Meeting with [redacted] ArcelorMittal
14 July 2020, 17h30-18h00

State aid rules in relation to the green transition of industry

Implementing the European Green Deal will require steering significant amounts of public and private capital towards sustainable investments to help decarbonise the economy and create new jobs to replace those lost in carbon-intensive regions. The public sector alone cannot cover all the investments required. State aid rules will enable Member States to contribute to the Green Deal objectives by making the most efficient use of limited public funds and by ensuring a level playing field on the EU single market.

*Work is already ongoing to revise the **Emission Trading System State aid Guidelines**. The **State aid Guidelines for environmental protection and energy** are being evaluated as part of the Fitness Check of the 2014 State aid modernisation package and their revision should also be launched soon.*

*The current Emission Trading System **(ETS) State aid Guidelines** expire on 31 December 2020. They allow Member States to compensate some energy-intensive users for part of the higher electricity costs resulting from the EU Emissions Trading System (EU ETS) in the period 2013-2020 and expected to be passed on to them by electricity companies ("indirect emission costs"). The **steel sector is currently eligible for compensation under the existing ETS Guidelines** and is also included in the list of eligible sectors in the **draft Guidelines for the period 2021-2030** which were published for stakeholder feedback earlier this year. The revised ETS Guidelines for the period 2021-2030 are planned for adoption by the end of 2020.*

Main messages

- As stated in the Green Deal, energy-intensive industries, such as steel, are indispensable to Europe's economy, as they supply several key value chains. The Commission will **support clean steel breakthrough technologies leading to a zero-carbon steel making process by 2030.**
- In the context of the Green Deal, **competition policy and State aid rules in particular, have an important role to play** in supporting deep decarbonisation in the industry. The objective of State aid control is to maximise environmental, social and economic benefits from limited public funds by i) minimising decarbonisation costs for the State, industry and consumers, ii) ensuring public money does not crowd out private spending, and iii) contributing to a level playing field in the Single Market.
- The Commission agrees that **addressing the risk of carbon leakage is essential** to complement the Green Deal policies. However, aid for indirect emission costs may have a negative impact on the efficiency of the EU Emission Trading System. If poorly targeted, the aid would relieve the beneficiaries of the cost of their indirect emissions, thereby limiting incentives to reduce emissions and innovation in the sector. Furthermore, **such State aid may result in significant distortions of competition** in the internal market, in particular when undertakings in the same sector are treated differently across the Member States because of the different budgetary constraints.

  As laid out in the Green Deal Communication, the relevant State aid rules (**Emission Trading System state aid guidelines** and the **Energy and Environmental aid Guidelines**) will be revised in order to support a cost-effective and socially-inclusive transition to climate neutrality by 2050.

  We will revise the rules to provide, on one hand, a clear, fully updated and fit-for-purpose enabling **framework for public authorities to support deep decarbonisation** in the industry in the context of the Green Deal.

On the other hand, the revision of the rules will also aim to **limit the distortions of competition on the internal market** and to ensure a level playing field across the Member States.

While preparing for the new rules, the Commission acknowledges the renewed ambitions of Member States to achieve their 2030 targets and the further decarbonisation of the electricity sector and the economy by 2050. The **current Guidelines** for environmental protection and energy **already allow support for decarbonisation investments, including investments for carbon capture and storage.**

Defensives

Will the Commission allow State aid to adjust the price of green electricity and hydrogen to an internationally competitive level? This would provide a reliable and viable cost basis for investment decisions in CO2-lean steel plants [based on EUROFER's "Green Deal on Steel" document]

- The current Guidelines for environmental protection and energy contain rules applying to environmental measures going beyond Union standards. These rules can already be used for aid to transform to climate neutral production processes. As regards possible **adjustments of the prices of green electricity and hydrogen**, or other new proposals, the **Commission will analyse them in the upcoming review of State aid rules**, or as part of a potential State aid notification, if notified by a Member State.

In the context of the ongoing COVID 19 crisis, the Commission should take into account the difficulties that energy-intensive industries are and will be facing.

