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Fertilizers Europe contribution to the Public Consultation on State Aid: EU ETS Indirect Cost Compensation

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Fertilizers Europe welcomes the possibility to participate in the Public Consultation on State Aid: EU ETS Indirect Cost Compensation. We strongly argue for maintaining the NACE 20.15 activities on the above-mentioned list. Maintaining will not create any EU internal distortion, on the contrary removal from the list would create clear competition distortion at the expense of the most electrified players and creating a risk of carbon leakage for them.

- Because in EU ETS the ammonia benchmark is calculated on the total energy consumption (fuel and electricity substitutability) indirect CO₂ emission costs should be treated the same way as direct emission costs. Indeed, ammonia producers based on fuel receive free allocations whereas those having partly electrified their production would bear indirect CO₂ costs. Thus, in absence of this State aid compensation for the cost of CO₂ in electricity, the ETS system would unduly discriminate the most electrified plants, which runs counter to EU climate policy objectives.
- There is a high degree of variability between undertakings in the ammonia production, contrary to what the consultants' report says. Although on average the electricity consumption of the sector is rather low, some of the plants in the EU use really high amounts of electricity (around to 20% of the total energy use) and for which the indirect CO₂ cost is very important, thus putting undue stress on the competitive position on these plants. Just by correctly evaluating this factor (high variability) would automatically increase the RAG risk profile to a higher score and thus certainly changing the conclusions of the analysis.
- By a detailed analysis we clearly show that the electricity consumption of our sector has been grossly underestimated. Based on three different sources we provide conclusive evidence that the electricity consumption as assumed by the Commission is indeed too low. With the score of the indirect emission intensity significantly above 1.0 kg CO₂/€ GVA, the most stringent criteria initially assumed by DG Competition are fulfilled, namely the indirect emission intensity > 1.0 kg CO₂/€ GVA and the Trade Intensity > 20% (which is 31.8%), resulting in the ICLI score significantly above 0.2, and even potentially twice this value when Climate Strategies data are used as the basis of the calculation.
- Although we do not have access to the sector fiche, we strongly suspect that the market characteristics of our sector have not been properly evaluated. In this submission we provide further evidence on the key elements that demonstrate our position as price takers, the inability

to pass through costs and the genuine risk of carbon leakage, as imports with higher carbon footprint have clearly increased in the last decade (from 20% to 30% of the consumption).

In addition we want to highlight that maintaining us in the State Aid compensation list will not undermine the goal of ETS (environmental objective), i.e. reduction of GHG, as it will not risk undermining the incentive for cost-effective decarbonisation – compensating incentivizes electrification, thus emission reduction; lack thereof disincentivizes electrification.

We truly believe that taking all these elements and this evidence into account will lead to changing the conclusion of the evaluation and bring the NACE 20.15 sector back into the list of sectors eligible to receive compensation.