Guidelines on State aid for climate, environmental protection and energy 2022 (CEEAG)

July 2nd, 2021

Achieving the goals of the European Green Deal is a top priority for the EU as a whole. Air Liquide welcomes the draft Communication on 'Guidelines on State aid for climate, environmental protection and energy 2022' (CEEAG) as some of these measures can be contributing to delivering key EU objectives of climate neutrality, climate change mitigation, and resources. Indeed in order to achieve the ambitions that the EU set out in the Green Deal, significant investment will be required. However, looking specifically at 'Aid in the form of reductions from electricity levies for energy-intensive users', it will be key important to maintain a level-playing-field for outsourcing the manufacturing of industrial gases (NACE code 20.11). Indeed, outsourcing the manufacturing of industrial gases brings environmental and efficiency value, synergies and reduced emissions.

Key messages

- Outsourcing industrial gas manufacturing enables **decarbonization through highly efficient** processes, which makes it fully in line with the "energy efficiency first" principle;
- Continue to support renewable electricity, and **introduce new support mechanisms** (Carbon Contracts for Difference) for renewable and low-carbon hydrogen, synthetic fuels and CCUS technologies;
- Ensure eligibility of Industrial gas (notably Oxygen, Nitrogen, Hydrogen) sector (code NACE 20.11) to exemptions that its clients benefit from in order to **maintain level playing field** between outsourced and in-house production.
- Following "energy efficiency-first" approach and economic similarity, the risk of relocation also exists to sectors with a very high electro-intensity and indirect exposure to trade Intensity, since manufacturing of **Industrial Gases is an integral part of the value chain** of their production processes.
- Being an integrated part of the value chain of processes that are exposed to international trade means in case of their relocation, the Industrial gases sector would **relocate consequently**.

About industrial gas manufacturing - *indispensable sector supporting decarbonisation*

The industrial gas (IG) manufacturing sector is supporting the EU Green Deal ambitions by providing the most energy efficient products and expertise to Europe's industrial economy. IG are key to almost all industrial (manufacturing) sectors and are often central c**omponents of long-term decarbonisation strategies**. Several IG have been playing an essential role in making Europe's industries more (energy) efficient and are **indispensable for several manufacturing processes**, such as in the manufacturing of steel (NACE 24.10), non-ferrous metal (NACE 24.45), refined petroleum products (NACE 19.20) and chemicals (NACE 20.13; 20.14) industry. Also in the healthcare industry, industrial gases are essential, as was shown by the **massive need for oxygen** in the current Covid19-crisis. The IG sector also has the expertise and capabilities to invest, own and manage key assets for the hydrogen economy, which will be key to Europe's energy transition. For example, Air Liquide already owns and operates many hydrogen plants, including the largest electrolyser in the world.

The production of Industrial Gases is an activity that can either be outsourced to Industrial Gases companies or "insourced", i.e. produced directly by customers (chemical producers, steelmakers, etc.). Outsourcing production of industrial gas allows for larger capacities, production of a great variety of products and serving multiple end-users, e.g. by combining O2, N2, H2, Ar on the basins serving several customers, producing by-products like medical O2 or H2 for energy transition. This **decreases unit electricity consumption** for production serving consumers exposed to

risk of relocation. Moreover, outsourcing industrial gas manufacturing ensures higher efficiency and is fully in line with the "**energy efficiency first**" principle, which is at the basis of the EU Green Deal.

Support for renewable and low-carbon technologies needed

Air Liquide welcomes the inclusion of several supported activities in the CEEAG. We agree that activities such as *'production of renewable and low carbon energy'*; *'CCS and aid for the reduction or avoidance of emissions resulting from industrial processes'*; and *'Dedicated infrastructure projects (including for **hydrogen and other low-carbon gases, and as well as CCS/CCU**) that do not fall under the definition of energy infrastructure*' can contribute to removing and reducing greenhouse gas emissions. It is also important that the importance of energy infrastructure is highlighted. The development of infrastructure for Hydrogen and Carbon Dioxide, as well as the aid for Clean Mobility and the **deployment of refuelling infrastructure**, will be imperative to reaching the goals set out by the EU in the Climate Law. It is however to be noted that we are concerned that 'Aid for the deployment of recharging or refuelling infrastructure' does not cover the **on-site production of low-carbon Hydrogen**. We also firmly believe that including **contracts for difference** as a viable aid for decarbonization will ensure the deployment of renewable and low-carbon technologies.

Electricity levies for EIU - *level playing field for IG sector is needed*

When it comes to 'Aid in the form of reductions from electricity levies for energy-intensive users', it is highly worrying that 'manufacturing of industrial gases (NACE code 20.11)' is not eligible anymore, although it was included in the Guidelines on State aid for environmental protection and energy 2014-2020. It will be **key to maintain a level-playing-field[1] between outsourcing and self-production**. Indeed, outsourced production is more efficient because IG companies manage several customers. Also, outsourcing the production of industrial gases brings environmental and efficiency value, synergies and reduced emissions. **Customers rely on outsourced production for reasons of reliability, safety and costs.** This saving is due in particular to the professionalism of IG manufacturers which continuously optimize the processes. By excluding Manufacture of IG (NACE 20.11) from Annex I, IG might be (self-)produced in a less efficient manner, which can have environmental impacts by disrupting value chains, leading to overcapacities and resulting in additional emissions. **Outsourced production has a carbon footprint equal and often lower** than the footprint of insourced production, because of the larger, more efficient plants that can offer synergies between the different uses of IG. Because of the constant push for efficiency, outsourced production benefits from **continuous technological improvements** developed by IG companies.

The "EEAG revision support study" does not reflect the facts of interactions between the sectors. This is far from the industrial and economic reality, as the industrial gas customer sectors like steel, non-ferrous metals or chemical companies are predominantly exposed to international trade. Industrial sectors will continue to need industrial gases. Some EU Member States have much higher renewable energy levies than others. As a consequence, **excluding 'Manufacturing of Industrial Gas' from Annex I would cause distortions** in the EU Internal Market.

A world leader in gases, technologies and services for Industry and Health, Air Liquide is present in 78 countries with approximately 64,500 employees and serves more than 3.8 million customers and patients. Oxygen, nitrogen and hydrogen are essential small molecules for life, matter and energy. They embody Air Liquide's scientific territory and have been at the core of the company's activities since its creation in 1902.
Air Liquide is identified in the EU transparency register under nr. 94857385769-70

[1] The draft 'Guidelines on State aid for climate, environmental protection and energy 2022' clearly refers to this need of level-playin field: *"4. [...]. The Green Deal Communication specifically sets out that the State aid rules will be revised to reflect those policy objectives, to support a cost-effective and just transition to climate neutrality, and to facilitate the phasing out of fossil fuels, in particular those that are most polluting, while at the same time ensuring a level-playing field in the internal market. "*