

## **Position Paper: Revision of the Guidelines on State Aid for Environmental protection and Energy (EEAG)**

Wacker Chemie AG, January 2021

### **About Wacker Chemie AG:**

*Wacker Chemie AG (WACKER) is a leading specialty chemical company active in the silicone, polymer, life sciences and hyperpure silicon markets, with a strong manufacturing base in Europe. The hyperpure silicon, for which WACKER remains the only European manufacturer is supplied to the photovoltaics and semiconductor industries. With an energy consumption of 9.3 TWh (thereof 4.8 TWh electricity) in 2019 and about one million tons CO<sub>2</sub> regulated under the EU ETS, WACKER remains reliant on European carbon leakage protection mechanisms to uphold global competitiveness for its energy-intensive divisions.*

### **Objectives: Revision of the EEAGs must consider the global perspective of industrial competitiveness and boost competitiveness of renewable production**

- The role of the EEAG framework has traditionally been to minimize distortion of trade and competition in the Single Market, while making sure Member States have the flexibility to support the EU's environmental policy targets via national financial efforts.
- However, with the adoption of the Green Deal and the objective to reach climate-neutrality by 2050, European policies are not only increasing the ambition for the internal economic transformation. **They are also significantly increasing the ambition gap vis-à-vis third countries, resulting in an equally increased risk of carbon leakage.**
- Especially Europe's energy-intensive sectors, such as the base material industry (e.g. polysilicon), are facing a double challenge in this context. They will need to undergo a defossilization within less than 30 years, while maintaining their competitiveness on global markets. But as long as global markets don't provide competitive economic conditions for renewable in comparison to fossil-based production, investments into green business models will face significant economic resistance in Europe.
- **State aid will therefore be needed to a much larger extent than before, in particular to make renewables cost competitive with fossil-based production in the short-term.** Existing industrial and carbon leakage measures will not be enough to manage the climate-neutral industrial transition.
- The EEAG framework, within which national support mechanisms will be assessed with regards to their compatibility and proportionality, will need to incorporate two aspects:
  - 1) do measures allow for a low-carbon production which is competitive with fossil-based production within the EU Single Market;
  - 2) do measures allow for a low-carbon production which is competitive with global and largely fossil-based production outside the EU Single Market.
- To conclude, if the EEAG framework is to support the industrial decarbonization as part of the climate-neutrality objective in the most effective way, it cannot limit its scope to only ensure a playing level field within the Single Market. It must also take into account the competition distortion vis-à-vis third countries.

### Compatibility criteria and eligibility: Include operational costs into support schemes for industrial decarbonization

- The general scope of the EEAGs should be extended to include the promotion of the green industrial transition and to maintain global competitiveness while effectively controlling distortions of trade and internal competition.
- **Industrial decarbonization needs to be recognized as an eligible area for promoting the EU's common environmental objectives.** For this purpose, Member States should be able to adopt targeted, proportionate and limited support schemes on a national level.
- **Such support schemes promoting industrial decarbonization should be defined in a technology-neutral way, as to stay flexible and not exclude innovations in the future.** However, the primary focus should be on scaling-up the main technological routes, such as direct renewable electrification, renewable hydrogen or carbon capture utilization (CCU).
- **National support schemes for promoting industrial decarbonization should be allowed to cover both CAPEX & OPEX expenses as eligible cost.** This could be done via promising and already established instruments, such as carbon or power **Contracts for Difference** or **Power Purchase Agreements**, where a public authority is involved in the financial set-up (see Figure 1).
- **In general, the choice of instruments and specific type of state aid should be evaluated on a case-by-case.** This will maximize cost-efficiency and proportionality of aid while limiting the cost to the taxpayer, as the promotion of industrial decarbonization will show different support needs depending on sector, cost structures, global competition and technological set-up. However, a pool of EEAG-compatible instruments could be defined in advance, to grant some legal and planning certainty for Member States.

### Energy-intensive users: More support needed to ensure access to low-cost renewable electricity

- The Commission identifies state aid to energy-intensive users as the second sub-objective of the EEAG revision and proposes two options ranging between 1) updating the list of eligible sectors based on the most recent data, and 2) aligning the list of eligible sectors based on the updated sector list for indirect compensation under the EU ETS.
- Both options fall short of the policy response needed. Limiting the sectoral eligibility to today's circumstances would fail to recognize major technological developments ahead (e.g. large-scale renewable electrification) and prevent Member States from adopting long-term support schemes.
- **However, as a minimum, current exemptions from renewable energy surcharges for power-intensive industry as mentioned in points 188 and 189 of the EEAG (Chapter 3.7.2 on Aid in the form of reductions in the funding of support for energy from renewable sources) need to be preserved.** It should be left open to Member States to expand these principles to other costs to be incurred by the decarbonization of the energy sectors in the future (e.g. grid development determined by the integration of renewables).
- Still, current measures do not give enough incentives for direct or indirect electrification, as this technological route still shows much higher operational cost in

comparison to fossil routes. **As a primary focus for the decarbonization of energy-intensive industries, the EEAG guidelines should prioritize a framework that allows national measures to grant access to renewable electricity at globally competitive prices.** This inevitably includes OPEX expenses as eligible cost.

- It is noteworthy to point out that both volume and price of renewable electricity will be instrumental to address under national schemes, in order to adequately support energy-intensive industry: **Access to volume guarantees the technological CO<sub>2</sub>-reduction, while access to low prices guarantees the global competitiveness.**
- A promising measure that should be considered for this purpose is the introduction of **industrial electricity prices (Figure 1)**. This model is based on the energy-intensive user concluding a **Contract for Difference** with a public authority, for which a strike price is agreed with respect to global competition and adjusted within regular intervals (e.g. by using data from virtual coal power plant from relevant region). By adding a **Power Purchase Agreement (PPA)** with a solar utility park or wind park to the model, the physical delivery of the electricity will also be renewable. This will enable energy-intensive users to defossilize production without compromising global competitiveness, while contributing to the market integration of renewables.
- **Support schemes building on a power Contract for Difference and PPAs will be especially important for supporting the timely market scale-up of renewable hydrogen**, which is still facing slow investments due to the uncompetitive operational costs (electricity costs) in comparison to fossil-based hydrogen production.

**Figure 1:** Industrial electricity pricing based on a Contract for Difference and green PPAs. The support scheme would significantly improve the economic feasibility of large-scale renewable electrification by reducing the operational costs, such as for renewable hydrogen or polysilicon.