- The Commission has taken important steps to ensure that the EU has the adequate tools to address this major challenge. From the State aid point of view, the necessary measures have been put in place to ensure that Member States could help those most affected by the COVID-19 (i.e. the adoption of the **Temporary Framework for State aid** measures to support the economy).
- However, there are different reasons why a significantly more generous regime of **indirect cost compensation for energy-intensive users** does not appear to be the most effective crisis response:
  - The Emission Trading System State aid Guidelines have a different objective than the measures put in place in the context of the COVID-19 crisis, i.e. support companies that are **at significant risk of carbon leakage** due to their Emission Trading System indirect costs.
  - The system of indirect cost compensation only concerns a **relatively small part of the overall economy.** Whilst the undertakings concerned are hit by the fall-out of COVID-19, they are typically not the sectors suffering the greatest impact justifying a policy response directed exclusively at them
  - As the COVID-19 crisis is of global scale, it does not significantly alter the dynamics in terms of carbon leakage between Europe and **other parts of the world.**

Background

In the contributions to the revision of the **Emission Trading System State aid Guidelines**, the Steel sector highlighted that the following elements should be particularly taken into consideration in the revision process of the ETS guidelines:

- eligibility of other sectors in the steel value chain that are not eligible under the Commission proposal for draft guidelines (e.g. consumption of industrial gas, mining of iron ores, and seamless pipes);
- an aid intensity of 100% (compared to 75% in the draft guidelines);

- similar CO2 factors regions as in the current guidelines (in particular the Central West Europe and Nordic);
- a mid-term review of the efficiency benchmarks; and deleting the conditionality requirements to the compensation.

The results of the evaluation of the **Guidelines on State aid for environmental protection and energy (EEAG)** undertaken in the context of the Fitness Check will inform any potential revision of the Guidelines to accompany the new Green Deal. It will take into account recent and new regulatory developments (i.e. the Clean Energy Package, Clean Mobility Package and Circular Economy Package), technological progress and opportunities (e.g. storage, hydrogen) as well as market evolutions in the energy sector (e.g. higher market penetration of renewables, infrastructures) and in other areas (e.g. low emission mobility, electrification of the industry).

What the existing rules already allow: already under the current framework, Member States can continue to use to a maximum extent all the possibilities provided under the Environmental and Energy State Aid Guidelines (EEAG) to achieve their 2030 targets and the further decarbonisation of the electricity sector and the economy by 2050. These existing rules already facilitate many green initiatives, including support for renewable energy or schemes promoting circular economy Similarly, Member States can continue to rely on existing State aid rules to **alleviate the social and regional consequences** of decarbonisation measures. For example, they can choose to support workers affected by the closure of uncompetitive coal mines, invest in SMEs and start-ups, or in the up- and reskilling of workers.

Environmental aid to transform to climate neutral production processes (also sometimes referred to as aid for decarbonisation or aid for energy efficiency) can be granted under the Environmental and Energy State Aid Guidelines (EEAG) provided that economic incentives do not already warrant the investment concerned and the companies reduce their impact on the environment **beyond Union standards or ETS benchmarks**. In addition, aid should remain limited to what is necessary to achieve the additional environmental benefit.

Practical application of the current Environmental and Energy State Aid Guidelines. In addition, pending the revision of the State aid Guidelines for environmental protection and energy, the Communication on the Green Deal Investment Plan explains for a number of areas how the Commission intends to apply the current rules in order to support decarbonisation, including aid to transform to climate neutral production processes**.**

For key **enabling technologies and breakthrough innovation** necessary for Green Deal objectives, Member States can pool their funds to unlock significant private investments to make **important projects of common European interest (IPCEIs)** a reality – including in the regions most affected by the green transition. In addition, Member States can also grant support for research development and innovation.

State aid rules are applicable to the future Just Transition Fund ("the Fund"): The Fund aims to offer tailored support to the people and regions most affected by the transformation required to achieve carbon neutrality by 2050. It is planned to be implemented as part of cohesion policy. As clarified in the current proposed Regulation, the **Fund interventions will be subject to State aid rules**.

Contacts –[redacted]