

# Hydro response to EU Commission Public Consultation

## Draft CEEAG – State Aid Guidelines

### Summary

Keeping and greening European businesses is vital for the EU economy, for citizens jobs, wealth creation, local environment and the global climate. State aid rules are crucial to support and increase the competitiveness of European businesses and enable industrial transformation, which is necessary to achieve a climate neutral economy. Electro intensive industries such as aluminium are dependent on a fully functioning and robust framework to contribute to the objectives of the green transition, while remaining competitive on the global scale.

**Hydro welcomes the draft EU State Aid Guidelines for Climate, Environmental protection and Energy post 2022 (CEEAG) and the fact that aluminium remains eligible under the framework, given the significant electro-intensity and trade exposure across the value chain.**

- We welcome that most of the existing possibilities to provide aid to European industry are maintained, in particular the continuation of existing provisions on aid schemes for Energy Intensive Users (EIUs) via the reduction of levies supporting Renewable Energy Systems (RES).
- In this context, the sectorial alignment with the revised ETS Guidelines and the possibility to cap undertakings' contribution to 1.5% of their Gross Value Added (GVA) is an important element that should be maintained.
- For Hydro, the explicit possibility to avail of Carbon Contracts for Difference (CCdF) is a positive development.

### 1. General remarks on state aid for industry

- **Long term certainty.** The framework should provide long-term certainty on both support for investment and operating costs, and on regulatory costs to enhance companies' willingness to initiate green projects. This is important to de-risk investments and make low-carbon solutions competitive with carbon intensive ones.
- **Support schemes for new technologies and scalability.** The success of the Green Deal relies partly on the development and scaling of new technologies at a higher pace, such as for batteries and green hydrogen. This requires support schemes beyond current programs.

- **Recycling infrastructure and circular economy investments.** Support for circular value chains and sorting infrastructure should go beyond waste management systems and focus on the whole waste hierarchy to support innovative circular solutions and resource efficient industrial production processes. Flexibility should be allowed for aid targeting innovative collection and sorting infrastructure and investments in high quality recycling facilities.

## 2. Specific remarks on CEEAG

We would like to comment on the following sections of the new CCEAG:

### **a. Section 4.11 - Aid in the form of reductions from electricity levies for energy-intensive users (EIUs)**

Hydro welcomes that the new Guidelines will continue to allow for levies reductions to correct the increased risk of carbon leakage for activities in eligible sectors. This is extremely important considering that the financial burden for these levies will most likely increase in the coming years due to higher renewable support.

- We particularly welcome the continuation of existing provisions on aid schemes for Energy Intensive Users (EIUs) via the reduction of levies supporting Renewable Energy Systems (RES).
- Also, the sectorial alignment with the revised ETS Guidelines and the possibility to cap undertakings' contribution to 1.5% of their Gross Value Added (GVA) is an important element that should be maintained.

**Cumulative level of levies:** Furthermore, the draft guidelines introduce a new provision asking Member States to inform about the cumulative effects of all eligible levies, cf. paragraphs 355 and 356. To this purpose, the Commission asks stakeholders what should be the minimum cumulative level per MWh that is a necessary threshold to allow the reductions. On this specific element, we would recommend the following:

- Compensation should not be made conditional to a minimum level of the levies.
- Due to the very large energy consumption and the partial nature of exemptions, electro-intensive industries would have a major competitive disadvantage compared to producers based in third countries that do not have comparable climate legislation and related regulatory costs.

**Aid intensity:** According to point 359, the reduced levies will be considered proportionate if undertakings pay at least 25% of the levies concerned. However, there would also be a possibility to cap undertakings' own contribution to 1.5% of their Gross Value Added, cf. point 360. Hydro welcome that the GVA cap is the same as in the ETS state aid guidelines.

### **b. Section 4.1 - Aid for the reduction and removal of greenhouse gas emissions including through support for renewable energy**

The section on GHG emissions and renewable energy is extended to all technologies that reduce greenhouse gases and improve energy efficiency, including all forms of renewable energy and

electricity. Aid for the full net additional costs will be possible, with a larger variety of forms of aid – including contracts for difference.

