



## BRIEFING FOR COMMISSIONER KADRI SIMSON

### MEETING WITH THE EUROPEAN CHEMICAL INDUSTRY

15 February 2021 - video call, 15:00-15:45

#### SCENE SETTER

You are meeting with The Europe Chemical Industry Council (CEFIC), which is the European representation for the sector. The European chemical industry provide 1.2 million jobs and account for about 17% of world chemicals production.

The chemical industry is also **the largest industrial energy consumer in Europe**, accounting for 20% of energy demand. Electricity accounts for 30% of the demand, whilst the rest of energy demand (mostly heat) is supplied by fossil fuels. Furthermore, 20% of the imported oil is used as a feedstock for the chemical industry to produce plastics, paints, and fertilisers.

The chemical industry is the **single largest consumer of hydrogen**, primarily used in refineries (45%), the production of ammonia (34%), and methanol production (12%).

The visit will be led by [REDACTED], the [REDACTED] [REDACTED] was elected [REDACTED]. He will be accompanied by 11 representatives from ExxonMobil, Nouryon, DuPont, Shell, LyondellBasel, Covestro, Celanese, SABIC and the association.

The participants would like to discuss the following topics:

- Reiterate their support for EU's objective for climate neutrality by 2050;
- Need to scale up renewable power production to decarbonise the chemical sector;
- Reforms to taxation and electricity costs to make renewable electricity costs more competitive with fossil fuels;
- Lenient environmental state aid guidelines to support investments in transforming the chemical industry;

- Standardisation and certification of hydrogen;
- Revision of the EU ETS and carbon border adjustment mechanism;
- The upcoming chemicals strategy for sustainability;
- Ecodesign proposals for digital displays and kettles, with implications for the use of chemicals.

*If applicable:*

### **Tour of the event / choreography**

Following a short introduction of the participants by [REDACTED] supporting the climate objective and BASF commitments to fully decarbonise its manufacturing plants, you will be asked for some introductory words.

Following your introductory words, the participants will bring forward several discussion points.

## LINES TO TAKE

- Thanks for the timely meeting. In 2020, the Commission has set out its vision for the energy sector with the publication of several strategies (energy system integration, hydrogen, offshore renewable energy, and the renovation wave) and with the Climate Target Plan.
- We have now entered the phase where these strategies are turned into policy proposals. Several public consultations have just finished, and we are very pleased with the responses that we have received. The public consultation on the Renewable Energy Directive has received close to 30.000 comments.
- Our Climate Target Plan proposed to reduce EU greenhouse gas emissions by at least 55% by 2030, compared to 1990. The endorsement by the European Council in December 2020 of this “at least 55%” target will have major implications for our energy system.
- The chemical industry is a critical partner in achieving our climate objectives. As the largest industrial energy consumer, your activities will have important implications for our future energy mix. At the same time, your products and materials are crucial to help develop the clean energy technologies, including batteries and electrolysers, needed to manage our future energy systems.
- To reflect the increased ambition there is an urgent need to significantly step up energy efficiency efforts by 2030. It is

estimated – in the Impact Assessment of the Climate Target Plan – that the energy efficiency ambition needs to be increased from 32.5% to 36-37% for final and 39-41% for primary energy consumption.

- For renewables, our analysis suggest that the share will have to increase from 32% to 38-40% by 2030. This would constitute a rapid increase of the share of renewable power in our electricity mix, from around 35% today to 60% by 2030.
- To support these ambitious targets, we have also put forward our proposal for the revision of the Trans-European Networks for Energy (TEN-E). Of interest to this audience are our proposals to create new infrastructure categories for cross-border hydrogen networks for long-distance transport, cross-border CO<sub>2</sub> pipelines for the purpose of permanent storage of CO<sub>2</sub>, and a new focus on offshore electricity grids.
- We are currently working on our policy proposals to increase energy efficiency as well as the production of and demand for renewable energy.
- As discussed in our energy system integration strategy and our hydrogen strategy, we are also exploring options to increase the production of and demand for renewable and low-carbon fuels, including hydrogen. As such, we are considering dedicated policies to support the use of renewable energy in the industrial sector.
- To support the scale-up of renewables, we are also using the Recovery and Resilience Facility that has been approved by the co-

legislators, and for which 37% will need to be used to support the green transition.

- As part of the Facility, we have prepared a dedicated flagship called 'Power Up' to help guide Member States in their preparation of their plans to support more renewables and renewable hydrogen production.
- These plans are due in the next couple of months, and your assistance in identifying investment programmes and relaying these to your governments would be highly appreciated.
- I am also very pleased with the active role that CEFIC is playing in the European Hydrogen Alliance, and your chairmanship of the roundtable on industrial applications of hydrogen.
- We also stand ready to help the industry through the IPCEI framework, where both 'low CO2 emission industry' and 'hydrogen technologies and systems' have been identified as strategic value chains for Europe.
- Following this short introduction, I would like to pass on the floor to [REDACTED] to help guide the discussion.

