Briefing for DHoC Linsey McCallum
Meeting with CEMBUREAU, European Cement Industry Association
15 May 2020

SUMMARY

Revision of State Aid rules for industries with high electricity consumption (Energy and Environmental aid Guidelines and ETS Guidelines)

- The conference call [redacted] was requested by CEMBUREAU.
- 15/05/2020, 12h00 – 13h00

[redacted]

[redacted]

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ETS REVISION – AID FOR INDIRECT CO2 EMISSIONS FOR INDUSTRIES WITH HIGH ELECTRICITY CONSUMPTION – HT 582

KEY MESSAGES

- *"Thank you for the information and data submitted in reply to the public consultation. The Commission will take into account your submission in the finalisation of the Impact Assessment, with the aim of adopting the revised Guidelines in the autumn"*.
- 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 ETS. If poorly targeted, the aid would relieve the beneficiaries of the cost of their indirect emissions, thereby limiting incentives for emission reductions and innovation in the sector. As a result, the costs of reducing emissions would have to be borne mainly by other sectors of the economy. Furthermore, such State aid may result in significant distortions of competition in the internal market, in particular whenever undertakings in the same sector are treated differently in different Member States due to different budgetary constraints.

NECESSARY FACTS AND FIGURES

On the ETS State aid Guidelines

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) on the period 2013-2020 and expected to be passed on them by electricity companies ("indirect emission costs").

The revision of the ETS Guidelines will need to balance several key objectives: (i) to mitigate the risk of carbon leakage; (ii) to preserve the price signal created by the EU ETS to promote a cost-effective decarbonisation of the economy; and (iii) to minimise competition distortions in the internal market by avoiding subsidy races within the Union.

The table below summarises the main changes in the draft Guidelines published for consultation between 14 January and 10 March 2020 [redacted]

	Draft Guidelines for consultation	[redacted]
Eligibility	**8 eligible sectors** based on quantitative criteria: • *Manufacture of leather clothes;* • *Aluminium production;* • *Manufacture of other inorganic basic chemicals;* • *Lead, zinc and tin production;* • *Manufacture of pulp;* • *Manufacture of paper and paperboard;*	[redacted]

	• *Manufacture of basic iron and steel and ferro-alloys;* • *Manufacture of refined petroleum products.* The Commission announced that it may decide to include additional sectors, in light of the feedback and evidence received in the public consultation, based on qualitative considerations provided: (i) the sectors concerned have at least an indirect carbon leakage indicator of 0.2 and (ii) their carbon leakage risk as evaluated by the consultant in the study is at least medium: • *Casting of iron;* • *Copper production;* • *Manufacture of plastics in primary form;* • *Other non-ferrous metal production*).	[redacted]
Aid intensity	75%. This value is in line with the aid intensity applied at the end of the third ETS trading period under the existing Guidelines. In addition, it was proposed to introduce the possibility for Member States to further limit the exposure of beneficiaries to indirect ETS cost as a function of their gross value added ("GVA"). This new possibility is aimed at limiting the exposure to indirect ETS cost of certain sectors for whom these costs, even after applying the 75% compensation, can make up a disproportionate amount of their GVA.	[redacted]
Degressivity	Contrarily to what it provided for under the 2012 ETS Guidelines, the aid intensity would not be degressive but stable throughout the entire ETS trading period. Instead the Commission will conduct a mid-term update of the electricity consumption efficiency benchmarks, based on the most electricity efficient methods of production for the product considered, to take into account most recent data and production processes. However, the Commission is considering an annual reduction rate for such benchmarks.	[redacted]
Conditionality	Compensation will be conditional to decarbonisation efforts by companies, such as conducting energy audits and implementing the relevant recommendations	[redacted]

On the cement sector

CEMBUREAU is the representative organisation of the cement industry in Europe. [redacted]

The sector "Manufacture of cement" (NACE code 23.51) was not on the list of eligible sector under the 2012 Guidelines. [redacted] The main points raised by CEMBUREAU [redacted] in their contribution to the public consultation are:

- On trade intensity and on pass through costs: [redacted]
- On electrification: The sector claims that it cannot electrify the furnace activity (it will remain fuel-based), but that it is considering investing in Carbon Capture and Storage projects, which will require significant electricity, but these investments rely on compensation in order to ensure a sufficient return on investment. [redacted]

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EEAG REVISION – AID FOR INDUSTRIAL DECARBONISATION AND REDUCTIONS TO ENERGY INTENSIVE USERS – HT 5371

- As declared in both the Green Deal and the Industrial Strategy Commission Communications, energy-intensive industries are indispensable to Europe's economy and growth, as they supply several key value chains. The Commission is open to supporting the decarbonisation of industrial processes that have the potential to cost effectively support the green transition.

