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Positionpaper

EU Climate, Energy and Environment Aid Guidelines (CEEAG)

General remarks:
The current Draft of the revised Climate, Energy and Environment State Aid Guidelines triggers several fundamental due process questions that we wish to underline:

- The change of methodology whereby trade intensity has increased from 10% to 20% and where the eligibility based on a 4% trade intensity and a 20% electro-intensity has been eliminated, has not been explained.
- The suggested criteria therewith put a disproportionate emphasis on trade intensity whereas the impact of CO2 costs from energy on GVA weighs heavily on companies' cost base and impacts on their competitiveness, independently from the trade intensity of a sector.
- In addition, the calculation method of trade intensity does not reflect negative market impacts: in the period 2017-2019, building materials imports in the EU have doubled, i.e. cement imports have increased by 50% and importers have consistently applied lower prices than EU operators, therewith directly impacting the latter's market share; in some sectors exports have dropped by more than 50% and cement exports by 20% with export prices no longer competitive on the destination markets; yet, the effect of increased imports and decreasing exports, based on the trade intensity formula, is a decrease of trade intensity from 10.3% in 2017 to 9.2% in 2019.
- The non-eligibility of the sectors cement, lime and plaster, bricks and roof tiles for levy exemptions will only further exacerbate these effects and allow increased imports and a decrease of exports.

In detail:

- **2.4., 35 (d) (i):** We support the section on "Aid for energy infrastructure". As some sectors of industry deploy carbon capture, it will be critical to receive an appropriate level of support for CO2 transportation networks to bring the CO2 to storage or utilisation sites. We however note that the definition of CO2 infrastructure in paragraph 35 is overly restrictive by including only two types of CO2 utilisation, namely "using carbon dioxide as feedstock or to enhance the yields of biological processes". This definition does not reflect the variety of CO2 utilisation projects ongoing, which can cover the production of synthetic fuel, use of CO2 in chemical processes and permanent storage through mineralization. We would therefore urge to use a broader definition.
  Finally, we would stress that in addition to pure "energy infrastructure" like CO2 pipelines, it would be highly beneficial to recognize other transport modes such as ships, trucks and barges under the State Aid Guidelines. This would support the take-up of

CCUS, including in regions where building pipelines may not be economical. We also welcome the inclusion of hydrogen pipelines in the scope of the State Aid Guidelines.

- **4.2., margin number 116:** we suggest including a clear reference to thermal mass as part of paragraph 116. Support for development of projects with structural thermal energy storage elements have a positive effect on the energy consumption of the built environment and therefore should be added as beneficiaries (e.g. Thermally Activated Building Structures TABS). The thermal storage capacity offered by the structure to provide flexibility in energy grids and boost the uptake of renewable energy renewable energy which can lead to.

- **4.4.2., margin number 192**: we support a transition towards a circular economy. For example, the Cement Industry's contribution is made through two different channels:
  - Co-processing, where non-recyclable-waste and biomass waste are used as both alternative fuel and raw material to replace primary fuels and raw materials (i.e. for energy recovery and material recycling). Co-processing allows for considerable CO2 savings in the cement industry.
  - Concrete, cement's end product, which is fully recyclable and can be turned into aggregates for additional concrete or roads application.

We regret that the draft Guidelines do not recognize co-processing as a specific activity which allows to re-use non-recyclable waste that would otherwise be incinerated, exported or landfilled. We suggest the inclusion of a point 192 (e) as follows: "*investments for the use of non-recyclable waste in industrial processes, where such use allows for both energy recovery and the reduction of CO2 emissions from industrial processes*".

- **Annex 1** establishes a list of eligible sectors under Section 4.11 - defining aid in the form of reductions from electricity levies for energy-intensive users. We are concerned that all building materials producing sectors were removed from the list and will no longer be eligible for the reductions from the electricity levies. These sectors and subsectors are:
  - Manufacture of bricks, tiles, and construction products, in baked clay (NACE 2332)
  - Manufacture of ceramic sanitary fixtures (NACE 2342)
  - Manufacture of other ceramic products (NACE 2349)
  - Manufacture of cement (NACE 2351)
  - Manufacture of lime and plaster (NACE 2352)
  - Production of abrasive products (NACE 2391)
  - Manufacture of other non-metallic mineral products (NACE 2399) which contains a sub-code for expanded clay

We are concerned with the lack of transparency on the methodology of the establishment of the list in Annex 1. There is no information given on the indicators and data (eg. years of relevance, electricity price) which were taken into account nor were the results of the assessment published (ie. electro-intensity and trade exposure). This makes it difficult for us to understand why these sectors were taken out of the Annex 1 list.

The building materials industries belong to the most energy-intensive industries in the EU. We would like to emphasise on the specific situation of the ceramic industry: according to the Cumulative Cost Assessment on the EU ceramic industry performed by the European Commission in June 2017, electricity-related costs were the fastest growing regulatory

costs, and highest regulatory costs overall. In 2015, which was the most representative year for the CCA, they constituted 45% of all estimated regulatory costs for the bricks sector. Moreover, ceramics is a labour-intensive industry which provides 200 000 direct jobs. That is why the Gross Value Added (GVA) indicator, which is used as profitability indicator when calculating the electro-intensity, is unrepresentative for ceramic sectors as it includes labour costs. We believe Gross Operating Surplus (GOS) should be used. The GOS measures a sectors' profitability but doesn't include labour costs. It is also easily available on Eurostat. Considering that labour costs represent more than 50% (60% for bricks and tiles) of the GVA in ceramics, the use of GVA to assess the impact of energy costs on competitiveness is extremely inappropriate for ceramics, unless the intention of the regulator is to determine if a sector can absorb energy costs by reducing its work force.

We believe that the criterion of 4% trade intensity and 20% electro-intensity, as used in the previous Energy and Environment Aid Guidelines (EEAG, 2014) for more electro-intensive but less trade-intensive sectors should be kept. For labour-intensive sectors, with a large share of SMEs, GOS should be used to calculate electro-intensity.
We would therefore urge the final version of the Guidelines to reinsert 4% trade intensity/ 20% electro-intensity criteria based on GOS (not GVA) for eligibility.

The inclusion of the energy intensive sectors on the CEEAG Annex 1 eligibility list is crucial for the future of the industry as electrification is one of the technologies available representing the highest potential for decarbonisation in ceramic sector. There is no doubt that carbon neutrality will never be achieved in the ceramic industry without an increased electrification of the process. To encourage further electrification, it is necessary to allow such incentives as granting exemption from electricity levies.

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