



Zarząd
Województwa Małopolskiego

Kraków, dnia 9 marca 2020
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European Commission
Directorate-General for
Competition
State aid registry
Ref.: HT.582
1049 Bruxelles/Brussels
Belgique/België

Refers to: HT.582 - Public consultation on draft ETS State aid Guidelines

Dear Sirs!

In reference to the draft Guidelines presented by the European Commission on selected state aid measures in the context of the greenhouse gas emission allowance trading system after 2021, on behalf of the Małopolskie Voivodeship, we present comments on the draft guidelines.

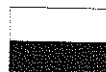
According to the draft guidelines, the main goal of the consultation is to counteract the risk of emission leakage due to indirect ETS costs while minimizing distortions of competition and maintaining incentives for profitable decarbonisation of the economy. Bearing in mind the provisions of the draft guidelines, including in particular Annex 1 indicating the sectors that are considered to be exposed to the actual risk of emission leakage due to indirect emissions costs, we indicate that in our opinion it is unjustified to exclude the chemical sector from the scope of the Guidelines (NACE Code 2415 , 2414, 2413, 2450).

We underline that the rising prices of allowances are a real threat to energy-consuming companies from the chemical industry sector, exposed to the risk of emission leakage. The increase in wholesale electricity prices is a key threat to competitiveness, especially for those enterprises that cannot pass those costs on to consumers without affecting their international competitiveness. The highest emission factor of domestic energy in the European Union puts Polish chemical companies in a worse position compared to the competition in other EU countries. The largest trading partners of the Polish chemical industry have significantly lower indirect costs of indirect emissions (France) or have been using compensation systems for years (Germany, Great Britain). In our opinion, **the introduction of the compensation system will partly offset the increase in electricity costs caused by rising prices of CO2 emission allowances and will improve the chances of competing in the EU market which is the key market from the perspective of Polish chemical enterprises.**

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Polish Central Statistical Office data seem to confirm it - the value of exports of chemical products is over 70% sold production of the Polish chemical industry, and about half of the revenues of the largest chemical enterprises in Poland are generated by exports¹.

Compensation for indirect costs of the EU ETS significantly affects the functioning of large companies with high energy consumption. In our opinion, depriving compensation of companies from the chemical sector is a significant threat to the activities of the chemical sector in the Małopolska region, due to the fact that energy is often the second or third source of production costs. In our region, such companies deal in particular with the production of fertilizers and chemicals. The following are some aspects, very important to local societies, that show the potential impact due to deletion of some sectors from the list of entitled to the above-mentioned compensations:

I. Employment and job protection;

We point out that the energy-consuming industry, including the chemical and fertilizing industry in our region, gives employment to nearly 3,500 people. What is more, in some regions of our province chemical enterprises appear to be not only the largest employer (e.g. Grupa Azoty), but also the principal customer for local businesses providing infrastructure services. It should be emphasized that due to this cooperation with regional and national companies dealing in the supply of raw materials or services, the initial number of affected people is about 3 times higher - around 10,500. In addition, taking into account the impact of employment on employees' families, this gives approximately 4 times more people benefiting from this type of facility (app. 14,000). In view of the above, any potential mass reductions resulting from a change in management policy or a change in the profile of activity or loss of e.g. compensation for indirect costs of the EU ETS system may result in a significant unemployment increase, an economic migration and even a slow degradation of the local community.

This is extremely important due to the fact that this industry is located in a region that from year to year shows a decrease in the number of inhabitants as a result of migration to large cities, other EU countries or regions of the world. The lack of a stable local employer in the long run may aggravate the emigration of young people in search of better living conditions and the related aging of the local community.

II. Impact on the country's foreign trade balance;

We point out that chemical companies from our region are significant exporters and the products they introduce to foreign markets allow the development of companies as well as the introduction of innovative solutions allowing for further dynamic development. In addition, large domestic chemical companies, as they are taking on commodity price fluctuations, they stabilize the market by cooperating with customers, which are mostly small/medium businesses.

¹ <http://energiadlachimii.pl/uncategorized/system-rekompensat-kosztow-posrednich/>

III. Food security of the country;

We mention that mineral fertilizers are the basic component of nutrition for agricultural crops in our country. Domestic fertilizer production makes it possible to diversify the supply of raw materials for agricultural production, constituting an alternative making Polish agricultural producers less import-dependent, which is expensive and unprofitable from the point of view of maintaining the profitability of farms at a constant level.

IV. Security of the interests of local societies;

It should be emphasized that stable companies with high employment are very often patrons of culture and sport, financially supporting the development and operation of undertakings important in the region in the amount of over PLN 9 million. These companies have their patronage, including:

- cultural events - concerts, exhibitions, theater (e.g. supporting an art center, museums or artistic associations),
- educational establishments educating children and youth (e.g. support for schools, organization of apprenticeships and the implementation of classes, actions, educational programs),
- medical facilities,
- research programs,
- environmental initiatives implemented in the region,
- social actions (supporting associations and special centers dealing with activities for the protection of human health and life, helping the needy).

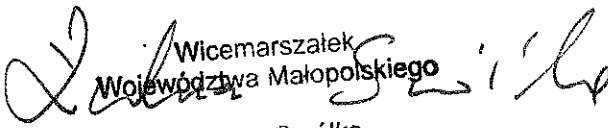
Financial support enables public benefit organizations to fulfill their statutory obligations for the benefit of the local community, and thus actively support cultural and physical development. In addition, chemical companies also organize cultural events for the local community, e.g. "Chemist's Day" for employees, their families and residents of the region, who have the opportunity to participate in numerous concerts, sports attractions, culinary shows or recreational and creative activities.

V. Budgets of local government units

We would like to draw your attention to the fact that in the case of companies from the chemical sector, revenues to local budgets in the form of taxes significantly support the region and translates into the financial security of the local society. In our region, the amount of taxes on real estate and land use by large chemical companies is over PLN 18 million. Funds transferred by large chemical companies can be used by local government units for the benefit of communities residing in the region. Exemplary one is a company from Tarnow, Grupa Azoty S.A., which generates over PLN 20 million as part of the PIT and CIT tax, of which the statutory part is transferred to local governments (commune, poviast, voivodship).

To sum up, in our opinion it is reasonable to re-consider the inclusion of the chemical sector in the scope of the guidelines or possibly consider partial inclusion of the chemical sector in the scope of the guidelines, i.e. fertilizer production and processing of nitrogenous products, production of organic chemicals.

Yours faithfully,


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