

20 April 2021

“COMMISSION DRAFT COMMUNICATION ON IMPORTANT PROJECTS OF COMMON EUROPEAN INTEREST (IPCEI)” – FEEDBACK

Polish Steel Association is a non-profit trade organization of steel manufacturers and steel processing plants that represents Polish steel industry. We support all initiatives supporting energy-intensive sectors of the European industry.

In the opinion of Polish Steel Association the draft Communication on important projects of common European Interest (the “IPCEI”) does not contain significant improvements in relation to IPCEI Communication of 2014. The updated Communication risks not to underpin transformation projects of energy-intensive industries, thus not to deliver on the targets and match the ambition of the Green Deal.

In particular, the new rules might fail to support adequately the indispensable industrial deployment projects, which relate to production. It should be provided that installations supported via IPCEI may produce for the relevant markets and receive funding for the production volumes related to innovative aspects and as long as these pertain.

Nowadays, companies cannot invest in low CO₂ technologies in steel that will entail an increase in production costs, as there is no market that would factor in the extra cost of low CO₂ steel vis-à-vis conventional steel products with similar properties. Elements that would increase operational costs of low CO₂ technologies substantially are for example the use of new energy carriers and feedstocks, such as renewable energy and hydrogen. This would apply to technological pathways Carbon Direct Avoidance and Smart Carbon Usage in steel.

In this context, the IPCEI shall allow financing of projects at full industrial scale and provide adequate financial support of eligible costs, reflecting in particular higher operational costs.

Polish Steel Association proposes the following modifications to the recently published Commission IPCEI draft to ensure that the Communication is fit for purpose as regards its contribution to the objectives of the Green Deal:

- The Communication specifies that First Industrial Deployment (FIDs) does not entail “mass production” nor “commercial activities” (point 25). This can be highly problematic, as the successful deployment of low CO₂ steel production necessitates not only testing but also **implementation at industrial scale**. Given the high technological and financial risk that is intrinsic to projects introducing new process technologies at such a massive scale as it is required in the steel industry, it is particularly important to allow IPCEIs to cover the **normal operation of industrial-scale first-of-a-kind installations**. It should be provided that such installations may produce for the relevant markets and receive **funding for the production volumes related to innovative aspects** and as long as these pertain. The funding gap calculation should reflect the specificity of and better support projects which invest into **installations with a long lifetime**. The funding gap should thus refer to the difference between the positive and negative cash flows **in general** over the lifetime of the investment **but for projects comprising of industrial deployment and environmental, energy or transport projects over the submitted project duration** (point 34).
- Under point g) of the Annex on eligible costs, the Communication allows for the financing of CAPEX and OPEX of FIDs projects until “as long as the industrial deployment follows on from an R&D&I activity”. This misses the point, because **obstacles to decarbonisation of production processes are not only of technical nature** (which should be overcome by R&D) but also necessitate to develop **viable business models in the context of international competition**. This is true to all low CO₂ technologies (e.g. hydrogen-based metallurgy, process integration, CCU and “recycled carbon products”).

- To facilitate combination of different funding sources for industrial deployment projects, ideally, all relevant instruments (e.g. IPCEI, EU ETS Innovation Fund, Carbon Contracts for Difference) should use the same methodology to calculate the maximum level of aid. It should be thus allowed for IPCEI to co-fund a project awarded funding from the EU-ETS Innovation Fund (at least 40% of the “relevant cost” of an ETS Innovation fund sponsored project must be covered by other sources). To make this operational, the Commission services should embed this point in the relevant Commission “non-paper on the calculation of the funding gap under IPCEI”; the aid intensity should cover all eligible costs or the part of the ‘relevant costs’ as calculated for an EU Emissions Trading Innovation Fund project.