- As laid out in the Green Deal Communication, the Commission will evaluate and revise the relevant State aid rules and support a cost-effective and socially-inclusive transition to climate neutrality by 2050. The revision will aim to provide a clear, fully updated and fit-for-purpose enabling framework for public authorities to support the effective decarbonisation of industry in the context of the Green Deal and the New Industrial Strategy.

- Changes in the rules will respect the important principles of State aid such as, proportionality and necessity of aid; cohesion objectives; avoid undue distortions of competition and ensure a level playing field in the EU Single Market.

NECESSARY FACTS AND FIGURES

The Energy and Environmental Aid Guidelines (EEAG) expire at the end 2020. In 2019, the Commission launched the process to prolong the validity of those State aid rules. A decision for potentially one year prolongation is expected to be taken in the first semester of 2020.

The Commission is currently evaluating the EEAG as part of the Fitness Check of the State aid modernisation package. We expect to finalise the Fitness Check in Q3 2020.

In the context of the Green Deal, competition policy, and State aid rules in particular, have an important role to play in supporting the deep decarbonisation of industry. The objective of State aid control is to maximise environmental, social and economic benefits from limited public funds by i) minimising 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 EEAG allow support for a series of transformative investments that the cement industry has identified as ways to continue reducing the CO2 emissions caused by the sector. In particular, the EEAG allow support for carbon capture and storage, energy efficiency and other decarbonisation investments. They also allow support for the recycling of waste (this could potentially also include the recycling of construction waste).

The current EEAG allow support to Energy-Intensive Users (EIUs) in the form of reductions of renewables surcharges. The cement sector is one of the sectors eligible for this type of support.

<u>As carbon capture and storage projects (CCS), aid </u>can be granted aid under the EEAG also for a CCS project linked to an industrial plant. Eligible costs are defined as the funding gap and all cost savings from the reduced need for ETS allowances have to be deducted from the aid. So far, no Member State has notified schemes to support carbon capture and storage projects under the 2014 EEAG. However, some carbon capture and use schemes have been examined and approved by the Commission in recent years.

As regards aid for investment improving energy-efficiency, for increased circularity and for decarbonisation, the EEAG allows in general for aid for investments improving environmental protection beyond applicable standards. Eligible costs correspond to the difference between investment costs for conventional production (i.e. carbon intensive production, more energy intensive or consuming more primary raw materials) and investment costs for the more environmental friendly production. Aid intensities range between 30% (for large undertakings in non-assisted areas) and 100% (if aid granted on the basis of a competitive bidding process). Bonuses are possible for SMEs and eco-innovations. The Commission indicated in the SEIP Communication that it would also examine the possibility of calculating the aid based on a funding gap approach. So far, the Commission has not yet approved aid for the decarbonisation of the industry as no such schemes have been notified yet. Aid for energy-efficiency and waste recycling are to a large extent covered by the General Block Exemption Regulation.

As regards reductions for EIUs, Section 3.7.2 of the EEAG allows for reductions from charges to finance renewables policies. In 2017, the rules were extended by analogy to certain other financing levies (e.g. CHP charges, nuclear levy in Slovakia). [redacted] As regards eligibility, the aid is limited to certain electro-intensive sectors exposed to international trade. These sectors are listed in Annexes 3 (around 60 sectors) and 5 (around 150 sectors) of the EEAG. The aid is considered proportionate if the beneficiaries pay at least 15% of the surcharge. If need be, the Member State can decide to further reduce this contribution of the beneficiary by limiting it to an amount equivalent to 4% of the Gross Value Added (GVA) of the undertaking concerned, or even 0.5% of the GVA for undertakings having an electro-intensity of at least 20%. [redacted]

[redacted]

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