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Directorate-General for Competition, Unit B3

## **Contribution to the public consultation on draft ETS State aid Guidelines Ref HT.582**

### **Introduction**

Compensation for EU-ETS influence on the electricity price is an important measure to prevent carbon leakage in parallel with the free allocation. Electrification, directly or indirectly, of industrial processes is the most important solution to decrease or eliminate the direct emissions. The Swedish steel industry has presented a climate roadmap in which we estimate an increased electricity demand of 4 times the current use. One major part of the electricity need is the future use of hydrogen which must be produced with climate neutral electricity to become fossil free.

EU-ETS will continue to affect the electricity price in the Nordic market since the price is based on the marginal production where CO<sub>2</sub>-emissions and thus cost for emission allowances are included.

To avoid that increasing electricity costs impedes the necessary transition, these state aid guidelines must be designed to enable a relevant compensation to encourage both industrial competitiveness and decreasing emissions within EU.

It is of course also necessary that all member states implement the compensation to gain level playing field within EU.

### **Summarised viewpoints on the proposal**

In addition to the below comments we refer to the position of Eurofer for more detailed material.

### **Sector eligibility (annex I)**

We welcome that the steel industry (NACE 2410) is included in the list of eligible sectors for compensation. Steel industry is highly affected by global competition and evidence for this fact is given in the annex to the Eurofer contribution.

The sectors for iron ore and industrial gases is closely linked to the value chain of steel industry. In particular, we expect hydrogen to be an essential input to enable the decrease of emissions from ore-based steel production. The production of hydrogen will require large amounts of electricity and will increase the indirect use of electricity in steel industry. High cost of electricity will impede this desired development.

- Industrial gases used in sectors with large risk of carbon leakage should be eligible for compensation.

Iron ore including pelletisation (NACE 0710) is to a certain extent overlapping with the steel sector and an important part of the steel value chain.

- Iron ore should be eligible for compensation.

Compensation should be handled in the same way in all member states including the choice of sectors. Different treatment creates uncertainty and lead to market distortions within EU.

- The possibility for member states to choose only certain sectors for compensation according to paragraph 21 in the proposal should be removed.

## **Aid intensity (26 ff)**

The proposal includes several parameters that limits the level of compensation, that is through the efficiency benchmarks, the regional emission factor and limitations through the value chain. To be an efficient tool to counteract carbon leakage and instead encourage initiatives and investments leading up to more electrification the compensation has to be relevant in relation to the actual cost increase.

- The default aid intensity should be set at 100%.
- The efficiency benchmarks should be updated based on real data and not an extrapolated reduction rate

## **Possibility for increased aid intensity (30,31)**

The proposal opens for additional compensation to companies based on indirect cost in relation to GVA. If member states can choose certain sectors for this top-up it will increase the differences in treatment between member states within EU

- Sectors and companies within sectors should be treated equally.

## **Conditionality (53,54)**

The proposal suggests conditions towards the use of the aid by the company. That means that the aid can no longer fulfil its purpose i.e. to compensation for increased electricity costs. The proposed conditions also relate to measures covered by the energy efficiency and the renewables directives. These directives are implemented in various ways and with different measures in the member states. To regulate the same issues in different legislation is not in line with the ambition of better regulations.

Energy efficiency in those processes that are included in the compensation is handled through the efficiency benchmarks.

The different conditions presented in 54 a-c are measures going far beyond current legislation and are unrealistic from an industrial perspective. Concerning actions for energy efficiency it is important that the companies themselves take the decisions on which actions are the most efficient to realise.

Onsite production of at least 50% of electricity need would mean enormous investments since this concerns electricity intensive industry. Investments to decrease the direct emissions shall not be regulated in these guidelines which focus is on indirect emissions effects.

- The conditions shall be removed.

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