

2 August 2021

Position paper by the bvse and the BDSV on the draft communication from the Commission on the Guidelines on State aid for climate, environmental protection and energy 2022

Dear ladies and gentlemen,

First of all, we would like to express our gratitude towards the Commission and thank them for the opportunity to voice our opinion on the draft of the new CEEAG guidelines for 2022.

I. General Information

The German Federal Association for Secondary Raw Materials (bvse e.V.) is one of Europe's biggest umbrella associations in regard to waste management and the recycling of waste. It represents the interests of more than 950 members, which are mostly SMEs located in Germany and throughout the EU, specialised in the collection, sorting and recycling of waste. Our qualified environmental service providers have about 50.000 employees with a total annual turnover of 10 billion Euros. Moreover, the bvse represents and is proficient in all areas of the secondary raw materials and waste management sectors.

The BDSV e.V. - the German Federal Association of Steel Recycling and Waste Management Companies - is the largest steel recycling association in Europe. The BDSV represents the interests of more than 700 member companies in the industry. The main task of the steel recycling companies includes the production of quality-assured recycling materials for the processing steel industry in Germany and worldwide.

Thus, the bvse and the BDSV highly favour the state aid guidelines published by the Commission and deem them to be absolutely necessary.

In this regard, especially the extended scope of the guidelines and the additional aid in the sectors concerned with circular economy and efficiency of resources is a pleasant addition to the draft of the CEEAG guidelines (under point 4.4. CEEAG). Putting a focus on the creation and maintenance of an EU circular economy is crucial in reaching the set climate targets for the EU, as well as in further reducing greenhouse-gas-emissions.

One of the main concerns of the European Union during climate change and the associated climate protection is to achieve EU climate neutrality by 2050.

Specifically recycling, as part of the circular economy, makes an important contribution to climate protection. According to the status report of the German circular economy for 2020, the recycling of waste in the Federal Republic of Germany alone leads to CO₂ emission savings of around 100 million tonnes per year for all material flows.

In particular, the use of recycled materials in plastic products and recycled steel as a secondary raw material in the steel industry contribute significantly to achieving the EU's climate protection targets. Thereby also the dependence on fossil raw materials and CO₂ emissions in the manufacturing process is weakened.

In addition to the CO₂ emission savings, recycling generates secondary raw materials that reduce the use of primary raw materials. The associated conservation of primary raw materials makes another important contribution to climate protection. Secondary raw materials are thus a significant pillar of climate protection.

However, in order to actually achieve the set targets, the following changes to the guidelines are imperative.

II. On the different aspects of the draft guidelines for 2022

Point 4.4.2 (a) (para. 192) regulates the eligibility to state aid for investments improving resource efficiency through
“(ii) the replacement of primary raw materials or feedstock with secondary (re-used or recycled) raw materials or feedstock”.

Especially the recycling branch is an important actor in this regard.

The extraction of secondary raw materials from processed waste, such as plastic recyclates, the production of shredded scrap from metallic consumer goods scrap for direct use as a base material in crude steel production, and the substitution of fossil fuels with refuse-derived fuels are important components for increasing resource efficiency, securing the supply of raw materials and thus promoting a true circular economy.

The EU's ambitious climate protection targets can only be achieved by significantly expanding the existing recycling of waste-derived secondary raw materials. In 2019, for example, 1.95 million tonnes of recycled plastics were used in Germany alone, which corresponds to an average saving of 3.3 million tonnes of CO₂. This does not include the contribution of CO₂ savings from the 1.16 million tonnes of plastic-derived substitute fuels or secondary fuels, which equates to a further saving of 0.86 million tonnes of CO₂. In addition, there are more than three million tonnes of shredder scrap, which save 1.67 times the amount of CO₂.

Plastic recyclates and metal secondary raw materials are therefore urgently needed to meet the ambitious European climate protection goals. Without their employment, the EU will not be able to achieve the goals it has set itself for global climate protection.

