Public consultation on the revised Climate, Energy and Environmental Aid Guidelines (CEEAG)

Wacker Chemie AG, July 2021

WACKER

***Wacker Chemie AG (WACKER)** is a leading specialty chemical company active in the silicone, polymer, life sciences and polysilicon markets, with a strong manufacturing base in Europe. The polysilicon is mainly supplied to semiconductor and the solar industry, for which WACKER remains a strategic supplier as the only European manufacturer. With a power consumption of 4.8 TWh in 2020 in Europe and approximately one million tons CO2 regulated under the EU ETS, WACKER remains reliant on European carbon leakage protection mechanisms to uphold global competitiveness for its energy-intensive polysilicon production.*

Key recommendations:

- **A technology-neutral approach that allows aid amounts up to 100% of additional cost of decarbonization measures, including for operational costs,** is needed to adequately support the industrial transformation (section 1).
- The **introduction of Contracts for Difference (CfD**) as an eligible aid instrument is an essential step in the right direction. This will enable the implementation of CfDs on renewable electricity price to cover the higher operational costs linked to large-scale electrification. By agreeing on a strike price that is globally competitive and compensates the difference to the market price, industrial consumers can significantly increase uptake of renewable electricity without compromising international competitiveness (section 4.1).
- **WACKER advices against any elements that gradually undermine the carbon leakage protection of highly exposed sectors**, such as the introduction of new additional conditionalities to receiving aid. The decarbonization of industrial processes will need more, not less support in the future to balance CO2-reductions with global competitiveness.
- On **proportionality of aid for energy-intensive industry,** undertakings that are exposed to carbon leakage risk must be allowed to receive reduction >75% by limiting the additional costs to a maximum of 1,5% of GVA. This already constitutes a more restrictive approach in comparison to the previous guidelines and cannot be further limited, if it is to stay effective for maintaining global competitiveness (section 4.11)
- The interpretation of **what constitutes an eligible undertaking** should be left to Member States in order for reduction schemes to be extended under the new CEEAGs and provide legal certainty for energy-intensive consumers (section 4.11).
- There should be **no mandatory summary presentation** as prerequisite for state aid notification, as this will impose major challenges in streamlining national systems within a short timeframe. This will add to the cost burden and potentially delay aid, as any notification would require a compilation of all mechanisms for all applicants (point 355).
- **Additional conditionalities for aid beneficiaries must be avoided, such as investment obligations of received reductions.** Guarantees of origin must become a fully recognized option for increasing the consumption of carbon-free electricity. These should be accepted from the entire EU/EEA area and from all renewable energy installations. (section 4.11, point 365).

Context and rationale of the revision (section 1)

- WACKER welcomes the clear recognition that the State Aid Guidelines need to take a stronger, more active role in supporting industry in achieving a cost-effective transition to climate neutrality, next to its original purpose of safeguarding competition in the Single Market. State aid will be needed to a much larger extent than before to make renewable feedstock and energy cost competitive with fossil-based production in the short-term, while at the same time ensuring that the cost burden is minimized for sectors exposed to carbon leakage risk.

- From this perspective, WACKER supports the approach taken in the proposal of enlarging the scope of the CEEAG, anchoring the principle of technology neutrality, allowing aid up to 100% of additional cost and introducing new instruments (e.g. Contracts for Difference). We recognize these as necessary steps towards managing the tremendous financial efforts needed for the climate-neutral transformation in every sector of the economy.

Section 4.1: Aid for the reduction and removal of greenhouse gas emissions including through support for renewable energy

- The introduction of section 4.1 as a new aid category is a positive and essential step towards successfully managing and accelerating industrial decarbonization.
- **WACKER encourages that**
  - the scope is broadened in a **technology-neutral** way, as it will enable more state aid to support a range of measures ranging from large-scale electrification to innovative use of CO2 as a feedstock (CCU);
  - aid will be possible in a variety of forms, including for **operational cost**, which will ensure that support mechanisms can be tailor-made to fit the different economic needs of decarbonization measures and increase their efficiency.
  - aid can be granted for the **full net additional costs** of more environmentally friendly investments.

- WACKER explicitly supports the introduction of **Contracts for Difference (CfDs)** as an eligible aid instrument recognized by the CEEAGs. The design and implementation of such schemes should not be too prescriptive, but be left for Member States to decide, notably regarding the reference price and area of application.