Annex 1 – Proposed amendments to the draft Communication from the Commission — Criteria for the analysis of the compatibility with the internal market of State aid to promote the execution of important projects of common European interest

1.1. Adequate support to projects with a long lifetime

EC draft text Point 34	Proposed amendment Point 34
<p>The maximum aid level will be determined with regard to the identified funding gap in relation to the eligible costs. If justified by the funding gap analysis, the aid intensity could cover all of the eligible costs. The funding gap refers to the difference between the positive and negative cash flows over the lifetime of the investment, discounted to their current value on the basis of an appropriate discount factor reflecting the rate of return necessary for the beneficiary to carry out the project notably in view of the risks involved. The eligible costs are those laid down in the Annex²⁵</p>	<p>The maximum aid level will be determined with regard to the identified funding gap in relation to the eligible costs. If justified by the funding gap analysis, the aid intensity could cover all of the eligible costs. The funding gap refers to the difference between the positive and negative cash flows <i>in general</i> over the lifetime of the investment <i>but for projects comprising of industrial deployment and environmental, energy or transport projects over the submitted project duration</i>, discounted to their current value on the basis of an appropriate discount factor reflecting the rate of return necessary for the beneficiary to carry out the project notably in view of the risks involved. The eligible costs are those laid down in the Annex²⁵</p>
<p>Justification</p> <p>According to the rules, the decision on the extent of the IPCEI-funding will rest on a comparison of the “funding gap” with the “eligible costs”. For large-scale first deployment installations, as well as infrastructure investments (e.g. for Hydrogen), the lifetime of the investment will be at the usual industrial scales of several decades. Since no funding scheme will cover such long periods of time, the business case must foresee profitability after the initial years (especially when the innovative nature of the production ends). The functioning of IPCEI-funding would consist in covering the initial losses and thus make such investments feasible. If the funding gap would be calculated for the entire lifetime of the investment, as the rules now demand, in such cases the funding would not be permitted or only be made permissible by applying unrealistic discount rates (which will jeopardize access to financial markets).</p>	

1.2. Overcoming obstacles on implementation of projects on low carbon technologies in energy-intensive industries

EC draft text Point 25	Proposed amendment Point 25
<p>For the purpose of this Communication, first industrial deployment means the upscaling of pilot facilities, demonstration plants or of the first-in-kind equipment and facilities covering the steps subsequent to the pilot line including the testing phase, but neither mass production nor commercial activities²². First industrial deployment activities can be financed with State aid as long as the first industrial deployment follows on from an R&D&I activity and itself contains a very important R&D&I component which constitutes an integral and necessary</p>	<p>For the purpose of this Communication, first industrial deployment means the upscaling of pilot facilities, demonstration plants or of the first-in-kind equipment and facilities covering the steps subsequent to the pilot line including the testing phase, <i>and mass production with innovative elements</i>, but neither mass production <i>without innovative elements</i> nor commercial activities <i>without innovative elements</i> ²². First industrial deployment activities can be financed with State aid as long as the first industrial deployment follows on from an R&D&I activity and itself contains a very important R&D&I component which constitutes an integral and necessary element for the successful implementation of</p>

<p>element for the successful implementation of the project. The first industrial deployment does not need to be carried out by the same entity that carried out the R&D&I activity, as long as the former acquires the rights to use the results from the previous R&D&I activity, and the R&D&I activity and the first industrial deployment are both covered by the project.</p>	<p>the project. The first industrial deployment does not need to be carried out by the same entity that carried out the R&D&I activity, as long as the former acquires the rights to use the results from the previous R&D&I activity, and the R&D&I activity and the first industrial deployment are both covered by the project.</p>
<p>Justification</p> <p>Today, companies cannot invest in low CO₂ technologies in steel that will entail an increase in production costs, as there is no market that would factor in the extra cost of low CO₂ steel vis-à-vis conventional steel products with similar properties. Elements that would increase substantially operational costs of low CO₂ technologies are for example the use of new energy carriers and feedstocks, such as renewable energy and hydrogen.</p> <p>The draft Communication (point 25) specifies that First Industrial Deployment (FIDs) does not entail “mass production” nor “commercial activities”. This is highly problematic, as the successful deployment of low CO₂ steel production necessitates testing and implementation at industrial scale. Given the high technological and financial risk that is intrinsic to projects introducing new process technologies at such a massive scale as it is required in the steel industry, it is particularly important to allow IPCEIs to cover the normal operation of industrial-scale first-of-a-kind installations. It should be provided that such installations may produce for the relevant markets and receive funding for the production volumes related to innovative aspects and as long as these pertain.</p>	

