

Public Consultation on draft ETS State Aid Guidelines - Ref.: HT.582

Agoria, the Belgian federation for the technology industry, is grateful to give input to the public consultation on ETS State aid guidelines, more specifically regarding aid to compensate for increases in electricity prices resulting from the inclusion of the costs of greenhouse gas emissions due to the EU ETS (commonly referred to as 'indirect emission costs').

Key concerns of Belgian technology industries:

Agoria has two main concerns regarding the draft guidelines:

1. CO2-emission factor in the correct region

Agoria appreciates that the Commission proposes to continue the current approach by calculating the weighted average of the CO2 intensity of electricity **produced from fossil fuels**, thus taking into account the actual price setting technology. However this only works if the impact of interconnections is taken into account and thus a correct size of the regions is used. We therefore ask to re-establish the **Central-Western-European (CWE)** region as in the current Guidelines (2013-2020), reflecting the actual market integration. In contrary to the report accompanying the draft Guidelines stating that price convergence in the Central and Western Europe (CWE) has decreased, Agoria believes price convergence has gone up for the following reasons:

- Belgium is a small country where the interconnection capacity is almost 50% of the peak capacity and thus Belgian market prices are highly impacted by the prices of neighbouring countries – see tables below.
- Cross-border interconnector capacity has increased in the past years, and amplified by an increased use of flow-based market coupling.
- More interconnection capacity is planned, e.g. Allegro. Belgian transmission grid operator Elia says the following in its most recent adequacy report:
 - o *"It is important to note that even though the contribution of additional interconnections and additional cross-border capacity to adequacy can be limited – depending on the situation in neighbouring countries –, **the most important benefit those investments bring are price convergence**, in turn leading to improved overall welfare. Interconnections allow for an optimal sourcing of electricity from an integrated European market (all year long) and for a maximal utilization of renewable energy sources despite their natural intermittency."*

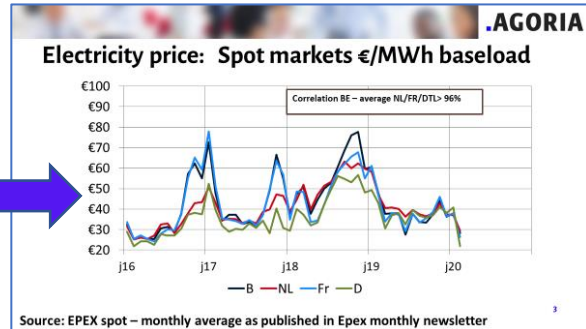
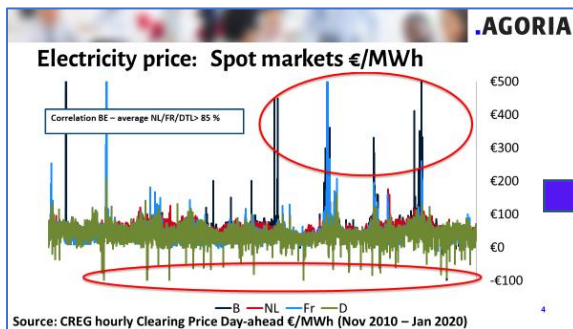
On an hourly basis, prices can however be very volatile:

- more and more intermittent renewable electricity, with increasing hours of negative prices
- short-term limitations in transmission capacity for various reasons (short term incidents e.g. nuclear power plants, long term maintenance, hydrological situation).

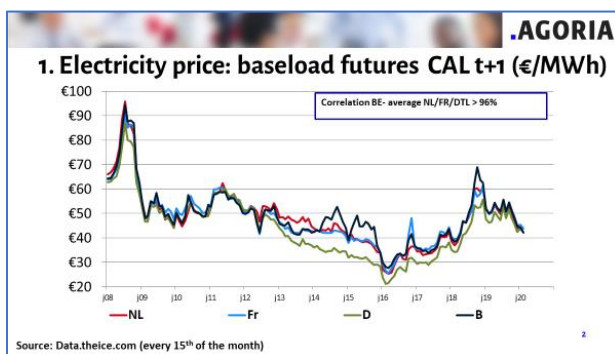
We also would like to stress that fully equal prices on an hourly basis between these countries cannot be an objective as such, as this would require excessive investments in transmission capacity which would not be economically viable (and is also not the case internally in countries, where there are many bottlenecks at any time but the price is kept equal through interventions in the power market).

