

## **DG COMP Call for contributions: Competition policy supporting the Green Deal**

### **FuelsEurope response to Part 1: State aid control**

FuelsEurope represents with the EU institutions the interest of 40 companies operating refineries in the EU. Members account for almost 100% of EU petroleum refining capacity and more than 75% of EU motor fuel retail sales. FuelsEurope aims to promote economically and environmentally sustainable refining, supply and use of petroleum products in the EU, by providing input and expert advice to the EU institutions, Member State Governments and the wider community and thus contributing in a constructive and pro-active way to the development and implementation of EU policies and regulations.

The refining sector supports the goals of the Paris Agreement and support the Green Deal's ambition for climate neutrality in 2050 and will work with the EU institutions, Member States, and stakeholders, to help create the essential enabling policy framework.

The more the EU can steer investments towards the least-cost pathway to net-zero emissions, the further and faster it is likely to drive decarbonisation across Europe, maximising the EU's contribution to the delivery of the Paris climate goals.

FuelsEurope welcomes the possibility to contribute to the ***“Call for contributions: Competition policy supporting the Green Deal”***. In this document the association provides answers to the questions asked in ***“Part 1: State aid control”*** of the Call for contributions provided for by DG COMP.

Q1. What are the main changes you would like to see in the current State aid rulebook to make sure it fully supports the Green Deal? Where possible, please provide examples where you consider that current State aid rules do not sufficiently support the greening of the economy and/or where current State aid rules enable support that runs counter to environmental objectives.

In order to fully support the European Green deal, the State aid rulebook should support all activities with a potential to contribute to the climate transition, in harmony with the principle of technology neutrality: the state aid framework should allow for all relevant greenhouse gas reduction measures which contribute to the realization of a climate neutral society in 2050, whilst still critically assess the level of state aid in order to avoid over compensation and safeguard fair competition in the EU internal market. The revision of state aid guidelines should not only stimulate early adoption of innovative first-of-its-kind solutions, but also support the timely transition to a climate neutral economy. In particular, the climate neutral transition of Energy Intensive Industries (EIIs) should be addressed and supported also in the Environmental and Energy Aid Guidelines.

State Aid rules are also of great relevance to the future of EIIs. Indeed, a sufficient and reliable access to competitively priced climate-neutral energy is one of the most important framework conditions for industrial transition. State Aid rules for environmental protection and energy will have an important role to play, by supporting the further deployment of carbon free energy sources while ensuring that energy costs remain globally competitive for industry. Established grid-competitive, energy sources including for new renewable energy production, should phase out subsidies and exemptions from balancing responsibilities. The impact of remaining exemptions for small installations will require assessment.

At the EU level, the upcoming revision of State Aid Guidelines on Energy, will have to consider the availability and access of industry to climate-neutral energy and their affordability. Industrial transformation will also require access to alternative feedstock sources. Access to these “non-energy input” will also require a supportive framework and must be treated with the same level of urgency as for energy inputs, building on the the EU energy and climate targets and on relevant EU legislation.

FuelsEurope Vision 2050 provides examples of very significant and promising R&D projects for the development of sustainable biofuels and e-fuels as well as gaseous hydrocarbons such as liquefied natural gas (LNG) and compressed natural gas (CNG) that have superior sustainability credentials both in terms of reducing GHG emissions and their impact on land use and ecosystems. Key regulatory measures are needed to help the development and deployment of these low-carbon liquid fuels.

Particularly, amongst various technologies, biomass is a resource that needs to be sustainably sourced and managed. In order to guarantee sufficient access to these alternative biomass sources and reduce import dependency, there should be a continued incentive to collect bio-waste. In some countries, there is potential to increase supply coming from agriculture and forestry, in a sustainable manner and preserving biodiversity. Industry should be enabled to compete on equal footing for access to biomass, also taking into account the efficiency of the use.

Speaking of biomass availability, studies performed in 2017 by Ecorys for DG R&D of the European Commission, and in 2019 by JRC of the European Commission show that Europe has the potential to produce enough sustainable bioenergy to satisfy, for example, the transport demand.

This is why FuelsEurope recommends the European Commission to take actions to strengthen bioenergy, whilst being compliant with the biodiversity strategy and other existing EU legislations and respecting differences between Member States.

Finally, FuelsEurope would welcome more aid to sustainable projects, in particular when it comes to projects that need to be developed at a scale (for example, the development of CCS and CCU).

**Q2. If you consider that lower levels of State aid, or fewer State aid measures, should be approved for activities with a negative environmental impact, what are your ideas for how that should be done?**

FuelsEurope believes that, rather than planning for lower State aid measures, the approach should be that an appropriate and balanced level of State aid should be granted to sectors that are making significant efforts to comply with the European climate goals. For example, the EU refining industry is already engaged in a low-carbon transition. We are uniquely positioned to keep driving the development of a number of technologies, but we will not be able to achieve this alone.

Realistically, the success of our journey will also depend on investor confidence and political vision and engagement.

**Q2a. For projects that have a negative environmental impact, what ways are there for Member States or the beneficiary to mitigate the negative effects? (For instance: if a broadband/railway investment could impact biodiversity, how could it be ensured that such biodiversity is preserved during the works; or if a hydro power plant would put fish populations at risk, how could fish be protected?)**

From an industrial point of view, when it comes to negative environmental impacts, the prevention should be the focus. To do so, state aid rules can intervene by incentivising and encouraging major R&D programmes aimed at ameliorating the impacts on the environment.