- **Our recommendation:** Hydro supports this proposal and welcomes new aid instruments, such as Carbon Contracts for Difference. Clarifications are needed with regards to the requirements for necessity and proportionality.

Competitive bidding is the default mechanism for awarding aid and setting the level of aid. Unless justified, bidding should to the extent possible be open to competing technologies.

- **Our recommendations:** Hydro supports the general principle of competitive bidding. However, in smaller Member States with only a few key industrial players, there might not be enough stakeholders for each abatement technology for a bidding process to be effective. In these instances, it is important that aid may be granted based on individual assessments. The Guidelines have to accommodate for aid to large, one-off projects with substantial climate benefits also where a competitive process is not practically feasible.
- We also recommend setting separate bidding procedure for recycling projects and for for immature technologies. It is important to allow the recycling business to grow; furthermore, new immature technologies need to be adequately supported and implemented as soon as possible.
  - o **Small projects.** Paragraph 92 lists the possible exceptions from the competitive bidding process.
  - o Recycling activities should be added to the list of small projects allowed for exception. The reason is that small projects should not be disadvantaged. Some of the abatement costs are fixed costs and are at the same level regardless of the production site's size and therefore represent a too high burden for small plants.
  - o Separate fall back benchmark is needed for small recycling activities which are included in the ETS. For installation excluded from the ETS, due to size levels, a separate state aid support will be necessary to face the extra carbon tax or extra cost on the fuel – like carbon tax in Norway. To incentivize the transition of the European economy by stimulating recycling, one should treat recycling activities differently from other activities.
  - o **Par. 96 – Operating aid to biofuels** - Biofuels and hydrogen might in the future also be important for recycling activities as a fuel, but the cost level is presently too high. It is important that aid will be allowed to include both OPEX and CAPEX

The Commission also specifically seeks comments on the inclusion of aid for removal of greenhouse gases from the atmosphere. The technologies allowing for removal of greenhouse gases from ambient air may contribute to the achievement of EU targets but should not lead to diminished efforts to exhaust any other available means of avoiding or reducing emissions.

- **Our recommendation:** Hydro supports the inclusion of GHG removal technology in the scope of the CEEAG. Removal of GHG emissions should be one of the technologies supported and available to industry, as emissions of GHG has to be reduced as quickly as possible. For Hydro, it could be one of several ways of reducing or neutralizing direct emissions from the production of aluminium.

**c. Section 4.4 - Aid for resource efficiency and for supporting a circular economy**

The Guidelines allows aid if the investments lead to an improvement of resource efficiency via (i) *a net reduction in the resources consumed in the production of the same quantity of output* or (ii) *the replacement of primary raw materials or feedstock with secondary (re-used or recycled) raw materials or feedstock*. However:

- In par 192, Footnote 77 exempts energy from all the ‘material resources consumed’ for the assessment. This point needs clarification, as recycling of aluminum only requires 5% of energy compared to primary, representing an important way to both reduce EU’s emissions and import dependency.
- **Aid intensity.** According to par 210 the draft Guidelines, for aid to support resource efficiency and the transition towards a circular economy, aid intensity must not exceed 40% of eligible costs. We understand this as if aid is limited to 40% of the extra (or incremental) cost for investments in circular economy. From a first assessment, this could be a problem because State aid should cover all these costs to compete against less circular investment alternatives. Therefore, we believe this threshold should be considerably increased for recycling activities.

**d. Definitions**

Hydro would like to ask for greater clarity on the definition of "energy from renewable sources" given in paragraph 2.4(34).

3. This definition differs from the definitions in existing legislation, such as the Renewable Energy Directive, by including a provision on hybrid plants. In addition, it creates ambiguity by stating in the last part of the sentence: “but excludes electricity produced as a result of storage systems”. As we understand a hybrid plant is a plant that combines two or more generation technologies behind the meter or plants that combine generation and storage behind the meter. We assume that the intention with the definition in art. 2.4 (34) is to state that electricity produced from a hybrid plant as a result of storage systems does not count as “energy from renewable sources”. But this needs to be clarified.