In our view, it is therefore even more incomprehensible that the sector "recovery of sorted materials" (NACE code 38.32) is no longer listed as a supported sector in the likewise revised annexes to the guidelines, which describe the sectors eligible for aid.

This would have the consequence that, in contrast to the previous regulation, the recycling industry would be excluded from support, whereas, for example, the primary plastics industry, which does not contribute to the circular economy, would still be considered eligible to state aid.

On the one hand, the intended guidelines thus explicitly emphasise the importance of the circular economy and resource efficiency for environmental protection and the achievement of the goals of the Green Deal, but on the other hand, the intended changes result in a significant downgrading of the recycling industry as an important component of the circular economy.

In our view, this lack of NACE Code 38.32 thus constitutes an irreconcilable contradiction.

1. Re-inclusion of the NACE code 38.32 “the recovery of sorted materials” to the list of NACE codes in ANNEX 1 (para. 4.11) as economic branch eligible to state aid

The NACE Code 38.32 ("Recovery of sorted materials") must therefore be re-included in the list of eligible industries.

The recycling sector is in urgent need of the support it has received so far through the compensation scheme of the CEEAG levy, since the processing of waste is an energy-intensive activity in which recycling companies are under strong competitive and cost pressure. Energy costs in plastics recycling alone, i.e. regrind and degranulates, amount to 50% of the gross value added. The energy costs in recycling production are this high since complex material separation, plastic sorting, washing processes, drying and sifting have to be carried out from the waste materials. Furthermore, an additional high energy input is required for the thermal conversion of the regrind into degranulates, as well as for the manufacture of products (end products, semi-finished products).

If the current subsidies were to be discontinued, this would considerably increase the costs of recycle production in such a way that it would no longer be competitive neither in relation to non-European countries nor in relation to the primary plastics industry and would thus be excluded both in national and international competition.

The biggest competitors for European plastics recycling are re-processors and processors of secondary raw materials in the People's Republic of China, India, Vietnam and Malaysia, whose production costs are much lower. The Far East countries (especially the People's Republic of China) buy plastic waste worldwide and process it under worse ecological conditions as well as under worse working conditions and then bring the processed products to the world markets at low cost.

In addition to plastics recycling, **metal recycling**, and thus especially energy-intensive shredder scrap and large shear production for the production of secondary raw materials for steel production, is also affected.

The shredding process is primarily used to process or break down consumer goods scrap or composite materials that could otherwise not be put to any high-quality use and would thus be lost to the circular economy as a primary raw material equivalent. The process comprises several energy-intensive processing steps, starting with the pre-shredder and continuing with the actual shredding process and the downstream sorting and processing of the residual fractions. It is a special processing method that can produce a defined secondary raw material quality that meets the specifications of the buyers. This makes it an irreplaceable climate-friendly raw material for the future of steel industry.

Due to the aforementioned energy-intensive processes, the recycling industry is only competitive if it continues to receive subsidies to offset the high energy costs. This statement is only valid, as long as no equal balance has been established for competing primary raw materials within the international recycling waste streams.

Also, regarding the primary plastics industry, a competitiveness of the recycling industry can only be maintained if it continues to be considered as an industry eligible for aid, just like the primary plastics industry. Otherwise, this would lead to a distortion of competition to the detriment of recycle production and secondary raw material production.

In the interest of promoting resource efficiency and the circular economy, it is therefore imperative that the "recovery of sorted materials" (NACE code 38.32) is to be re-included as an eligible industry.

2. Inclusion of the economic branch of “the production of substitute fuels for the cement industry” to the list of economic activities eligible for aid under section 4.11.

a)

In addition to the above-mentioned reasons for maintaining the eligibility of the recycling industry under the “recovery of sorted materials” (NACE Code 38.21), another industry must be considered under the CEEAG, namely **the production of substitute fuels for the cement industry**.

