



## **Background to Greens/EFA group press release on state aid guidelines for the environment and energy 2014-2020**

### **1) Industry exemptions: free ride instead of fair ride**

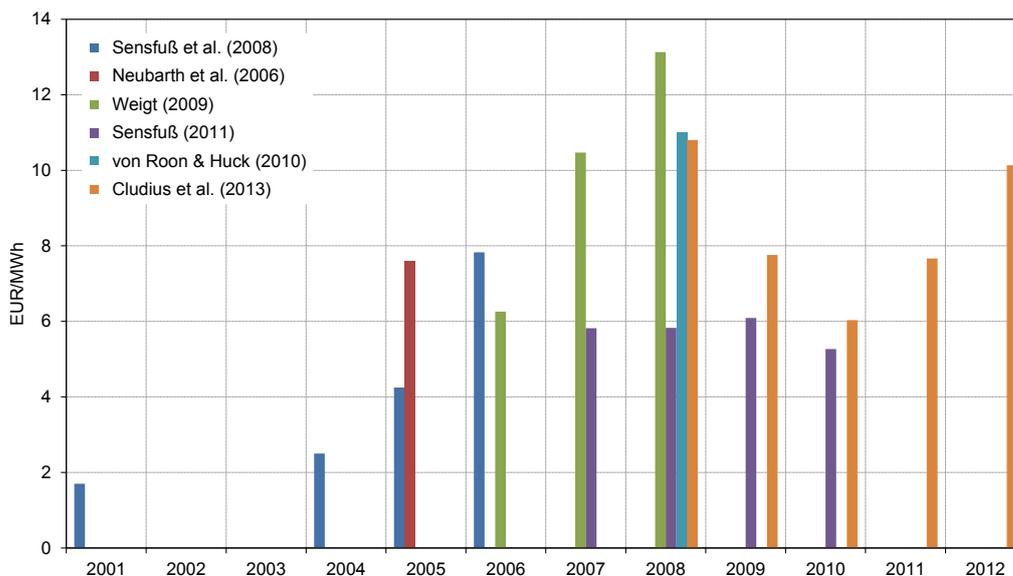
The Commission agreed today on EU guidelines for state aid tailored to the needs of one specific Member State but to be applied to the whole of the EU. This proposal is a gift to industry but unfair to consumers and counterproductive for the environment. For the German industry more specifically this translates into exaggerated exemptions and therefore direct subsidies without any counterpart.

The Greens position is that especially vulnerable companies that are energy and trade intensive can be exempted to a certain degree to compensate for the differences in climate and energy obligations in the different countries. Exemptions however should be fair and based in this context on the following considerations:

- a) No overcompensation for industry: The merit order effect, i.e. to renewable power plants replacing the most expensive fossil power plants, has caused significant drops of electricity wholesale market prices. Energy intensive users have profited largely from this merit order effect. The graph below shows that the merit order pushed down electricity prices between €8-10/MWh since 2009.

### **Graph 1: Impact of Merit Order on German Power Market, comparison of different estimates**

Source: Estimates compiled by Ökoinstitut, January 2014



The advantage due to the merit order effect should at least be compensated by an equivalent contribution from industry to the refinancing of the energy system. In this case it would be appropriate for industry to pay a 20% contribution to the surcharge

limited by a super cap of **3.5% gross added value** (instead of 2.5% as initially suggested and 0.5% as adopted today).

The original supercap of 2.5% already reduces industry's contribution by a third bringing it down to approx. €600 million according to calculations from the German Ökoinstitut (see Annex).

The even further diluted cap of 0,5% is ridiculously low and will allow big energy users such as BASF, Mittal to bring down their contribution to the modernisation of the energy sector to zero. More than two thirds of the existing power plants need to be replaced in the coming years and the burden of these billion high investment costs is left to consumers and SME's.

b) Contribution in return from industry: To compensate for industry's reduced contribution to the financing of renewables schemes, the saved money needs to be invested into energy efficiency and savings measures within the supply chain of the company. This could have been encouraged by rules on state aid for energy efficiency. But industry does not have to give any counterpart; so this is no more than a huge gift to the biggest polluters.

