IPCEIs required to cover the entire investment period and increased operational expenditures during industry's transformation

Position – EU IPCEI Communication

thyssenkrupp Steel Europe AG | 20.04.2021

Key Messages

- Steel is the most important industrial material in the world and the backbone of Europe's industry. Steel is already a fully circular material and can become climate neutral by 2050, thus acting as a huge lever towards achieving the EU's climate targets. . Steel is indispensable for most industrial sectors, including buildings, transport, power plants, industrial facilities and renewable energies, and thus vital for Europe's strategic independence from 3rd countries.
- Steel is also at the core of the emerging hydrogen economy. Its decarbonisation will depend on a fast expansion of clean hydrogen production, large-scale infrastructure networks and transport capacities within Europe and beyond.
- As a leading European producer of premium steel, tk Steel will lead the shift to climate neutral steel production based on hydrogen. We are ready to deploy and scale breakthrough technologies, notably to substitute coal-based blast furnaces with hydrogen-based direct reduction units and smelters in order to reduce our CO2 emissions by 30% in 2030 (relative to 2018) and make our steel production climate-neutral by mid-century.
- Such a transformation of the steel industry will require huge investments both now and in the years to come. It is estimated that for the total investments to become climate neutral by 2050 it could amount to approximately €10billion. Our industry will need significant government support both for operating and capital expenditures to realise this transformation.
- The green transformation will also require a high degree of coordination within and across value chains and sectors. IPCEIs can act as a solution to these challenges and can become important facilitators to meet the Green Deal objectives. We welcome the Commission's plan to reflect on lessons learned and to review the current IPCEI Communication accordingly.

Recommendations

The EC guidance on the assessment of public financing of IPCEIs should be adjusted in the following areas to meet their objectives and to facilitate project evaluation:

- **Eligible costs:** IPCEI should **cover higher operational expenditures for scaling hydrogen-based low-carbon steel production.** The use of clean hydrogen and renewable energy to decarbonise production processes will lead to significantly increased costs during the coming years which cannot be absorbed by the market in the current competitive environment. These cost increases are not of technical nature and thus cannot be minimised by R&D&I investment.
- **Scope:** Successful deployment of breakthrough technologies requires testing at industrial scale. Therefore, **it is particularly important for IPCEIs to cover the entire investment period** (economical

lifetime of a project), which for steel will typically be more than a decade. Against this background the Commission Communication should establish that *"mass production and commercial activities are allowed for at least the first 10 years of operation and/or as long as the production is characterised by an innovative element"*. A claw-back clause could be used to avoid unintended overfunding.

- Co-financing: Given the large size of projects to be funded under IPCEIs, the beneficiary co-financing requirement should explicitly permit co-financing through various private and public funds or entities (item 20 of the general cumulative criteria, section 3.2.1. of the draft Communication, to be amended accordingly) to expand the pool of resources while lowering the intrinsic economic risk.

- Methodology: Methodologies to calculate the funding gap as well as monitoring and reporting obligations concerning project funds obtained should be harmonised between the IPCEI and other EU funding schemes in order to avoid unnecessary administrative burden.

- The Communication should provide more detailed guidance and/or supporting documents on the calculation of the funding gap and eligible costs.

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