times. All industrial value chains, including energy-intensive sectors, will have a key role to play. They will all have to work on reducing their own carbon footprints but also accelerate the transition by providing affordable, clean technology solutions and by developing new business models."*

[2] Masterplan for a Competitive Transformation of EU Energy-intensive Industries Enabling a Climate-neutral, Circular Economy by 2050.

[3] COM(2020)/102 Final A New Industrial Strategy for Europe (point 2.2): "*To become more competitive as it becomes greener and more circular, industry will need a secure supply of clean and affordable energy and raw materials"*

[4] COM(2020)/102 Final A New Industrial Strategy for Europe (point 3.3): "*As Europe transitions to climate-neutrality, certain sectors will have to make a bigger and more transformative change than most. Energy-intensive industries are indispensable to Europe's economy and are relied on by other sectors. Modernising and decarbonising energy-intensive industries must therefore be a top priority."*

EEAG should address global competitiveness, not only internal market competition

As a principle, the new Guidelines should not only address internal-market distortion, but also distortion on international markets and the need for a level playing field between EU EIIs and global competitors. Currently, climate policies in other regions do not follow the same ambition level as the EU. Therefore, European industry can only achieve the needed investment levels for climate neutrality with a guarantee of reasonable profitability, and consequently comparable costs to those incurred by competitors in other extra- EU countries.

Against this background, and in view of the higher 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 to Energy Intensive Users

As outlined in the IIA, the EEAG revision will focus on two main building blocks: i) a review of the 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, our assessment is that the EEAG have, so far, broadly delivered on their objectives of facilitating the deployment of renewables. In many cases, aid granted under the EEAG has been crucial for EIIs to remain competitive, while creating incentives to facilitate projects to promote energy efficiency, emissions reduction and the development of innovative production and process methods. Further, reductions in RES surcharges for energy intensive industries have made possible and encouraged the introduction of more ambitious renewables policies by Member States, while in many cases allowing industries' competitiveness.

Provide adequate EIIs' competitiveness safeguard against costs caused by the higher climate ambition

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 and investment leakage.

- These extra costs are not merely resulting from renewable surcharges but involve all costs as a result of the path towards the climate targets for 2030 and climate neutrality objective. 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.

- Until support mechanisms for RES are completely phased out, the EEAG rules should in principle maintain current framework to protect industrial competitiveness by reducing the impact of these regulatory costs on their energy bill. Furthermore, such provisions should be strengthened in view of the increasing costs stemming from Green Deal implementation. In particular, the minimum own contributions of the renewables' surcharges are adequately set in the current guidelines and should be maintained in the upcoming reform.

- The revision must allow for adequate hardship regimes, cost limits and specific measures for industrial users exposed to the risk of carbon leakage, until a level global energy and climate playing field is established. The provisions in current Section 3.7 paragraphs 188 & 189 of the current EEAG, wherein relief granted is proportionate to the specific exposure of each sector at the level of undertaking/activity, should be kept and improved.

- The EEAG should be updated to reflect recent and future case law on existing surcharges related to the energy transition. Specifically, to ensure consistency between these cases and the EEAG, the scope of the EEAG should be extended in order to encompass the following reductions:
    - Reduction in surcharges levied for funding Capacity Mechanism;
    - Reductions in funding support for high-efficiency cogeneration (HE-CHP);
    - Reductions in the funding of Public Service Obligations (PSOs).

Give long-term certainty

- The **EEAG should provide long-term certainty** to make investments and operations in Europe more attractive.
- Approval of state aid should not be made subject to future policy changes.
- Further, limited predictability of framework limits companies' ability to enter into decarbonization projects.
- Therefore, more long-term guidance in relation to regulated components of energy costs would increase the effectiveness of the rules.
- Furthermore, long-term predictability on the regulatory costs could make solutions such as renewables power purchase agreements more attractive for energy intensive industries.

Support all low-carbon technologies

- The green transition will require enormous investments in the development and uptake of both existing as well as breakthrough decarbonization technologies and energy carriers to transform the EIIs.
- This transformation will require a mix of different pathways, and for industry to be able to continue to invest in decarbonization technologies and to purchase new energy carriers, which will need an adapted framework.
- While the existing EEAG mention explicitly only the support of CCS, it is essential that the revision widen the scope of the EEAG to all technological and market innovations.
- Financial support to 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.
- In parallel to breakthrough technologies scalability, action is also needed to establish European markets and demand for low-carbon products and materials. Building on the project-based approach in the renewable energy industry, Contracts for Difference or similar instruments could be considered to de-risk investments and make low-carbon solutions competitive with carbon intensive ones.

EU Taxonomy not the right tool

- In the IIA, the Commission mentions the EU Taxonomy on Sustainable Finance as a potential tool for MS to disclose the environmental contribution of the aid.
- The **EU Taxonomy should not be used as a reference to define positive environmental benefits.** The EU Taxonomy, and in particular the delegated act rules necessary for the full application of the framework would result in a continuously extreme restricted categorization of activities/ companies which may be eligible for State aid. This will not help the profound industrial transformation that is needed to make the Green Deal a reality.
- Furthermore, the EU Taxonomy Regulation so far does not cover all sectors, and also only partly covers the sectors that are eligible within its scope. Neither does the taxonomy target R&D and technology development. Projects outside the taxonomy could therefore have high environmental benefits, and yet not be considered. Therefore, restricting the definition of positive environmental benefits to EU taxonomy alone would be too narrow and would not reach the intended effects.
- Furthermore, there is no link or consistency between activities included in the EU Taxonomy and sectors/activities subject to carbon leakage risks.

Conditionality and Eligibility

- Finally, the IIA flags the Commission intention, namely in assessing the State Aid to EIIs, to (i) consider some form of environmental conditionality for granting the aid, (ii) to align the eligibility in EEAG to the eligible sectors under ETS indirect emissions guidelines.
- First, it is important to note that due to their high energy intensive nature and exposure to global competition, EIIs have by nature the strongest incentive to be as energy efficient as possible to reduce the costs. However, should some form of conditionality be considered, it should be well designed, proportionate and should have an incentive effect without penalizing the companies that have already invested in these measures.
- Moreover, we strongly oppose the idea of the EC to increase consistency with the new state aid rules for indirect costs compensation of the ETS. The number of proven carbon leakage sectors that are eligible for compensation was recently reduced without any prove of comparable burden in other regions reducing the carbon leakage risk. This makes the methodology unfit to align the state aid rules with the ambition of the green transition without hampering industries competitiveness.
- On the contrary, 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 do not take into account two 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 such international trade may be triggered immediately by the introduction of energy cost-increasing measures on one side of the border. Which leads to the necessity of introducing Carbon Leakage measures immediately.
    - In addition to focusing on energy intensive companies 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 include also 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).
-