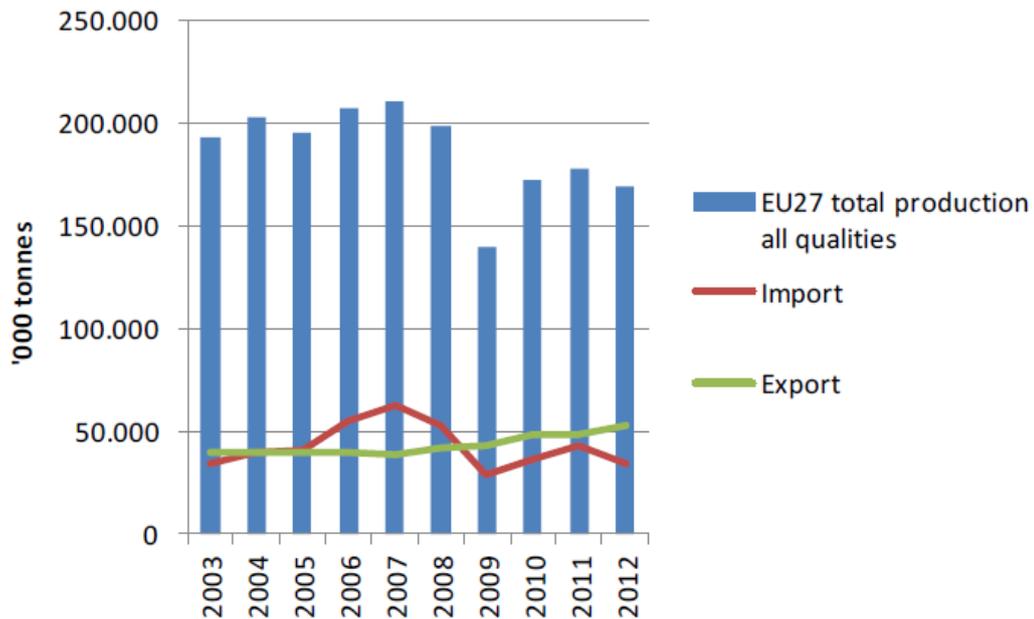
c) Decision not in line with Commission's own legal advice

Commission's own legal services advised in July last year explicitly against the introduction of operating aid in form of exemptions to energy intensive users. Without asking anything in return from beneficiaries this would distort competition and be incompatible with internal market rules as shown by previous court cases at the ECJ. Under the ETS the carbon leakage list does allow for exemption schemes, however only in return of improvements in terms of energy performance through benchmarks etc.

Therefore the adopted text is ignoring the warnings of the legal service and dismantles decades of competition law principles, in view of solving a specific problem of one Member State protecting its energy intensive industries, without any benefit for society.

d) Does European industry actually have a competitive disadvantage?  
Official figures from Eurostat and independent research have shown that this actually is not the case. Exports from the European steel sector have increased since 2008 and imports of steel from Russia, US and Kazakhstan have decreased.

**Graph 2:** Steel production in the EU 27 and foreign trade of iron and steel goods  
Source: Eurostat, foreign trade statistics



