



Director General

To:
 DGCMP Cecilio Madero Villarejo
 DGCLIMA Mauro Pettricone
 DGGROW Timo Pesonen
 DGENER Ditte Juul-Morgensen
 DGENV Daniele Caleja Crespo

2 December 2019

Re: Interservice Indirect compensation – State Aid Guidelines EU ETS

Dear Madam/Dear Sir,

I am writing to draw your urgent attention to a potential problem that, if not swiftly resolved, could act as a major obstacle to industry's ability to make the deep emission reductions needed in accordance with the objectives of the new Green Deal.

We have been informed that interservice consultation has taken place on the "*Guidelines on certain State aid measures in the context of the greenhouse gas emission allowance trading scheme post 2021*" – Indirect cost compensation for EU ETS. It has come to our attention, via concerned Member States, that the new list of eligible sectors does not yet include NACE 20.14 (former 24.14) *Manufacture of other organic basic chemicals* and NACE 20.11 (former 24.11) *Manufacture of industrial gases*.

These sectors are currently eligible for compensation and have been selected by key member states in Europe for compensation accordingly. They were added to the current list based on a thorough qualitative analysis by the Commission, and parameters which have only become more important. Compared to the current list, trade intensity, exposure to indirect costs and global competition have increased.

Removing them from the list is exactly the signal the industry does not need, especially as Electrification and Hydrogen production are two key instruments for the chemical industry to reduce emissions. As we move towards electrification of processes for base chemicals there will be a shift of the cost burden of direct to indirect CO₂ cost. Removing these two sectors from the list raises another barrier to decarbonise.

Increasing the costs of electrification also directly contradicts the conclusions of the Industrial transformation masterplan¹ published just last week by the European Commission – which shows that industry will require access to a large amount of climate-neutral electricity and hydrogen to significantly reduce their emissions.

¹ "Masterplan for a Competitive Transformation of EU Energy-intensive Industries Enabling a Climate-neutral, Circular Economy by 2050" Report by the High-Level Group on Energy-intensive Industries.



It is our understanding that the proposal has not yet been fully completed, therefore we urgently request that the qualitative assessment be refined for these sectors, taking into account price correlation, interdependence between production activities and power and fuels and increased investments outside of the EU, already apparent in the USA, Middle East and India.

A sophisticated qualitative assessment is necessary and justified today as much as it was ten years ago. A purely quantitative assessment based on the chosen NACE code methodology is prone to certain artefacts because, e.g., reliable GVA data are not available at the chosen NACE 4 level.

As the data and methodology have not been shared, we cannot comment on the content yet. However, it is crucial for our role in the Green Deal that a sound qualitative assessment for these two sectors can be made, if not they are already added for the abovementioned key policy reasons mentioned.

We stand ready to support and provide input to further substantiate the points raised above.



c.c. DGCOMP Anna Colocci, [redacted]

DGGROW Carlo Pettinelli, [redacted]

DGCLIMA Beatriz Yordi, [redacted]

DGENER [redacted]

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