Comments from the Central Association of Surface Technology (Zentralverband Oberflächentechnik e.V.; ZVO) on the revision of the Climate, Energy and Environmental Aid Guidelines (CEEAG)

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The Zentralverband Oberflächentechnik e.V. (ZVO; Central Association of Surface Technology) welcomes the revision of the Climate, Energy and Environmental Aid Guidelines (CEEAG) in order to achieve the EU's ambitious environmental goals and to facilitate the transition to a more sustainable and competitive energy sector. However, some of the proposed changes would have long-reaching and existential consequences for affected SMEs in the surface-plating industry (NACE code 25.61 "treatment and coating of metals").

The following points are of particular importance to our sector:

1. The currently envisaged tightening of the rules under 4.11 "*Aid in the form of the reductions from electricity levies for energy-intensive users*" as well as the significant shortening of the sectors eligible in Annex 1 will have severe repercussions for many small and medium-sized companies in electricity-intensive sectors. As per the revised guidelines, Member States can grant state aid in the form of reductions from electricity levies to sectors fulfilling the following criteria: electricity intensity of at least 10% and trade intensity of at least 20% **OR** electricity intensity of at least 7% and trade intensity of at least 80%. These values are well above those in the currently applicable state aid guidelines (10% trade intensity and 10% electricity intensity,4% trade intensity and 20% electricity intensity or 80% trade intensity and 7% electricity intensity). On one hand, the Commission has not sufficiently explained the need for increasing the thresholds by means of up-to-date numeric evidence. On the other hand, the proposed changes would have a significant impact on the affected energy-intensive EU industry, particularly on SMEs: the potential exclusion from reductions from electricity levies on the basis of the new guidelines creates planning uncertainty due to the increasing levels of taxes in the energy and environmental field (i.e. CO2 pricing in Germany) and could mean that countless SMEs will reach the limits of their economic viability. In light of the already ongoing relocation of vital EU industries – including the surface treatment sector – to third countries as well as the additional economic pressure of the Coronavirus crisis, the foreseen tightening of the state aid rules adds fuel to the fire.

2. Concerning the abovementioned criteria proposed by the Commission, the ZVO would like to point out some further inconsistencies: for electricity consumption, the values used are "averages over the 2013-15 period since no comprehensive, official and verified data on electricity consumption at NACE-4 level for the EU is currently available for more recent years" (see page 1 of the Commission explanatory note on sector eligibility under section 4.11 of the draft CEEAG). Equally, trade intensity levels have been calculated on the basis of numbers for the 2013-15 period. For the surface plating industry, these numbers are outdated as a study by Energy Environment Forecast Analysis (EEFA) from July 2021 proves (**see in attachment)**: the study examined the effects of the current CEEAG proposal on the electroplating industry using data from 2010-2018 (**see findings in slides attached**). It shows that "*companies in the "contract hardening plant" sector (NACE 25.61 21) and the upper hierarchical level of "surface refinement and heat treatment" (NACE 25.61) together form one of the most energy-intensive industries in Europe. The proportion of electricity costs within gross value added for "contract hardening plants" is 21%, and 8.4% for "surface refinement and heat treatment". The market, in which "contract hardening plants" and "surface refinement and heat treatment" companies operate, is characterised by a particularly high density of competition. Reason for this is the geographical distribution of hardening shops and surface-coating operations in Europe and the immediately surrounding regions, and also the simple and cost-effective ways of promptly transporting goods for heat treatment or surface coating to appropriate locations outside Europe. The trade intensity with third countries, which is derived from the customer base of the economic sector, is above 71% on an EU level, both for "contract hardening plants" and for the "surface refinement and heat treatment" industry as a whole*" (see page 3 of the study). Thus, many companies in the surface treatment industry face exceptionally high pressure from global competition while being subject to exorbitant electricity prices in the EU. Moreover, high electricity prices represent an obstacle to the electrification in industry, which is necessary for climate reasons. The path to CO2 neutrality, which must be made through investments in appropriate climate protection measures, must remain affordable for companies.

3. As per the revised guidelines, the aid under sector 4.11 "*should be limited to sectors that are at a significant competitive disadvantage and risk of relocation outside the Union because of the eligible levies*". This limitation of the risk of relocation to third countries is problematic as energy costs already differ significantly between EU Member States. In contrast to the EU-ETS, there is no EU-wide uniform system of charging electricity prices with levies. Due to this lack of harmonisation, domestic companies can suffer considerable competitive disadvantages even within the internal market if they do not belong to one of the sectors listed in Annex 1. This is problematic as it can make ambitious expansion strategies for renewable energies more difficult and put at risk the competitiveness of entire industries.

4. The ZVO would like to point out that the provisions set out in section 4.11 of the guidelines will lead to a very high level of bureaucracy for affected companies. Contrary to the intention of the Commission, this contributes to a relocation of activities to locations outside the EU, while intra-European investment incentives are weakened.

Based on the issues described above, we call on the Commission to make the following changes to the current draft revised guidelines:

1. The ZVO urges the Commission to reconsider the extent of tightening the criteria for aid in the form of the reductions from electricity levies for energy-intensive users as compared to the still applicable guidelines (EEAG 2014): the reduction from currently 221 eligible sectors to merely 50 seems excessive and disproportionate. In order to be able to drive forward the necessary transformation process in the direction of electrification, companies have to make enormous expenditures and use appropriate financial resources. High electricity prices prevent necessary investments and lead to significant competitive disadvantages within the EU, especially when it comes to important future investments. For this reason, it is imperative that the state aid rules still allow for reductions of electricity levies for the most energy-intensive sectors in the EU which encompass more sectors than in the sector list in the revised guidelines.

2. The ZVO particularly calls for the inclusion of the sector 25.61 "treatment and coating of metals" in the CEEAG as it contains countless small and medium-sized business – approximately 1,200 in Germany alone – that are some of the most energy-intensive in Europe and face high competitive pressure and a high risk of carbon leakage. Along with retaining the criteria regarding trade and electricity intensity from the previous guidelines, the Commission should introduce intermediate values for companies that only narrowly miss one of the required values but are still heavily affected by both. This could prevent a so-called "guillotine" effect where certain sectors marginally miss the requirements to trade and electricity intensity and are thus cut off completely from any protection/support.

3. From the perspective of the surface treatment sector, state aid rules must also consider the risk of relocation within the EU and account for the considerable differences of energy prices between Member States that can lead to extensive intra-EU competitive (dis)advantages.

4. Last but not least, the ZVO would like to emphasise that the revision of state aid rules and its implementation should be used to reduce bureaucracy instead of creating more red tape.