

HT.582 – Public consultation on draft ETS State aid Guidelines

Introduction

On 14 January 2020, the European Commission published draft ETS State aid Guidelines, pointing out that they are an important element of the European Green Deal. The Commission asked interested parties to “assess whether the draft Guidelines are well designed to address the risk of carbon leakage due to indirect emission costs [...], while preserving the incentive of the ETS for a cost-effective decarbonisation of the economy and minimising competition distortions in the internal market”. Thus, by means of the ETS State aid Guidelines, the Commission seeks to achieve three different objectives at once, which are moreover partially contradictory, namely:

1. Avoiding carbon leakage due to indirect emission costs created by the ETS
2. Preserving the incentive of the ETS for a cost-effective decarbonisation of the economy
3. Minimising competition distortions in the internal market

NLMK Europe supports the Commission in this difficult endeavour and therefore submits the present contribution in order to help the Commission strike the right balance between these three objectives. Rather than covering all parts of the draft Guidelines, the present contribution is limited to those parts where NLMK Europe hopes to add value to the discussion.

In-depth

NLMK Europe welcomes the introduction of a GVA-related cap on indirect ETS costs in para. 30 of the draft Guidelines and recommends setting that cap (in analogy to the cap for renewable surcharges under para. 189 of the Environmental Protection and Energy State aid Guidelines) to 0.5% of the GVA of the undertaking concerned, given that indirect ETS costs beyond 0.5% of the GVA are commercially prohibitive. The economic impact of indirect ETS costs needs to be considered in conjunction with that of direct ETS costs, which – due to decreasing free allowances and increasing CO₂ certificate prices – have become significant for the EU steel industry during the third trading period and will become very significant during the fourth trading period. In view of the high direct ETS costs, in order to achieve the first abovementioned objective, i.e. avoiding carbon leakage in the steel industry, the ETS State aid Guidelines will have to cap indirect ETS costs at 0.5% of GVA.

In this context, it should be recalled that, mostly for political reasons (cf. ‘policy considerations’ referred to at p. 23 of the consultant report published by the Commission in the context of the consultation), still only about half the EU Member States actually grant any indirect ETS cost compensation. Subsequently, where no aid is granted at all, the uncompensated indirect ETS costs may also rise (massively) beyond the 0.5% of GVA level (cf. page 46 of the abovementioned consultant report). This negatively affects the first abovementioned objective, i.e. the avoidance of carbon leakage.

Moreover, contrary to indirect ETS costs, direct ETS costs are compensated in all EU Member States. Where only direct but not indirect ETS costs are compensated, this creates a disincentive to substitute production processes that generate large amounts of CO₂ (e.g. coke-based blast furnaces in the steel industry) by processes that generate less CO₂ but require more electricity (e.g. electric arc furnaces using scrap steel or even hydrogen-based direct reduction furnaces in the steel

industry). However, such electrification is one of the main technological pathways to enable the CO₂ reductions that are needed under the Green Deal. Thus, lack of indirect ETS cost compensation in parts of the EU also negatively affects the second abovementioned objective, i.e. to preserve the incentive of the ETS for a cost-effective decarbonisation of the economy.

In addition, the lack of indirect ETS cost compensation in parts of the EU also distorts competition and thus negatively affects the third abovementioned objective (cf. also the summary of responses to question 6 of the previous consultation on p. 25 of the abovementioned consultant report). When an EU Member State grants no or only insufficient aid to its companies, it puts them at a competitive disadvantage vis-à-vis their competitors not only outside of the EU, but also inside the EU. In the past, NLMK Europe has suffered such competitive disadvantage in relation to its plants in Denmark and Italy (which have in the past not granted any indirect ETS cost compensation) and Belgium (where the Walloon region has in the past granted only limited indirect ETS cost compensation).

The only way to avoid compromising the achievement of the above three objectives is to harmonise indirect ETS cost compensation within the EU. Just like national decisions on direct ETS cost compensation (by way of national allocation plans) were abolished in the move from the second to the third trading period, now national decisions on indirect ETS cost compensation (by way of granting State aid) must be abolished as well. By way of a holistic approach, both direct and indirect ETS cost compensation should be integrated in the ETS management on the EU level.

In the past, the three abovementioned negative effects of non-harmonised indirect ETS cost compensation – carbon leakage, disincentive for electrification and distortion of intra-EU competition – have been relatively small. But due to decreasing free allowances and increasing CO₂ certificate prices in the course of the fourth trading period, as required by the Green Deal, these effects will become massive. Therefore, it is of utmost importance that – as the European Parliament had already proposed in the process leading to Directive (EU) 2018/410 – the compensation of indirect ETS costs be harmonised on an EU level. The political deadlock on this topic in the subsequent negotiations must be overcome.

About NLMK Europe

NLMK Europe is a steel producer consisting of the business units NLMK Europe Plate (comprising NLMK Clabecq in Belgium, NLMK DanSteel in Denmark and NLMK Verona in Italy) and NLMK Europe Strip (comprising NLMK La Louvière in Belgium, NLMK Strasbourg in France and NLMK Manage Steel Center in Belgium). With an overall annual production capacity in 2018 of 3.4 million tonnes of value-added steel products, NLMK Europe employs roughly 2,200 people. Key end users include the automotive, shipbuilding, construction and energy-producing companies, as well as offshore windmill manufacturers.

NLMK Europe focuses on innovations, long-term customer relations and sales network development, which enhances on-time deliveries to customers in Europe and across the globe. It belongs to NLMK Group, which is a leading international manufacturer of high-quality steel products with a vertically integrated business model. NLMK Group is headquartered in Russia, and its shares are traded at the Moscow and London stock exchanges.