

KURZPOSITION

EEAG – further comment to public consultation

1. In general, the EEAG should be more aware of international competition. A climate ambitious state aid policy and its enforcement should fundamentally consider the impact on the global competitiveness of European industry as a key factor. Global warming is not an EU internal market problem, but an international one. Europe's ambitious climate policies have made it a leader in international climate action, but its efforts will have limited impact unless we see corresponding, reciprocal efforts by other major nations or regions. By acting alone, European industry suffers additional costs compared to its main international competitors. Until this global level playing field is created, the competitiveness of European industry must also be secured through competition policy. In today's carbon-constrained world, globally competing industries, such as non-ferrous metals, are subject to market distortion due to different non-reciprocal climate policies around the world. **Therefore, it is of utmost importance that competition policy and state aid also address growing global competitive imbalances.**
2. **Question 23:** State aid for renewable energies should be more market-oriented. Progress has been made in recent years, but improvements are still needed to make RE support more cost-effective, e.g., introducing a fixed market premium as a next step. Ultimately, RE should be primarily refinanced via the market.
3. **Question 35 on Carbon Contracts for Difference (CCfD):** In principle, the instrument can stimulate climate-friendly investments. However, it is not a carbon leakage protection instrument, as the actual CO₂ costs still apply. CCfD does not solve the problem of electricity costs and thus misses the central problem for the non-ferrous metal industry: We need competitive electricity prices!

A CCfD is definitely not a replacement for the existing regulatory relief system to protect against carbon leakage. In particular, the indirect CO₂ costs that are central to the non-ferrous metals industry are not captured by the CCfD. Due to the high degree of electrification in the non-ferrous metals industry (which other industries have not yet reached), the CCfD could therefore only be an additional building block in the catalog of instruments and measures. Further instruments are needed to counteract rising energy and investment costs.

We see a major threat in the fact that the state has a great incentive to allow the actual CO₂ price to rise quickly. Fiscal reasons to pay a lower differential price first and then possibly generate revenue to finance other projects/measures etc. could override this instruction. This would lead to misuse of the instrument. This threatens further political intervention in the market mechanism of the ETS, which in our view is not sensible and must be prevented.

4. **Question 130:** We expect all these cost positions to increase. The electricity price will rise because of political action in the power sector (e.g. coal phase out in Germany). In Germany, various studies concur that fuel switch due to the nuclear and coal phase outs (by 2022 and 2038 respectively) will have a significant upwards price effect. The highest price increase was estimated by Aurora Energy Research in January 2019 with 4 to 14 EUR/MWh (risk scenario).

For the most electro-intensive industry this could be even 19 €/MWh due to the impact of indirect costs.¹

In addition, the EU's higher ambition on the climate target will increase production costs in the power sector. The power plant that determines the price will be more cost-intensive than before (in Germany, we expect gas-fired power plants instead of coal-fired power plants).

We do not expect the expansion of renewables to compensate accordingly for the increase in electricity prices. Renewables produce electricity with a high degree of uniformity. Likewise, they do not produce electricity with the same degree of uniformity. Therefore, the price will tend either toward zero or toward infinity. The price-determining power plant remains a controllable power plant.

We also expect systemic costs for redispatch, feed-in-management, capacity reserves, etc. to increase as the volatility of energy generation increases further with the expansion of RES capacities. This problem has to be addressed by infrastructure – storage or grid capacities, etc.

The amount of energy taxation is a political decision. So there is no forecast possible. But the political decision about it must consider the situation of energy intensive industries in international competition.

Question 131: For non-ferrous manufacturers, the most important factor is that the electricity prices faced by European manufacturers are globally competitive. It is clear that the regulatory component of electricity prices has the potential to lead to a shift in our industry. If for the most electricity-intensive sectors facing international competition, the burden of the regulatory component of electricity prices is reduced, then of course the risk of relocation for our sector is reduced. It should be noted, however, that this does not completely eliminate the relocation risk. The existing regulation only partially reduces the additional costs. Some of the additional costs remain with the companies. In sum, this continues to pose a risk to the competitiveness of companies vis-à-vis competitors from abroad. Only a complete reduction of costs will keep the relocation risk to a minimum.

Another problem is that the **EEAG do not cover all costs that are associated with the energy transition**. Since 2014 there have been “new” cost components that have increased and thus threatened the current and future competitiveness of non-ferrous-metal industry in Germany. For example the systemic costs for balancing the electricity system have increased significantly (redispatch, feed-in-management, etc.). These costs have the same effect on competitiveness as RE charges; it should therefore be possible to reduce all costs associated with the transformation of the energy system.