1.3. Overcoming obstacles on implementation of projects on low carbon technologies in energy-intensive industries

<p>EC draft text Point 24</p> <p>Projects comprising of first industrial deployment must allow for the development of a new product or service with high research and innovation content and/or the deployment of a fundamentally innovative production—process. Regular upgrades without an innovative dimension of existing facilities and the development of newer versions of existing products do not qualify as first industrial deployment.</p>	<p>Proposed amendment Point 24</p> <p>Projects comprising of first industrial deployment must allow for the development of a new product or service with high research and innovation content and/or the deployment of a <i>production process</i> fundamentally innovative <i>and/or with a substantial environmental impact</i>. Regular upgrades without an innovative dimension of existing facilities and the development of newer versions of existing products do not qualify as first industrial deployment.</p>
<p>Justification</p> <p>This amendment further embeds the proposal contained in amendment 2</p>	

1.4. Granting adequate financing for projects on low carbon technologies in energy-intensive industries

<p>Current text Annex on Eligible costs, paragraph g)</p> <p>In case of aid to a project of first industrial deployment, the capital and operating expenditures (CAPEX and OPEX), as long</p>	<p>Proposed amendment Annex on Eligible costs, paragraph g)</p> <p>In case of aid to a project of first industrial deployment <i>and environmental and energy projects of substantial impact for the environmental, climate,</i></p>
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as the industrial deployment follows on from an R & D&I activity (*) and itself contains a very important R & D&I component which constitutes an integral and necessary element for the successful implementation of the project. The operating expenditures must be related to such component of the project.	energy (including security of energy supply) strategies of the EU, the capital and operating expenditures (CAPEX and OPEX).
<p>Justification</p> <p>The IPCEI Guidelines shall allow financing of projects at full industrial scale and provide adequate financial support of eligible costs, reflecting in particular higher operational costs.</p> <p>Under point g) of the Annex on eligible costs, the Communication allows for the financing of CAPEX and OPEX of FIDs projects until "as long as the industrial deployment follows on from an R&D&I activity ". This misses the point, because obstacles to decarbonisation of production processes are not only of technical nature (which should be overcome by R&D) but also necessitate to develop viable business models in the context of international competition. This is true to all low CO₂ technologies (e.g. hydrogen-based metallurgy, process integration, CCU and "recycled carbon products").</p>	

1.5. Financing of industrial scale projects contributing to the achievement of climate objectives of the Green Deal

<p>EC draft text Point 26</p> <p>Environmental, energy, transport, health or digital projects, to the extent that they are not covered by points 23 and 24, must be of great importance for the environmental, climate, energy (including security of energy supply), transport, health or digital strategies of the EU or contribute significantly to the internal market, including, but not limited to those specific sectors.</p>	<p>Proposed amendment Point 26</p> <p>Environmental, energy, transport, health or digital projects, to the extent that they are not covered by points 23 and 24, must be of substantial impact for the environmental, climate, energy (including security of energy supply), transport, health or digital strategies of the EU or contribute significantly to the internal market, including, but not limited to those specific areas.</p>
<p>Justification</p> <p>The expansion of what is now Article 26 to include the aspect of climate protection is very positive. We deem necessary to replace the phrase "... but not limited to those specific sectors ..." with "but not limited to those specific areas". This is to prevent Article 26 from being viewed as being directed only at certain economic sectors.</p>	