- In particular, CfDs can serve the purpose of **supporting a faster industrial uptake of renewable electricity**, as large-scale electrification is often rendered economically unfeasible because of the higher operational costs. Similar to the mechanism of a Contract for Difference applied on the price of carbon, a strike price for renewable electricity could be agreed between a public authority and an energy-intensive industrial consumer. Aid would be granted by the public authority, if the power purchase price is above the agreed strike price, and vice-versa (two-way). The strike-price for the renewable electricity should be indexed to a globally competitive level and based on the all-in price paid by the industrial consumer. By having access to renewable electricity at globally competitive price levels, it would allow industry to decarbonize through large-scale electrification without losing cost competitiveness.

Section 4.11: Aid in the form of reductions from electricity levies for energy-intensive users

- As a power-intensive industrial consumer (4.8 TWh in 2020), WACKER is reliant on receiving reductions from certain electricity levies in order to stay globally competitive. It is therefore extremely important that the suggested scope and eligibility for aid is maintained at the current level and not disproportionately reduced, as the risk of carbon leakage would otherwise increase existentially for European polysilicon.

- The Commission wants to introduce **a threshold for granting reductions, defined as the overall cumulative level of levies per MWh** (No. 356). Considering the challenging task of setting a hypothetical, feasible minimum level across all companies, sectors and countries in Europe – all embedded in different national systems – WACKER underlines the necessity to have an early trigger to respond to the competitive global landscape, corresponding to no more than **5 EUR/MWh** before any reductions.

- **WACKER rejects the proposal of making the notification of the cumulative level of all levies and reductions through one scheme mandatory for Member States,** as referred to in point 355. Considering the complex and different structures of current levies and reductions, the process of streamlining them into one single scheme would require a fundamental reorganization of national policies. This could jeopardize competitiveness not only with additional cost burden, but also by delaying and complicating notification procedures. Transparency over levies and reductions should rather be improved through voluntary measures which can be achieved without triggering a redesign of national aid schemes.

- **Regarding proportionality of aid**, the Commission wants to increase the threshold for minimum contribution by industry from 15% to 25% and introduce a higher limit of additional costs from 0,5% to 1,5% of the GVA. Regardless of the seemingly small changes, this constitutes nonetheless a gradual undermining of carbon leakage protection and should under no circumstances be further limited. Having said that, WACKER supports that extremely power-intensive production processes can continue to make use of the GVA-rule and receive reductions >75%. This is essential to support the competitiveness of certain highly exposed sectors in the global competition landscape, such as for highly pure polysilicon – the raw material for solar and semiconductor wafers.

- Moreover, the interpretation of **what constitutes an undertaking or a sufficiently independent division eligible for aid should be left to the discretion of Member States** in order for current national reduction schemes to be extended under the new CEEAGs and provide legal certainty for energy-intensive consumers.

- **WACKER critically rejects the introduction of additional conditionalities to aid beneficiaries**, as listed under point 364. While existing obligations can be kept, such as conducting an energy audit within the meaning of Art. 8 of the Directive 2012/27/EU, the introduction of new mandatory criteria is not acceptable. This constitutes but yet another gradual watering down of carbon leakage protection and makes the aid instruments less effective in achieving the purpose they were created for (=safeguarding competitiveness by limiting additional cost burden from electricity levies).

- In this context, the additional conditionalities introduced must stay **optional** by taking into consideration the following aspects:

- **Point 365 (a) on implementing the recommendations of the energy audit report:** This should only be mandatory for the aid beneficiary to the extent that the measures and investments are economically feasible and proportionate, as further specified.
- **Point 365 (b) on reducing the carbon footprint by covering 30% of electricity consumption from carbon-free sources**: It would be necessary to recognize guarantees of origins for this to be a feasible solution, as the necessary physical delivery would be both technically and financially too demanding. The guarantees of origin should not be subjected to further conditions but be accepted from the entire EU/EEA area and from all renewable energy installations.
- **Point 365 (c) on investing at least 50 % of the aid amount in projects that lead to reductions of the installation's emissions**: The percentage needs to be significantly lowered in order to make it a feasible option, as the financial impacts exceed the two previous ones.

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