In this industry, too, primary raw materials and feedstock are replaced by secondary raw materials or feedstock. Accordingly, this industry also should fall under the economic branches eligible to state aid under 4.4.2. (a) (para.192) (a) ii).

Through a targeted production process, the SMEs involved in the cement industry process sorted materials in such a way that the materials can subsequently be used as high-quality secondary fuels in the cement production, thereof replacing primary resources.

The production of alternative fuels follows a complex process and is subject to strict criteria regarding the quality of the end product. This is necessary since the use of alternative fuels is only successful if the fuel has the same physical and chemical properties as the primary fuel it replaces.

These productions thus specifically close economic cycles.

Through the direct use of substitute fuels in the cement clinker burning process, the net efficiencies of alternative fuels reach a percentage of over 70 %, i.e. just as high as with the use of substituted primary fuels.

In addition, the material uses of the ash content, which is incorporated into the cement clinker, i.e. into the product, as a secondary raw material, must be regarded.

In Germany, natural primary raw materials (raw meal) in the range of about 250,000 t/a are already replaceable by this environmentally friendly material. The product thus even has a dual purpose. Manufacturers of substitute fuels for the cement industry are producers of "2-component products", which have a raw material component in addition to the calorific value component.

Therefore, in the interest of increasing resource efficiency, securing the supply of raw materials and thus promoting the circular economy, this sector should also be included as an economic sector eligible to state aid.

Since there are different legal opinions within the Member States on the question of whether the production of substitute fuels for the cement industry should be included under NACE code 38.32, the sector "**production of substitute fuels for the cement industry**" should be included separately as an eligible economic sector to create legal certainty.

b)

Moreover, in order to strengthen environmental and climate protection, it would also be necessary to include in in 4.4.2. (a) (ii) (para. 192):

"re-used or recycled raw or starting materials".

To be preceded by the words: "for example".

Otherwise, the statements in brackets could be wrongfully understood as being conclusive.

3. Clarification of the measures under 4.4.4.1 of the guidelines:

4.4.4.1 (para. 204) of the guidelines stipulates the following:

“The aided investment must not correspond to an economically profitable practice. Therefore, the process or processes by which waste or other products, materials or substances are prepared for re-use or recycling or are recycled **must not correspond to economically profitable or established commercial practice**. Where appropriate, this must be verified from the perspective of practices generally applied throughout the Union and across technologies.”

We kindly ask the Commission to clarify how these measures are to be interpreted.

This passage is considered to be misleading, at least when regarding the objective of the guidelines, namely, to specifically promote economic activities within an EU circular economy. In a worst-case scenario, a narrow interpretation could lead to a situation of mechanical recycling no longer being promoted.

However, it is precisely mechanical recycling, that, in contrast to chemical recycling, is clearly superior in the LCA life cycle analysis. Mechanical recycling preserves the polymer, the added additives, and the intrinsic synthesis energy, whereas chemical recycling only generates individual synthesis components in a complex process.

The above-mentioned paragraph of the draft guidelines should therefore be reconsidered and amended appropriately.

4. Re-assessment of the stricter measures under 4.11.3.2

Under paragraphs 359 and 360, the rules on the amount of the CEEAG cap have been tightened in relation to the old guidelines.

While the previous self-contribution to the costs of the electricity levies was 15 %, this has now been increased to 25 %.

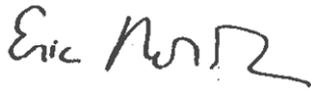
The limitation to the gross value added of the companies concerned was raised from 0.5 % to 1.5 %.

However, we fear that this tightening is precisely at the expense of the electricity-intensive companies in the recycling sector and could thus undermine the intended goal of promoting the circular economy.

We therefore call for the intended tightening to be re-assessed and for the self-contribution for electricity levies to continuously remain set at 15 %, as well as the restriction to the gross value added of the companies at 0.5 %.

We gladly stand at your disposal in case of further queries.

Yours sincerely,



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