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Group Envrionmental Affairs

Contribution of voestalpine to the public consultation on the "Guidelines on state aid for climate, environmental protection and energy 2022" (CEEAG 2022)

voestalpine foresees that the very large additional investment and operating expenditures of decarbonised steel production, which the markets are not able to bear fully and immediately, need to be addressed by several supporting instruments. State aid will be an important building block of a respective array of financial support mechanisms, which themselves need to be an element of a wider decarbonisation-related mix of instruments.

In this respect, the Commission's consultation draft on the "Guidelines on state aid for climate, environmental protection and energy 2022" (CEEAG 2022), contains two most essential aspects. These are the new staid aid category "*aid for the reduction and removal of GHG emissions*" and the continuation of the aid category "*reductions from electricity levies for energy-intensive users*".

With regard to both aid categories, voestalpine, in this paper, presents some proposals on how to render the rules proposed by the Commission more practically applicable and more efficient. These are tabled without prejudice to the proposals and positions of EUROFER, which voestalpine, if they are not already directly mentioned in the voestalpine paper, fully supports, too.

voestalpine requests for improvements on the aid category "reductions from electricity levies for energy-intensive users"

» Compared to the currently applied state aid rules, the boundary condition characterizing affecting the global competitiveness of the steel industry have not improved and the cost of the transformation of the energy system increased. Consequently, state aid intensity for reductions, which is limited at 75% in the draft EEAG 2022, should be maintained at 85% as in the current phase 2013-2020 (paragraph 359). Protection for the most exposed undertakings should be kept at the level of 0.5% GVA, instead of the proposed 1.5% GVA (par. 360).

» Reductions/exemptions shall apply analogously to other charges that directly or indirectly fund the implementation of EU climate change policy objectives set out in the European Green Deal and that result in undue energy costs for EIIs, such as those related to capacity mechanisms, network costs, and other similar charges (par. 354): "Under this Section, Member States may grant reductions from levies on electricity consumption which finance an energy policy objective. This includes levies financing support to renewable sources or to combined heat and power and levies financing social tariffs or energy prices in isolated regions. ~~*This Section does not cover levies which reflect part of the cost of providing electricity to the beneficiaries in question. For example, exemptions from network charges or from charges financing capacity mechanisms are not covered by this Section. Levies on the consumption of other forms of energy, in particular natural gas, are also not covered by this Section.*~~ *Above principles shall apply analogously to environmental charges financing the support of highly-efficient cogeneration, capacity mechanism and other charges which directly fund the implementation of the climate objectives set out in the European Green Deal*."

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- The cumulation clause in margin number 356 appears to be overly restrictive and disproportionate, as it does is applied to energy-intensive users. It seems that if an energy user passes the threshold of energy intensity, this provision implicitly and additionally is narrowing down the definition of energy-intensive user, again. Consequently, this provision should be removed. Delete margin number 356: "~~*The Commission considers that Member States may grant reductions to levies under this Section only where the overall cumulative level of these levies (before any reductions) is at least […] EUR/MWh*~~.

- The eligibility criteria do not include the option of 4% trade intensity and 20% electro-intensity that was present in the previous guidelines. Due to that, the list of eligible sectors excludes the industrial gases (NACE code 2011) – e.g. hydrogen and oxygen - from the scope of application of the reductions. These are an integral part of the steel value chain today, and will be even more crucial for the transition to low carbon technologies in the nearest future (par. 357 and related Annex I). Therefore, the second-last sentence of margin number 357 should be amended: "*In addition, the Commission considers that a similar risk exists in sectors that face an electro-intensity of at least 7% and face a trade intensity of at least 80% or in sectors that face a lower trade exposure but at least 4% and have a much higher electro-intensity of at least 20%. The sectors meeting these eligibility criteria are listed in Annex I*".

- If state aid is made conditional to additional measures to be taken by a company, de facto it is not anymore a (partial) reimbursement of incurred costs as it requires additional costs to the company. It, therefore, appears to be disproportional to request quantitatively defined re-investments, as the Commission proposes in margin number 364. These should be removed or be changed into Kaizen-type constant improvement requirements. Proposal for modification of margin number 364: "*(a) implement recommendations of the audit report, to the extent that the pay-back time for the relevant investments does not exceed 3 years and that the costs of their investments is proportionate; (b) continuously reduce the carbon footprint of their electricity consumption, ~~so as to cover at least 30 % of their electricity consumption from carbon-free sources~~; (c) continuously invest ~~a significant share of at least 50 % of the aid amount~~ in projects that lead to substantial reductions of the installation's greenhouse gas emissions; ~~where applicable, the investment should lead to reductions well below the relevant benchmark used for free allocation in the Union ETS~~*". Requirement for continuous improvement is less distorting equal treatment of undertakings than absolute objectives.

voestalpine requests for improvements on the aid category "aid for the reduction and removal of GHG emissions" and related general compatibility criteria

- With regard to the bidding process a clause could be added to allow for exemptions for small scale projects (see modification proposal for margin number 92 b). To this end, add a new sub-paragraph to Chapter 4.1.3.5 margin number 92 (b) (iv) new: *"for industrial processes projects – project with full project costs of below 15 Million €".* Alternatively or additionally, such a provision could be anchored in the General Block Exemption Regulation.

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- By definition, regional carbon pricing policies, especially the ETS, do not establish global carbon prices and thus the regional carbon prices do not indicate the level of economically feasible support for investment and operation of emission lean production. Consequently, to enable Carbon Contracts for Difference (CCfDs) to cover the full abatement costs of the new low-carbon processes for sectors most exposed to international competition the reference should not be the ETs price but the level of a global carbon price. Therefore the first senetence of footnote 61 should be amended: "*A contract for difference entitles the beneficiary to a payment equal to the difference between a fixed 'strike' price and a reference price – such as a market price, per unit of output. They have been used for electricity generation measures in recent years but could also involve a reference price linked to the ETS or any globally applied carbon price for sectors most exposed to international competition – i.e. 'carbon' contracts for difference*".
- There is an explicit provision to the effect that certain risks should be burdened on industry, but without excluding other types of risk. It appears to be more appropriate to design this provision as an reduction of the types of risks the beneficiary has to shoulder. Therefore, we suggest to modify Chapter 4.1.4 margin number 102: "*Beneficiaries of the measure should only be exposed to risks that they can contribute to managing, for example risks associated with the curtailment of renewable energy linked to periods of excess production or to insufficient transmission*".
- The prospect of aid for operational expenditures may be necessary to induce investments which allow emission lean operation. Therefore, we suggest to modify Chapter 4.1.4 margin number 103 second sentence: "*Aid which covers costs mostly linked to operation rather than investment should only be used where the Member State clearly demonstrates that this results in more environmentally friendly operating decisions or renders feasible respective investment decisions*".
- The criterion "positive effects for society at large" mentions several policies and to this list also "industrial policy" could be added, as it is represents a core element of the Green Deal. To this end, add the wording "*industrial policy in the context of the Green Deal*" in 3.1.1. margin number 24.

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