## DEFENSIVE POINTS

***We need more renewable electricity and associated infrastructure to decarbonise the chemical sector?***

Our energy system integration strategy recognises the need to scale up the production of renewables. Electrification of the end-use sectors, as well as the production of renewable and low-carbon fuels are two of the pillars of our strategy.

The purpose of our offshore renewable energy strategy is to scale up the production of large volumes of affordable and reliable renewable power generation. Our proposals for the revision of the TEN-E are supporting the development of infrastructure to evacuate this renewable power to the end-consumers, like the chemical industry. Besides direct support for the production of renewables, we are also working on policy proposals to support infrastructure, the creation of liquid markets, including new taxation rules, to get the renewables to the end-consumers, and new forms of digitalisation to help a smooth operation of the energy system.

### ***How can we make electricity more affordable?***

We are working on a new energy taxation proposal, in which we are addressing the relatively higher level of taxes and levies applied to the electricity, and the lower levels of taxation for fossil fuels (oil, gas and coal) used in the heating sector.

Taxation issues requires unanimity, so we rely on your help to ensure that Member States also see the benefits of more coherent and Europeanised approach to setting taxation rates that are compatible with our climate objectives.

### ***Why do state aid guidelines not support operational aid programmes, which are needed to bring solutions like renewable hydrogen to the market?***

The current state aid guidelines allow for the support of operational aid for renewable sources. A revision of the state aid guidelines has started, with the first public consultation closing on the 20<sup>th</sup> December 2020.

One of the elements that will be considered is whether to allow a reduction of energy charges for Energy Intensive Users, because the

effectiveness of this policy highly depends on the proportion of the RES charge over the electricity bill for Energy Intensive Users in the various Member States.

We understand that the revision of the EEG in Germany has addressed some aspects of the renewable surcharges, but that more legislative changes to facilitate repowering of existing wind farm sites and better framework conditions for power purchase agreements (PPA) between renewable operators and private consumers are still under consideration.

The Commission adopted revised EU Emission Trading System (ETS) State aid Guidelines in the context of the system for greenhouse gas emission allowance trading post-2021, which will enter into force from 1 January 2021. This Guidelines maintains compensation for companies at-risk to exposure to higher electricity prices resulting from the carbon price signals created by the EU ETS. Additional conditions have been introduced to ensure decarbonisation efforts by companies.

***When will you introduce certification of renewable and low-carbon hydrogen ?***



The energy system integration strategy and the hydrogen strategy recognise the importance of introduction certification of all renewable and low-carbon fuels, including for renewable and low-carbon hydrogen.

The revision of the renewable energy is exploring the option to introduce such a certification scheme, which will consider the full life cycle greenhouse gas emissions associated with the production of the renewable and low-carbon fuels.

At the same time, the renewable energy directive has already introduced 'guarantees of origin' for renewable electricity, renewable gases, and renewable heat. These guarantees of origin can already be used today to help inform consumers about where and when the renewable hydrogen is being produced.

***How will the revision of the EU ETS impact the decarbonisation of the European chemical industry?***

The revision of the EU ETS, the introduction of a possible carbon border adjustment mechanism, and the revisions of the renewable energy and energy efficiency directive are all part of the "Fit for 55" package.

The Impact Assessments for these legislative proposals are coordinated, which means that we are assessing the aggregated impacts of these revisions.

## ***How is the consistency between the energy policies and the chemical strategy for sustainability ensured?***

The Commission recognises that chemicals are also the building blocks of low-carbon, zero pollution and energy- and resource-efficient technologies, materials and products.

With the increasing need for clean energy technologies, the Commission also recognises that the demand for raw materials and critical raw materials will be increasing. This is why the renewables sector has been included as part of updated list on critical resource materials.

Within the chemical strategy for sustainability, we are proposing a number of actions to support the chemical industry from an energy perspective, including:

- Support for the development and deployment of infrastructure allowing to switch to the use, transport and storage of electricity from renewable / carbon-neutral energy sources for the production of chemicals;
- Funding for research and development in advanced materials for applications in the energy and electronics sectors to deliver the green transition;
- Funding for research, development and deployment of low-carbon and low environmental impact chemical and material production processes;
- Funding for research and development of innovative business models such as performance-based business model to ensure a

more efficient use of chemicals and other resources, including measures to recycle and re-use critical raw materials.

***Why are chemical product policies pursued through the eco-design proposals, and not through the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH)?***

The rationale for including chemical materials in the Ecodesign measures is to ensure that materials used in products can be recycled.

The current framework of REACH primarily focuses on “hazardousness” of materials, and not on the recycling yields of materials. One possibility is of course to revisit the REACH legislation to also cover “circular economy” aspects (i.e. recycling yields of plastics with these additives).

Since the case on Displays is put forward to the European Court of Justice (Case T-113/20, submitted Feb. 2020), I am in a difficult position to respond in detail.