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Europe should support, not hamper EU industrial competitiveness

CEPI comments on the draft EU guidelines on environment and energy aid

Summary

It is unwise to raise costs for the industry to promote competition in the internal market, by doing so Europe will lose competitiveness in the global market.

CEPI therefore calls the European Commission to urgently modify the proposed draft guidelines on environment and energy aid for 2014-2020, in order to:

- allow 100% aid intensity for cogeneration;
- do not cap exemption from electricity price increases due to support for renewables;
- do not change definition for energy intensive industry.

The Guidelines on environment and energy aid for 2014-2020 will be an essential tool for reaching the ambitious 2020 energy and climate goals in a cost-effective manner. It is therefore important to promote low-carbon investments while preventing distortion of competition.

The European Commission should scrutinise the impact of proposed measures on the overall EU industrial competitiveness. Preventing intra-EU distortion of competition is important. But in a global competitive market, EU industry is faced with costs unmatched by other economies.

CEPI asks the European Commission to urgently correct three main issues.

First, allow 100% aid intensity for cogeneration.

The European Commission cannot adopt interpretative guidelines derogating from EU law. Art. 15 of the Council Directive 2003/96/EC (the so-called “Energy Taxation Directive”) specifically allows Member States “total or partial exemptions or reductions in the level of taxation” for energy used and electricity produced from combined heat and power generation (so-called “cogeneration” or “CHP”). However, the draft guidelines propose restricting investment and operating aid for cogeneration installations (from para. 17 onwards).

Such a restrictive interpretation is not only contrary to EU law, but also to the overarching 2020 energy-climate policies, where promotion of cogeneration is a key element of energy efficiency policies. It is arbitrary, inappropriate and acts as a disincentive for cogeneration, and the promotion of energy efficiency.
Second, do not cap exemption from electricity price increases due to support for renewables.

The draft state aid guidelines propose capping aid for industry at 85% for increased costs to support renewable energy sources (RES). This proposal is unacceptable for two main reasons:

1. From an environmental perspective, there is no link between the additional cost associated to RES promotion and the behavioural change expected by the beneficiary (industry) to achieve this environmental objective. Although RES contribute also – but not exclusively – to the environmental objective, the redistribution of costs within society is a social policy, where competency lies with the Member States;

2. The cost of promoting RES varies across Member States, even for the same technology. The cost depends on geographical conditions and on the way it fits into other cost components in the electricity bill, such as: national energy mix, network charges, other taxes and levies. Tackling just one component of the overall electricity price will not address intra-EU competition. On the contrary, an additional cost promoting RES set at EU level has the potential of further increasing market distortion.

Third, do not change definition for energy intensive industry.

The Energy Taxation Directive clearly defines "energy-intensive business" a business entity "where either the purchases of energy products and electricity amount to at least 3.0 % of the production value or the national energy tax payable amounts to at least 0.5 % of the added value" (Art. 17).

However, the draft state aid guidelines introduce a different definition of energy intensive industry, setting higher thresholds (10% trade intensity and 5% tax costs/gross value added). The new thresholds are based on carbon leakage criteria set in the EU Emission Trading System (ETS).

Such an interpretation is arbitrary and conceptually not correct. The carbon leakage criteria are meant to protect EU industry from unmatched costs from third countries. It looks at global competition. The state aid guidelines look at intra-EU competition. The basis for assessing distortion of competition cannot be the same.

The definition of energy intensive industry in the state aid guidelines needs to match the definition in the Energy Taxation Directive to avoid legal uncertainties distorting the internal market.

For more information, please contact Nicola Rega at (n.rega@cepi.org)