The overly strict definition of 1% (hourly) price divergence based on absolute price differences contradicts the market evolution and does not contribute to the most efficient sourcing of electricity in an integrated European electricity market.

A more accurate metric for price homogeneity would be **correlation**, i.e. how prices in one market influence prices in another and thus also to which extent the CO₂-element in one country spills over to another. However, the correlation based on **monthly averages** instead of hourly day-ahead power exchange prices (which can be very volatile due to exceptional circumstances) would be a more correct indicator as it clearly reflects the average price an industrial consumer is facing.



In addition to day-ahead contracts, many industrial companies also conclude contracts in the **futures** market, e.g. year-ahead (CAL+1), two-year-ahead (CAL+2) etc. Therefore in our opinion there is no reason to not take into account the price convergence or correlation of (average) year-ahead prices, which is more than 96% since 2008.



The above graphs also clearly show that the Belgian electricity price is (mostly) the highest of the other countries in the CWE region. We can therefore in no way conclude that the Belgian relatively low carbon intensity of the electricity production mix leads to low indirect emission costs for industrial consumers, on the contrary.

2. List of eligible sectors

A second concern about the draft guidelines Agoria would like to raise is the thoroughly shortened list of eligible sectors compared to the current guidelines (2013-2020). In the explanatory note accompanying the draft guidelines the Commission specifies to eventually include additional sectors based on qualitative considerations provided the sectors concerned have at least an indirect carbon leakage indicator of 0.2 and that their carbon leakage risk is at least medium.

For Agoria, the eligibility of the copper sector (**NACE 24.44**) is crucial. We regret the sector is not included in annex 1 of the draft guidelines, although they by far exceed the threshold of 0.2 of indirect carbon leakage (trade intensity x electro-intensity).

More in general, we believe that industries where product prices are set globally (**price takers**) and where electricity costs are an important factor should be automatically included in the list of sectors eligible for compensation. The increased electricity price resulting from ETS cannot by any chance be passed on by these companies in their final price of the product (*=price-taker effect*):

- For **commodity** products (Cu, Zn, etc) the "London Metals Exchange price reference" is effectively part of the trading agreement between the seller and the customer. The LME price is determined by the "supply and demand" on the LME exchange and these financial transactions are a multiple of the transactions for real consumption. European producers are therefore not at all able to determine this price in any particular direction.
- For **other products (intermediates or finished products)**, the price level at global level is also known by customers, e.g. the Belgian aluminium-processing sector supplies the automotive and aerospace industries which have branches all over the world and have clear requirements in terms of the materials used (weight, life span, etc.). Belgian companies must therefore ensure that the pricing of our Western European companies is competitive with respect to their best alternative.

Since the products of this industry contribute directly to the European and international climate objectives (transport, buildings, energy, packaging), battery storage, lifetime of metals (e.g. electroplating), the possibilities for compensation within the Emissions Trading System (ETS) should remain maximal in the European state aid guidelines. We therefore ask to include the price-taker-criterion in the qualitative assessment.

Positive elements in the draft Guidelines

Agoria is very pleased to see the aid intensity would **no longer be degressive** but stable throughout the entire ETS trading period. Also, the possibility of a further cap as a function of the gross value added (GVA) will be crucial for some sectors who have (almost) fully electrified production processes and should under no circumstances be penalised. It is positive that the guidelines take better into account the real electricity cost some sectors are facing, also in the Belgian technology industry, but it would even be better the GVA limitation is also possible at **undertaking level**.

As a technology federation, we also have no objections to the conditionality of the aid with regard to **energy efficiency efforts**. In Belgium, a similar system via the Vlaamse *energiebeleidsovereenkomsten* (EBO's) or the Walloon *accords de branche* is already longer in place. However, in these policy schemes 'Internal Rate of Return'(IRR) has been used to determine what profitable measures are. IRR was considered to be a better indicator than pay-back time because more variables are taken into account, e.g. the depreciation period.

More information?

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