**Q3. If you consider that more State aid to support environmental objectives should be allowed, what are your ideas on how that should be done?**

EU state aid rules shall be coherent with the EU energy and climate targets and with relevant EU legislation to implement these goals: the efforts required to reach those targets should be addressed in the context of any future revision of the EEAG. Funding mechanisms at EU and national level need to be properly supported by a coherent set of state aid rules.

The EEAG should be revised to stimulate competition among various suppliers and bring further down the cost of energy sources, while providing investment certainty in Europe. When taking into account costs of deployment of different renewable energy sources, all costs and advantages shall be taken into account, including costs related to system development. Until support mechanisms for renewables are completely phased out, the EEAG should maintain the current framework by reducing the impact of regulatory costs on the energy bill.

A reflection on the modernization of state aid rules is required given the development and deployment of first-of-its-kind projects (e.g. based on e-fuels or hydrogen) to the market in order to allow Member States to adequately complement the support provided.

A stronger focus on non-discriminative biofuel support schemes in a way that they do not distort competition between products, innovations, solutions, domestic and intra-European producers and would therefore not prohibit the cross-border movement of products.

The introduction of rules for storage support to get aligned with new electricity directive and regulation. Increased renewable generation capacity on the electricity grid will need storage solutions to compensate for intermittency. We support that “storage” at this point is already recognized in the EEAG and the General Block Exemption Regulation. Furthermore, the potential introduction of more (renewable or low-carbon) hydrogen in the energy system could enable the gas grid serve as an electricity-storage solution. This will likely also require potentially significant infrastructure investments that should also be eligible for state aid.

Finally, we believe that the EEAG need to be updated to allow for a wider range of circumstances and business models. This may need to involve flexible aid for both investment and operating. Carbon Contracts for Difference (CCfDs) and flexible aid for both investment and operating should be considered in this context. For example, we recommend to consider CCfDs and tax incentives for CO<sub>2</sub> storage.

**Q3a. Should this take the form of allowing more aid (or aid on easier terms) for environmentally beneficial projects than for comparable projects which do not bring the same benefits ("green bonus")? If so, how should this green bonus be defined?**

FuelsEurope would welcome more aid to sustainable projects, in particular when it comes to projects that need to be developed at a scale (for example, the development of CCS and CCU). These will require a significant amount of aid. Comparison of projects should be done in a balanced way, without discrimination, taking into account the needs of different sectors and the potential of an efficient sector integration.

The European Commission could also consider to allow for more aid to the industry that demonstrated its flexibility to adapt to unexpected and challenging conditions, providing an important contribution to the efforts of EU governments to overcome the Covid-19 crisis, even whilst experiencing a very difficult financial situation. The refining sector places itself within this context.

**Q3b. Which criteria should inform the assessment of a green bonus? Could you give concrete examples where, in your view, a green bonus would be justified, compared to examples where it would not be justified? Please provide reasons explaining your choice.**

If the EU assesses criteria for a bonus, this should be flexible, technology neutral and inclusive, to allow all technologies and sectors with a potential of providing their contribution to the EU energy and climate transition in a cost effective manner to make use of it. Hence we encourage the development of transition bonus with inclusive standards enabling a competitive sustainability.

**Q4. How should we define positive environmental benefits?**

A definition of positive environmental benefit should be broad enough to cover all existing modalities able to contribute to the climate transition.

For example, if we consider the road transport sector, a debate is currently ongoing for a full electrification. While electrification in the road transport sector is an important mean for the climate neutrality, it is not the only one: in our Clean Fuels for all Campaign we demonstrate how low carbon liquid fuels (LCLF) will play a critical role in the energy transition and in achieving carbon neutrality in all transport modes, as the global demand for competitive liquid fuels is expected to progressively increase. Therefore, alongside electrification and hydrogen technologies, LCLF will remain essential beyond 2050, bringing important benefits to the European economy and society.

In this context, a definition of positive environmental benefits should include everything (from hydrogen technologies, to LCLF, to electrification) to optimise the result. This way, such a definition would help reducing the emissions from the Business-As-Usual (BAU). The more the EU can steer investments towards the least-cost pathway to net-zero emissions, the further and faster it is likely to drive decarbonisation across Europe, maximising the EU's contribution to the delivery of the Paris climate goals.

Q4a. Should it be by reference to the EU taxonomy? and, if yes, should it be by reference to all sustainability criteria of the EU taxonomy? Or would any kind of environmental benefit be sufficient?

The delegated acts implementing the Taxonomy Regulation and setting the technical screening criteria are still in a drafting phase.

At this stage, for the sake of the Better Regulation, we would not recommend to link the State Aid Rules to a Regulation that still has to be finalised by the European Commission, in particular considering that:

- the latter won't be finalised before end of 2021,
- the technical screening criteria are still being discussed,
- a consultation is foreseen after publication of the Delegated Act,
- the Do Not Significantly Harm Principle DNSH is still to be defined.

As a general remark, any sustainability criteria or definition of positive environmental benefit should be inclusive and technology neutral for the sake of a fully realisation of the European Green Deal objectives.