

Date: 31.7.2021

SUBJECT: Public consultation on the revised Climate, Energy and Environmental Aid Guidelines (CEEAG) - comments of Association of Chemical Industries of Slovenia (ref.: https://ec.europa.eu/competition-policy/public-consultations/2021-ceeag_sl)

Dear Madam/Sir,

we have carefully checked the draft revised Climate, Energy and Environmental Aid Guidelines (CEEAG) and are providing our comments and proposals.

State aid guidelines are an important instrument for a better harmonisation of the individual state-aid-policies of the Member States. They are crucial to establish a level-playing field at EU-level. Also they can contribute to the achievement of the EU's energy and climate protection goals. This aspect is becoming even more important, since - , if we want to achieve climate neutrality - enormous investments into the development of more climate-friendly and sustainable technologies are required. Nevertheless, we need to stress out that the EU lacks an effective protection against carbon leakage and needs to establish such a mechanism very soon. Not having such a mechanism will significantly lower the impact of any state aid and countervail the EU's ambitions for climate neutrality.

The chemicals industry is certainly a front-runner and central actor in the development of green technologies. However, aids are inevitable to bring innovations to marketability and furthermore to a wide acceptability by consumers. The Slovenian chemicals industry in particular is strong in the development of green hydrogen, circular economy processes (recycling and/or using waste as secondary raw material), microcell process chemistry as next inovative step in low or carbonless production, new ways of CCU also exceeding current legislative frames. However, also many of these green focused activities depend totally or to a certain extend on state-aid. In this respect, we even more welcome that the chemicals industry is accepted as an eligible sector in the CEEAG.

With the European Green Deal and its very ambitious objectives, we will need to be more generous with the acceptance of state-aid. The European Commission has taken this on board in the revision and has included areas like circular economy, certain CCU, energy efficiency, clean mobility or biodiversity, taxes reduction. In our view, this is very positive and we believe that our chemicals industry can contribute a lot in these areas, in the same time protect working places and even expand new green based businesses. It is important that green-technologies based on hydrogen, CCU and low-carbon gases can be further supported by aids. In relation to CCU we are of the view that all forms of carbon capturing should be entitled for state aid. Furthermore, industrial gases in general and hydrogen production in particular should stay included in the CEEAG.

Furthermore, we see the need for a much stronger link between state aid and technologies, which reduce the overall CO₂-footprint and/or support the circularity of materials. Such technologies should be promoted by allowing exceptionally high aids (e.g. the use of ETS revenues, which are equivalent to their reduced CO₂ footprint, to support the industrial transformation), until they have reached marketability and are profitable for the involved actors. In this context, we see para. 47 as a useful approach.

Specifically related to the aid for resource efficiency and for supporting the transition towards a circular economy, we emphasize that in the case of recycling of plastic waste para. 208 c) should not apply. While the counterfactual scenario for chemical recycling of certain plastic waste in the sense of para. 208 c) could be the production of virgin feedstock for plastic material production, this is not well applicable. Virgin feedstock for plastic production is a result of complex petrochemical-production-steps in large installations, where at the same time numerous chemical co-products are generated. Compared to the chemical recycling scenario, the investment in the counterfactual scenario for a petrochemical installation, is on the one hand more costly and on the other hand it is more difficult to define the investment costs for all co-products manufactured by petrochemical-processes. The setting of a counterfactual scenario for recycling plastic material obtained from fossil feedstock would be more appropriate based on para. 208 b). Not always it may be the best to compare the environmental benefits of the eco-innovative activities with the chosen counterfactual scenario used for determining the level of aid. This could be in particular the case, if the counterfactual scenario for chemical recycling would be mechanical recycling. For example, on the one hand mechanical recycling is less energy demanding - therefore has lower CO₂ emissions - and it is technically less challenging to be implemented than chemical recycling. However, on the other hand, mechanically recycled feedstock is downcycled material with often limited applicability for example due to impurities. In our view, a more appropriate baseline scenario for determining environmental benefits would be the production of virgin material by petrochemical processes, however, at the same time this scenario is not appropriate as a counterfactual scenario. Concerning para. 193, it should be possible to grant aid for the coverage of operational costs of the recycling processes for waste and not only for the collection and sorting waste. While investments in recycling equipment usually are a substantial financial burden, an equally relevant cost-factor are the production costs of secondary materials, which are higher than for primary ones. Considering para. 216 c), we strongly believe, that the aid should be granted for as long as the operational costs of a specific recycled product are higher than these for the production of a primary material. Without disturbing the functioning of the market, there would probably be the need to closely monitor such cost-developments over time.

While we agree that state-aid should be granted based on a transparent process, e.g. tenders, we also stress out that we need to keep administration as low as possible. In particular, aids for small projects should be exempted from tender procedures. Furthermore, we think that aids and relevant legislation need to be reviewed regularly in constant communication process with industry. This way they can be adapted to a constantly changing market.

In relation to “carbon contracts for difference” we question whether the CO₂-price of the ETS is an appropriate reference value. Considering our international competitiveness and the fact that we lack an effective carbon-leakage-barriere, this reference value could lead to ineffective aid. As long as there is no global level playing field for climate protection measures and the EU is particularly ambitious in this regard, instruments are needed that ensure the international and also intra-European competitiveness of the companies that are the most affected. In general, we think that state aid, which should be now limited with 75%, should be maintained at the current level of 85%.

Aid for the security of electricity supply is highly relevant for our sector. We need a secure and stable supply based on an efficient infrastructure. Such investments should be accepted as promotable economic activities. Furthermore, aids for retrofitting activities, e.g. to hydrogen and/or other renewable gases, should be accepted, as well as investments in the adequate infrastructure. Also considering that at the current stage, green hydrogen is up to 3-times more expensive than other hydrogen, such green energy production should be fully supported for at least the minimum-amortisation-period of new production equipment for such activities.

Furthermore, the transformation to low-carbon production processes often occurs - based on the brownfield concept - in existing facilities. Therefore, aid should be also possible for the dismantling and/or transformation of CO₂-intensive production sites. Also it should be possible to aid the use of electricity from renewable-sources in energy-intensive production processes of companies, which are still bound by long-term electricity-purchase-agreements.

We hope that our comments will be useful for preparation of the final text of the CEEAG.

Best regards,

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Director