

Public consultation on draft ETS State aid Guidelines (ref: HT.582)

RESPONSE OF FRANCE CHIMIE

January 15th, 2020

France Chimie welcomes the European Commission's public consultation on the draft guidelines regarding the compensation of the indirect costs of the EU ETS. The CO₂ emissions costs passed on to electricity prices severely impact the competitiveness of the European electro-intensive industry, thus increasing the risk of carbon leakage and exposing the continent to a surge of its carbon footprint, its real contribution to climate change. As the European Union plans to become the first carbon neutral continent by 2050, and while other major economies fail to commit to significant greenhouse gases emissions reductions, prevention measures appear even more necessary.

Despite its supply of low-carbon electricity, the chemical industry in France pays a heavy cost for the carbon price passed on in their electricity invoice: close to a third of the baseload electricity market price is made of indirect costs of the EU ETS. According to the French energy regulator, coal or gas generation as well as imports of electricity have a disproportionate impact on electricity market prices compared to their share of the French power mix¹. As a consequence, the chemical electro-intensive plants face an excessive and unfair disadvantage compared to more carbon-emissive competitors, whereas their indirect carbon emissions are minimal. This both increases the risk of carbon leakage and impairs the transition of the companies towards a low-carbon model.

As a consequence, France Chimie is laying out the following recommendations:

- All electro-intensive sectors exposed to a high risk of carbon leakage and/or whose transition towards a low carbon model involves high levels of electrification should receive a compensation, including:
 - o The manufacture of industrial gases (especially hydrogen);
 - o The manufacture of other inorganic basic chemicals;
 - o The manufacture of other organic basic chemicals;
 - o The manufacture of fertilizers and nitrogen compounds;
 - o The manufacture of plastics in primary forms;
 - o The manufacture of man-made fibers.
- The level of compensation should reflect the actual cost of the EU ETS passed on to electricity market prices, without creating distortions of competition within the EU; which means that the emission factors should be set at regional level.
- The conditions for receiving the compensation should include proportionate energy efficiency efforts that take into account technical and economic barriers as well as past decarbonization actions.

REGARDING THE LIST OF ELIGIBLE SECTORS

The list of sectors eligible to the future compensation of the indirect costs of the EU ETS proposed by the European Commission excludes most of the subsectors of the chemical industry. 9 out of the 10 sectors and subsectors currently protected from unfair competition would face a soaring cost for their electricity supply. At a price of 30 €/tCO₂, the **cost would amount to 120 M€ per year** for the impacted companies. This would be equivalent to **a tax of more than 360 €/tCO₂ on indirect emissions**. No other. Such a negative shock to their competitiveness represents a high risk of favoring imports from other countries over a local low-carbon production. The sharp reduction of the number of eligible sectors is thus a very negative decision in the fight against climate change.

¹ Rapport de surveillance des marchés de gros de l'électricité et du gaz, Commission de Régulation de l'Énergie, <https://www.cre.fr/Documents/Presse/Communiqués-de-presse/Le-rapport-de-surveillance-des-marchés-de-gros-de-l-electricite-et-du-gaz-naturel-de-2018>

In addition to dramatically increasing the risk of carbon leakage, it would also send a very negative signal to investors looking into **electrification as a key technological pathway towards a low-carbon chemical industry**. For example, hydrogen manufacture using water electrolysis (which can enable the production of low carbon fertilizers or olefins), cryogenic capture and transportation of CO₂, electrochemical processes or heat pump can unlock deep decarbonization potential, but require high volumes of low-carbon electricity at globally competitive prices. Removing the compensation for the indirect costs of the EU ETS would needlessly set the bar towards a low-carbon business model much higher in the concerned sectors.

REGARDING EMISSION FACTORS

In the current guidelines on compensation of the indirect costs of the EU ETS, Member States whose electricity markets are highly connected share the same emission factor for the calculation of the maximum compensation. The new guidelines intend to set national emission factors based on a proxy: the weighted average of the CO₂ intensity of electricity produced from fossil fuels at national level.

France Chimie would like to draw the attention of the European Commission on the fact that **the move away from a regional factor would trigger distortions of competition between Member States**. A study performed by Compass Lexecon for the French Association of Energy Intensive Industries shows that the current factor applicable in France has been, and is actually still accurately describing the actual impact of the market price of CO₂ allowances on the French electricity markets. The center-west Europe area is the relevant geographic scope for France. **The Commission proposal would lead to widely diverging national emission factors** within the CWE area, while the industries located in the region incur the same indirect costs of EU ETS. Such a distortion would penalize the least emitting plants and would be unacceptable.

REGARDING ENERGY AUDITS AND MANAGEMENT SYSTEMS

France Chimie supports the Commission's proposal to link the compensation of indirect costs of the EU ETS to the implementation of energy audits or energy management system. France Chimie believes that **energy efficiency is key to achieving a transition to a low-carbon model**. It has been one of the main factors in the 61% drop of greenhouse gases emissions of the chemical industry in France since 1990.

However, the subsequent and additional criteria proposed by the Commission are ignoring technical and economic barriers to implementing efficient technologies. They also do not consider past investments and efforts of companies. Industrial facilities that already have implemented the best available technologies, that invested a lot in energy efficiency and/or have a very low indirect carbon footprint should be able to benefit from the compensation of indirect costs. Otherwise, the guideline would favor the least performing facilities, whose potential for energy efficiency is far greater.
