

## Contribution of the Federation of Austrian Industries to the public consultation of the European Commission on the revised Climate, Energy and Environmental Aid Guidelines (CEEAG)

### Introduction

- State aid rules are **fundamental for preserving a level playing field for European companies**, both within the EU and vis-à-vis global competitors, **while enabling Europe's transition towards climate neutrality** and sustainable growth in line with the objectives of the European Green Deal. Ever higher investments will be needed to reach these objectives.<sup>1</sup>
- **European industries and businesses should be supported in their transformation towards climate neutrality, sustainable growth, job creation and prosperity and the Guidelines on Climate, Energy and Environmental aid (CEEAG) have an important role to play in achieving this.** EU industry, which competes globally with companies that are not facing similar carbon costs, will not be able to bear all the costs related to the transition in the absence of a global level playing field regarding climate change obligations and subsidy control. The CEEAG need to reflect this global reality and ensure that in principle eligibility to aid is granted to all technologies contributing to climate transition.
- If the EU is to be a frontrunner for climate friendly manufacturing through the deployment of low carbon process technologies and innovations, **the key enablers are infrastructures, rapid commercialization of new and processes and access to abundant renewable electricity supply at competitive energy prices.** This comprises reducing or removing levies/surcharges regarding Renewable Energy Sources (RES), including multimodal CO2 transport besides pipeline (e.g., by truck, rail), and ensuring support for the reduction of both direct and indirect industrial emissions.
- It is positive that in principle the scope of application of the CEEAG is not limited to certain technologies regarding the implementation of the Green Deal. However, the draft proposal on the CEEAG contains several elements on **reductions from electricity levies for energy-intensive users** and **reductions in environmental taxes**, that pose an excessive burden on the energy intensive industry, increasing the risk of carbon leakage, and discouraging the uptake of low carbon technologies that rely directly or indirectly on electricity. As studies by the IEA show, compared to other sectors in energy intensive manufacturing industries, transformation technologies are largely still at early development stages, requiring significant support when being deployed.<sup>2</sup> Furthermore, the **scope of eligible activities should be considered in view of circular economy needs.**

The Federation of Austrian Industries (Industriellenvereinigung / IV) represents more than 4.500 Austrian companies across all industry related sectors in Austria such as manufacturing, energy, infrastructure, finance and services.

<sup>1</sup> According to the Impact Assessment of the European Commission, an EU greenhouse gas (GHG) reduction target of 55% by 2030 would require annual investments of more than 1.000 billion EUR during the coming decade in the energy and transport systems alone.

<sup>2</sup> See International Energy Agency (IEA): Energy Technology Perspectives 2020. Report on Clean Energy Innovation, July 2020.

## Key messages

- **The limitation of State aid intensity for reductions** at 75% in the draft CEEAG, should duly be **maintained at 85% as provided in the current state aid guidelines** (2013-2020), in order to provide sufficient levels of aid and exemptions in view of the points mentioned above.
- Reducing protection to the **most exposed undertakings** by increasing the threshold of mandatory contributions from **0.5% to 1.5% GVA** would dramatically increase the risk of carbon leakage of a sector that is subject to fierce international competition and must be avoided.
- The methodology regarding **trade intensity** has changed by increasing the trade intensity criterium from **10% to 20%**. Furthermore, the **elimination of the eligibility on the basis of a 4% trade intensity and a 20% electro-intensity is viewed critically**. Thus, the restrained list of eligible sectors **excludes the industrial gases** (NACE code 2011) – e.g. hydrogen and oxygen - from the scope of application of the reductions, although these gases will play a crucial role in the transition to low carbon technologies in the nearest future. Generally speaking, the suggested criteria put a **disproportionate emphasis on trade intensity**, whereas the impact of CO<sub>2</sub> costs from energy on GVA weighs heavily on companies' cost base and impacts on their competitiveness, independently from the trade intensity of a sector.
- We are **strictly opposed to the non-eligibility of a number of important energy intensive sectors** for levy exemptions, such as the sectors **cement, lime and plaster, bricks and roof tiles**. They are facing high extra costs on national level. Thus, the non-eligibility of these sectors will jeopardize their competitiveness and therefore lead to increased imports and a decrease of exports.
- Furthermore, the proposed limited **scope of eligible activities should be re-considered in view of circular economy needs**. In this regard, we are highly critical of the proposed deletion of the manufacturing of plastics materials from the list of eligible sectors/activities, especially when these activities provide long-lasting and fully recyclable materials, as this would be counterproductive with environmental objectives of achieving a fully circular economy.
- **State aid should not be made conditional on additional requirements** (i.e. investments in energy efficiency or emission reductions and carbon free power purchase agreement,). Factually, in this case, it would not anymore consist of a (partial) reimbursement of incurred costs since it requires additional expenditure to the company. As the eligible sectors are acknowledged as being at risk of carbon leakage, the missed reimbursement would create the conditions for the materialisation of such risk, leading to an increase in global emissions.
- The consideration by the Commission of the **“Do not significant harm principle” (DNSH)** when assessing the negative effects on competition and trade of a particular state aid regime can pose general concerns. In general terms, we consider that it is premature to link the revised Guidelines to the DNSH principle and the Taxonomy, given the fact that the Taxonomy still is under development and the delegated acts on the four remaining environmental objectives are still pending. This provides uncertainty for Member States when designing their state aid schemes, since what might be considered as an environmentally sustainable activity will be only developed over time. Therefore, we suggest **to remove the reference to the DNSH that could lead to legal uncertainty**.

- **Carbon Contracts for Difference need to cover the full abatement costs** of the new low-carbon processes, as this is the only way to create a concrete business case ensuring that projects on low-carbon steel are implemented. An improper design could otherwise result in a CCfD that would fail to make low-carbon production process economically viable.
- The use of electricity made from renewable energy sources in energy-intensive production processes by **levelling the costs of long-term power purchase agreements** should be supported.
- The **inclusion of hydrogen pipelines** in the scope of the State Aid Guidelines is **welcomed**.
- It is emphasized that **existing natural gas infrastructure as well as power plant infrastructure are well suited for the generation, the transport and the storage of renewable energy-based gases**. Due to the fact, that renewable energy generation is largely based on volatile energy sources, the necessity for gas-fired power plants (cogeneration) ensuring the security of energy supply is undisputed for the transformation process.
- Moreover, we would stress that **in addition to pure “energy infrastructure” like CO2 pipelines, it would be beneficial to recognise other transport modes** such as ships, trucks and barges under the State Aid Guidelines. This would support the take-up of CCUS, including in regions where building pipelines may not be economical.
- Furthermore, the decarbonisation of the individual sectors of the energy system will require a **technology neutral approach** based on different energy sources as well as different technologies for generation, storage and conversion of energy in order to guarantee security of energy supply. Therefore, it will be also critical to receive an **appropriate level of support for CO2 transportation networks to bring the CO2 to storage or utilisation sites**. In this context, we note that the definition of CO2 infrastructure (paragraph 35) is overly restrictive by including only two types of CO2 utilisation. This definition does not reflect the variety of CO2 ongoing utilisation projects.
- **The reference to low/zero emission vehicles should be formulated technology neutral** and comprehensive enough so that all technologies can make their contribution, the Commission is encouraged to make sure that such definition is based on a full life cycle. We encourage the European Commission to entitle low carbon liquid fuels for state aid given their role in all transport modes to achieve carbon neutrality and related refueling infrastructure.
- The guidelines limit investments in **CNG and LNG**. We invite the European Commission to reconsider this limitation given the contribution that all the low-carbon liquid fuels can give to the climate transition in the transport sector.