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Briefing for Ms McCALLUM and Ms GROENFELDT
Meeting with Eurofer
05/05/2020

SUMMARY

[redacted]

- Meeting on 05/05/2020 at 15h.
- Purpose of the meeting: to discuss ETS Guidelines and EEAG.

ETS GUIDELINES REVISION

[redacted]

Contents

ETS GUIDELINES 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 takes into account your submission in the finalisation of the Impact Assessment, with the aim of adopting the revised Guidelines before the end of the year.
- 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. 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 main changes in the draft Guidelines published for consultation on 14 January 2020 are the following:

- The proposed list of **8 eligible sectors** is 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; Manufacture of basic iron and steel and ferro-alloys; Manufacture of refined petroleum products*).

- The **aid intensity** is maintained at 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 is 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.

- On **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.

- Finally, the compensation will be **conditional** to decarbonisation efforts by companies, such as conducting energy audits and implementing the relevant recommendations.

NECESSARY FACTS AND FIGURES ON THE STEEL SECTOR

The steel sector (NACE 24.10) is currently eligible for compensation under the existing ETS State aid Guidelines and is also included in the list of eligible sectors in the draft Guidelines. [redacted]

In the process of the revision of the ETS State aid guidelines, Eurofer, representing the European Steel Industry, shared their views on different occasions with the Commission, through a contribution to the targeted consultation (Spring 2019) and the public consultation (March 2020). [redacted] It was explained that all provisions of the Guidelines would therefore apply in the same way to all eligible sectors, irrespective of their ranking as medium or medium-high.

On 14 April 2020, Eurofer has requested a meeting at Cabinet level to discuss their position on sector eligibility, aid intensity and GVA cap, CO2 factors, benchmarks, and conditionality. [redacted]

- On <u>sector eligibility</u>:
    - the consumption of industrial gases (e.g. oxygen, hydrogen, etc.) should also be considered as eligible for financial compensation when it occurs in a sector that is

exposed to indirect carbon leakage such as steel. [redacted]

- Sectors belonging to the steel value chain (mining of iron ores and seamless pipes) need to remain eligible for compensation [redacted]
- The use of GVA in the assessment of the indirect carbon leakage indicator is distortive, as GVA is significantly affected by labour costs in the steel sector. Eurofer asks to exclude labour costs from the calculation, which would lead to a higher indirect carbon leakage indicator for the steel sector [redacted]

- On aid intensity and GVA cap:
  - The aid intensity should be set at 100%, or additional compensation beyond 75% should be capped at 0.5% of the GVA and should be open to all eligible sectors and not restricted only to some of them. [redacted]

- On the CO2 factors:
  - The existing regional areas (in particular the Central West Europe and Nordic regions) should be maintained. [redacted]

- On the benchmarks:
  - [redacted]

- On the conditionality:
  - Compensation should not be made conditional because it does not distort incentives for energy efficiency investments, since it is based already on very strict benchmarks. Moreover, the conditionality requirements would overlap and possibly be in conflit with different national measures. [redacted]

P [redacted]

STATE AID AND THE GREEN TRANSITION OF INDUSTRY

KEY MESSAGES

- As declared 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 is open to supporting clean steel and the decarbonisation of other processes that have the potential to cost effectively support the green transition, including 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 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.
- As laid out in the Green Deal Communication, the Commission will revise relevant State aid rules and support a cost-effective and socially-inclusive transition to climate neutrality by 2050. The rules will be revised to provide 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.
- Any changes in the rules will respect the important role of State aid control for cohesion objectives, to avoid undue distortions of competition and to protect the level playing field in the EU Single Market.
- [redacted]

NECESSARY FACTS AND FIGURES

The Green Deal and the revision of the State aid Guidelines. 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 stem the investments required. State aid rules will enable Europe to fulfil its Green Deal objectives by making the most efficient use of limited public funds.

The Commission is currently evaluating the State aid Guidelines for environmental protection and energy as part of the Fitness Check of the 2014 State aid modernisation package.

The results of the Fitness Check will inform any potential revision of the Guidelines to accompany the new Green Deal in all its facets and its ambitious new emissions targets, taking into account recent and new regulatory developments (i.e. the Clean Energy Package, Clean Mobility Package, 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: Pending the revision of the State aid Guidelines for environmental protection and energy, Member States can continue to use to a maximum extent all the possibilities provided under the 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.

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 (JTF): The JTF 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 JTF interventions will be subject to State aid rules.

Practical application of the current Environmental and Energy State Aid Guidelines. 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.

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 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.

[redacted]

[redacted]

[redacted] [redacted]

[redacted]

[redacted]

P [redacted], [redacted]