

Attached position for the Public consultation for the Revision of the Guidelines on State aid for environmental protection and energy 2014-2020 7 January 2020

VEMW welcomes the opportunity provided by the European Commission to give input on the public consultation on the revision of the Guidelines on State aid for environmental protection and energy (EEAG). It is not possible to answer the questionnaire completely, because the given possible answers do not always represent our views. Therefore please find our position on the relevant topics for inclusion in the consultation below:

Summary

Energy-intensive companies are at the heart of the energy transition and play a pivotal role in the successful implementation of the European Green Deal. A strong, open and global competitive single market will enable energy-intensive industries to operate and compete globally. The proposals in the Green Deal anticipate a higher European greenhouse gas target in 2030 and climate neutrality in 2050. The scope of the EEAG should be extended to shield energy-intensive industries from extra costs resulting from this higher level of ambition and effectively support them in low carbon investments. Energy-intensive industries will face a significant increase in CO₂ costs that increases the risk of carbon leakage. At the same time, huge investments are needed to deploy low carbon energy sources and new or adapted infrastructures. The EEAG should maintain and strengthen current provisions allowing reduction in or exemption from renewables support. Additionally, the scope of the EEAG should be broadened in order to ensure the necessary deployment and market entry of recent and expected low carbon technologies and avoid limiting highly necessary decarbonization routes for industry. Additionally, the EEAG revision should include a transparent assessment on the hurdles for technology support.

A. Environmental protection and energy

- **The EEAG should support recent and expected low carbon technologies.** VEMW welcomes a review of the regulatory and technological status quo of the EEAG. In order to face transition challenges successfully, energy-intensive companies need access to more innovative technologies and wider market solutions. First of all, the EEAG should be open for all forms of low-carbon technologies. The existing EEAG mention explicitly only the support of CCS. This should be extended to all technological and market innovations (including direct electrification and CCUS). The EEAG should be sufficiently future-proof and support also recent and expected technological and market development. This gives long-term regulatory certainty and reduces the risk for investors. The emphasis of technology support should be on facilitating, instead of limiting, the various transitional steps these they might need.
- **The EEAG must not limit direct and indirect electrification of industry.** National support mechanisms for stimulating greenhouse gas emission reduction technologies like

electrification, green hydrogen production and CCS are already in place.¹ The EEAG do not provide a proper basis for such a broadened scope of technology support. First of all, the guidelines should allow the contribution of direct and indirect electrification to be evaluated on the basis of direct CO₂-reduction in the industrial sector (scope 1) and must allow for new methods to evaluate indirect emissions linked to electricity use (scope 2). Indirect emissions can be evaluated on the basis of the CO₂-output of the future electricity mix or by demonstrating a direct physical or virtual connection to the use of CO₂-free electricity. Secondly, the guidelines must allow for new methods to evaluate reduction in indirect emissions linked to improvement in the supply chain and reuse of resources by the industry (scope 3). Indirect emissions can be evaluated on the basis of a supply chain LCA or by demonstrating the change in use and reuse of resources. Improvement of the supply chain and reuse of resources, as well as direct and indirect electrification are crucial decarbonization routes for industry in light of the 2030- and 2050 climate goals. Therefore, technology support for industry should not be limited by the EEAG based on the evaluation of indirect emissions. To avoid market distortion, support should be conducted in a non-discriminatory, transparent and open manner.

- **The EEAG-revision must assess barriers and create more transparency towards businesses.** As argued above, the EEAG limit the possibility of national support for crucial decarbonization routes (for example: direct electrification and green hydrogen production). Additionally, the complexity from the EEAG rules can lead to slow decision making, which leads to uncertainty for businesses. The Commission should assess these barriers in the upcoming review. Additionally, together with Member States, the revised EEAG must create more transparency towards businesses on which provisions of the EEAG are hindering the technology-support that is crucial for a successful transition.
- **The EEAG should allow for scale-up and market entry of new technologies in order to develop a large-scale development of low-carbon solutions.** Technology support schemes that compensate only for the unprofitable component of a decarbonization project can expose the investor to risks, for example because of a long payback period, or because the efficiency factor was calculated too low. Recent or immature technologies are not automatically profitable. Therefore, the EEAG should allow for broader technology support to breakthrough technologies. The EEAG-revision should look into support that covers scale ups and the market entry of new products necessary to bridge the so called 'valley of death'. European markets and demand for low-carbon solutions must become competitive with carbon intensive ones in order to drive a successful transition.
- **The EEAG should address global competitiveness next to internal market competition.** The costs of CO₂-avoidance (R&D, investment, implementation of new technologies), costs deriving from the changing energy system and industrial competitiveness should be placed in a global perspective. Currently, climate policies in other regions do not follow the same ambition level as the EU. Price signals can affect markets and its competitiveness. The EEAG should ensure global competitiveness for European industries through a transition friendly competition policy. Therefore the EEAG should not only address internal market distortion, but also distortion on international markets and the need for a level playing field between energy intensive companies and global competitors. European industry can only achieve efficient CO₂ avoidance with a guarantee of reasonable profitability and comparable costs to those of competitors in third countries.

¹ SDE++ support scheme in the Netherlands: <https://english.rvo.nl/subsidies-programmes/sde-publications>

- **The EEAG must acknowledge the need for upgrading the infrastructure and generation adequacy.** As energy intensive users, existing industrial clusters will require a significant upgrade in their infrastructure. Currently the EEAG allows for state aid for infrastructure and generation, although mainly for investment expenses. As energy storage solution will come in different forms (mechanical, thermal, electrochemical and chemical) it must be extended to also allow for the inclusion of operating costs. Next to this, CCS requires additional infrastructure investments and should be made possible through the EEAG.

B. Energy intensive users

- In many cases, aid granted under the EEAG has been crucial for Energy intensive industries to remain competitive, while creating incentives to facilitate projects to promote energy efficiency, emissions reduction and the development of innovative production and process methods. Further, reductions in RES surcharges for energy intensive industries have made possible and encouraged the introduction of more ambitious renewables policies by Member States, while in many cases allowing industries' competitiveness.
- Moreover, we oppose the idea to increase consistency with the new state aid rules for indirect costs compensation of the ETS. The number of proven carbon leakage sectors that are eligible for compensation was recently reduced without any prove of comparable burden in other regions reducing the carbon leakage risk. This makes the methodology unfit to align the state aid rules with the ambition of the green transition without hampering industries competitiveness.