Elsewhere, we would like to point out that as a trade association we cannot hedge political and regulatory risks. What we are calling for is a level playing field on climate costs. If non-EU countries have lower electricity prices due to national circumstances, then these are natural born advantages. **However, we ask to limit distortions due to regulatory costs that would lead to relocation for our industry.**

And, in addition, there is the problem of **decreasing investment** and **investment leakage** in energy intensive sectors: Due to unsuitable and unstable framework conditions, gross fixed assets in Germany's energy-intensive industries have fallen by a cumulative 18% since 2000. This means that more is being depreciated than (re)invested. The capital stock of the energy-intensive industry is shrinking.² At the same time, the energy-intensive industries have made

¹ Aurora Energy Research, 2019. Auswirkungen der Schließung von Kohlekraftwerken auf den deutschen Strommarkt. Available [here](#)

² Bardt, Hubertus (2019): „Schrumpfender Kapitalstock energieintensiver Branchen“, [IW-Kurzbericht 13/2019](#).

extensive investments abroad, explicitly justified with lower energy costs. This so-called “investment leakage” is leading to a creeping migration and relocation of energy-intensive industries.³ The economic and industrial location Germany as a business and industrial location is gradually losing parts of its industrial base. Investments in energy-intensive industries are flowing to a considerable extent to locations abroad. This is a problematic and dangerous development that must be stopped. The EU and Germany must become attractive again for investments in energy-intensive industries. The EEAG are crucial for the appropriate framework conditions.

Furthermore, there is permanent uncertainty as to whether the relief system will persist and reduce costs to a sufficient degree so that companies will continue to be competitive in the future.

Therefore, we would rate the displacement risk in question 131 as 5.

5. **Question 132:** We would classify the risk of relocation as very high: If the exemptions for EIUs were removed, certain energy-intensive companies from our industrial sector would immediately be uneconomic and out of business.

It should be noted that the impact of individual regulatory components and the corresponding relief mechanisms varies widely between Member States. In Germany, it would be impossible for an energy-intensive industry to remain globally competitive without these reliefs. Indeed, in a Member States such as Germany, the only mechanisms to achieve the twin objectives of 1) climate protection and the expansion of renewable electricity and 2) maintaining a large industrial base, is to have an industry friendly EEAG that limits the RES surcharge costs. Other comparable cost components of the energy transition must also be addressed in the same way.

But even a supposedly small increase in electricity costs has a devastating impact on the profitability of energy-intensive companies: A good example of how non-ferrous metal producers are affected by increased electricity prices in Germany is a study by the EWI, which concludes that a cost increase of 1 cent per kWh reduces the GVA of an aluminum smelter by 24% or 15 million euros, while abolishing the deductions paid by aluminum smelters on regulatory charges (including RE subsidies) would eat up the entire GVA of these consumers and turn it negative.⁴

This figures show very clearly the effects of price increases.

The current guidelines correctly state that “an own contribution of 15% of the full renewable surcharge might go beyond what undertakings particularly affected by the burden might bear”.⁵ They thus provide Member States the opportunity to further limit the overall amount to be paid to 0.5% of GVA for the most energy-intensives (Those with an energy-intensity greater than 20%). This reduction has played a crucial in ensuring EIUs do not relocate outside of Europe.

6. **Question 142:** Under no circumstances should there be a link between the relief from additional costs necessary for reasons of international competitiveness and investment in energy efficiency. This would be a considerable political interference in the entrepreneurial freedom of energy-intensive companies. The decision on investments must be left to the company. Investment decisions have various reasons (e.g., business, strategic, etc.) and this must be considered. Furthermore, the energy-intensive industry has an intrinsic motivation to be

³ Heymann, Eric (2019): „Deutsche Industrie – Wenige Sektoren tragen Investitionswachstum“, in: Deutschland-Monitor, Deutsche Bank Research. Available [here](#).

⁴ EWI, 2019. Electricity costs in the non-ferrous metal industry - A sensitivity analysis. Available [here](#)

⁵ See section 3.7.2, points 188 and 189 of the Guidelines on State Aid for environment and energy 2014 – 2020.

energy efficient, as this simply reduces production costs. Therefore, an obligation is not necessary.

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