# European Commission call for contributions *Competition Policy supporting the Green Deal* – essenscia response

*This Response constitutes a first generic contribution to the Commission call and will focus on the state aid part. It does not substitute more specific comments essenscia did/may do on more specific competition policy consultation and the Green Deal different components.*

Essenscia, the federation of the Belgian chemical, plastics and life sciences industry, appreciates the action of the Commission in reviewing and adapting, where necessary, Competition Policy to help the unprecedent shift deriving from the Green Deal. It is more than necessary to speed-up the transition and avoid hurdles while still promoting competitive markets deriving the necessary innovation for consumers and citizen at large.

The overall direction taken by the Green Deal will require deep industrial transformation in only one or two investment cycles. The chemical and life sciences industry is a driving player and already supplies the homegrown essentials for going clean, circular, digitalized and climate neutral. For the chemical and life sciences industry, the EU needs to ensure global competitiveness, given that global action on climate change remains fragmented, whilst maintaining security of supply at the same time. A clear and predictable strategy to safeguard industries competitiveness using several measures, including appropriate EU rules for state aid, antitrust and mergers is a must to accompany the groundbreaking industrial package aim at securing the necessary investments and shifting in industry occurs.

**Firm framework for state aid**

A firm framework for state aid that creates legal certainty is important. Support will be needed to make the necessary shift implied by the Green Deal. For the chemical and life sciences industry it will mean profound and necessary industrial transformation, the need to secure access to abundant climate neutral and affordable energy, all this by allowing our companies to compete not only in the EU, but also globally.

**Securing access to abundant climate neutral and affordable energy**

State Aid rules for Environmental protection and Energy ("EEAG") will have an important role to play, by supporting the further deployment of climate neutral energy sources while ensuring that energy costs remain globally competitive for industry. The State Aid rules should look into what is needed for an appropriate market design that enables cost-efficient use of resources in generation, demand and infrastructure and sufficient investment signals at acceptable risk level. The aid should be based on an EU and international comparison of the energy costs for the industry as these energy costs differ due to less or different taxes and surcharges. First of all, the current reductions/ exemptions from energy transition support like renewables should be maintained and strengthened. Moreover, established grid competitive energy sources, including for new renewable energy production, should not receive subsidies anymore and be subject to normal balancing responsibilities.

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**Industrial transformation**

State aid guidelines (in particular, the EEAG) should be reviewed to stimulate early adoption of innovative first-of-its-kind solutions in industry. State aid can be allowed to remedy market failures: in the case of chemical and pharma products, the main market failure is that EU has higher climate ambitions than other regions with whom industry competes internationally. For example, reducing the GHG footprint of our products does not improve the functionality of the product. Since there is no cost pass-through possible of EU climate costs due to international competition, EU climate policy leads to lower margins for or carbon leakage of EU producers when no compensation of the higher costs is allowed. On top, there is no incentive for the consumer to pay a higher price for a product with the same functionality.

Switching to alternative processes / first-of-a-kind technologies also carries a huge risk. The state aid framework should allow for all relevant greenhouse gas reduction measures, such as $CO_2$ recycling, (low carbon) hydrogen etc. which contribute to the realization of a climate neutral society in 2050, whilst still critically assessing the level of state aid in order to avoid over compensation and safeguard fair competition in the EU internal market.

**ETS State aid guidelines**

The recently adopted reviewed State Aid guidelines for indirect compensation for EU ETS reduced the number of proven carbon leakage sectors eligible for compensation and recently led to an exclusion of organic chemicals sector from the list, despite the increasing indirect costs of the EU ETS that they pay and their ever stronger exposure to international competition. This will directly increase the costs of electricity for European consumers for the next decade and deter investments into electrification of processes.

**A more globally focused EU competition policy**

It is essential to ensure that effective state aid controls safeguard fair global competition. State subsidies, market protection, and unfair trade practices that infringe market-based principles can give an unfair competitive advantage to competing firms. To counter this, we need strengthened rules to tackle market-distorting subsidies, including unlawful indirect industrial subsidies, cheap sovereign loans to state-owned enterprises and/or inflated procurement prices paid by local public authorities.

It should not be forgotten that state aid control is in fact a tool aimed at forging genuine competition. State aid rules are in se economic measures aimed at protecting exposed sectors. The EU level playing field must be maintained for all comparable activities and member states.  They also have to take into account the EU's global competitiveness when determining the level of cost that can be borne by industry rather than be limited to level playing field within the EU.

In the framework of the Green Deal the coherence between climate objectives and the state aid rules (economy) also needs to be improved. State aid schemes should therefore consider the need for a level playing field between EU industry and its global competitors, acknowledge the specificities of industrial sectors and avoid the unintended effect of compromising the global competitive position of Europe. These elements should be considered by determining the exposure of a sector.

**How to define positive environmental benefits?**

In the case of climate, greenhouse gas abatement potential on global level is the most objective / reliable criterion. State Aid rules should allow to shield the industry from certain costs linked to climate policy in order to avoid carbon leakage. If investments move abroad, the emissions will not disappear but will be relocated to regions with less environmentally friendly production. Other criteria need to be defined for other segments of the Green Deal such as circularity.

The reference of the taxonomy in its current stage of implementation for any state aid would result in a very narrow categorization of activities / companies which may accede to state aid. This will not help the profound industrial transformation needed to make the Green Deal a reality.

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