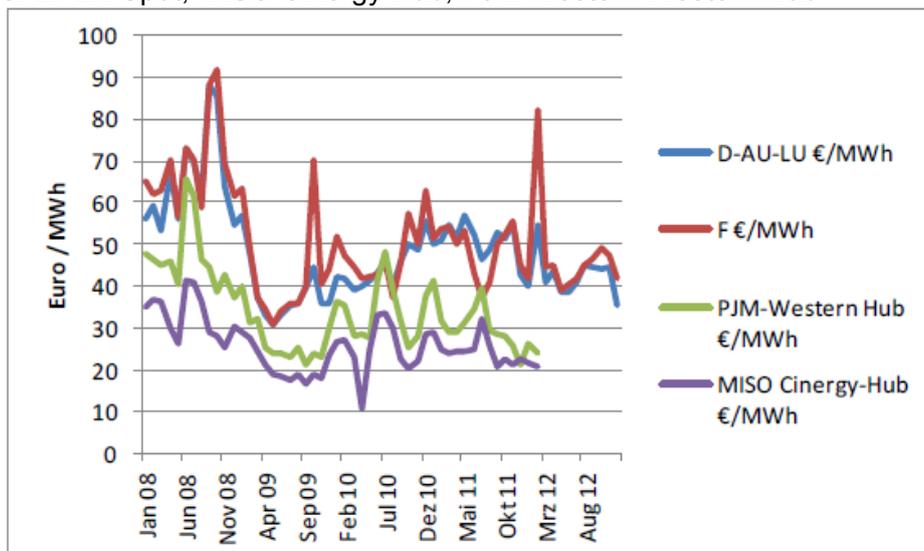
The analysis of import/export statistics shows that the European steel sector does not actually suffer from reduced export capacities but much more from lacking internal demand causing overcapacity. It also shows that global steel markets are very regional markets; therefore exports outside the EU do not play a major role in the trade balance. There is not a competition problem but the sector rather suffers from the economic downturn.

e) Have European electricity prices been rising in the EU?

No, since whole sale prices have been decreasing since 2011. They are higher than in the US but this has been the case since 30 years.

**Graph 3:** Wholesale electricity prices

Source: EPEX Spot, MISO Cinergy Hub, PJM Western Western Hub



This is no news and is not linked to EU environmental and energy policies but rather to different structural market features such as oil price indexation or wholesale market prices.

## 2) Slashed renewables support: bidding as the central system to allocate future support schemes

Long term and stable support schemes such as feed in tariffs which have triggered more than 70% of all EU renewables investments in the electricity sector will, under these new Guidelines, become the exemption rather than the general rule. The Commission proposes to replace them by bidding systems which have only been applied in some EU Member States with mixed results. The Netherlands, one of the only countries having adopted such a scheme, are fail to meet their 2020 renewables target by 10%.

Why should a model, which obviously does not deliver, be put as the central model for future allocation of support schemes in the EU?

Where is the relevant impact assessment comparing advantages and disadvantages of different support schemes?

How is it possible that in tertiary legislation (in which neither governments nor the EP has a say) important aspects of secondary co-decision legislation - the renewables directive (2009/28/EC) - can be substantially altered?

Introducing bidding as an obligation is a purely arbitrary decision which is following intense lobbying by powerful lobby groups such as Eurelectric and the "Magritte" group who have vested interests to slow down renewables development and prevent other actors to compete with them.

Introducing bidding as early as from 2017 as a general rule raises many concerns:

- Cost effectiveness since bidding schemes are very risk intense and therefore have high upfront costs. This will lead to increasing capital costs for renewables because of reduced market certainty and amplified risks for lenders. Those will be transferred to the initial building and capital costs.
- A complex and uncertain bidding system will also jeopardise citizens, cities and cooperatives led projects which are active drivers in a modern decentralised energy system. They are real new market actors and create more competition. Bottom up investments in renewables will be slowed down considerably.

Bidding processes or even a market premium whereby a generator sells electricity on the market are not appropriate for small scale electricity generation. It will negatively impact households and SMEs. The exemption thresholds for the continuation of feed-in tariff should therefore be higher.

How does the new support scheme for electricity from renewables work?

### **As of 2015:**

A market premium (i.e. premium on the top of the market price) will represent the main aid scheme. An opt-out from this new scheme is however foreseen, i.e. ensuring that feed-in tariffs remain possible, for:

PV below 0.5 MW

Wind below 3MW or 3 generation units

### **As of 2017:**

Aid will mainly be granted in a competitive bidding process. Opt-outs from this bidding process are however foreseen:

- to all RES-E installations smaller than:

6 MW for wind installations or 6 units

1 MW for all other RES-E installations (PV)  
They will get a Feed in Premium

To all installations smaller than:  
-3 MW for wind energy or 3 units installed  
- 0.5 MW for all other RES-E (PV)  
They will get feed in Tariffs.

Alternatively, Member States may still grant support for renewable energy sources by using market mechanisms such as green certificates. This offers flexibility to Member States.

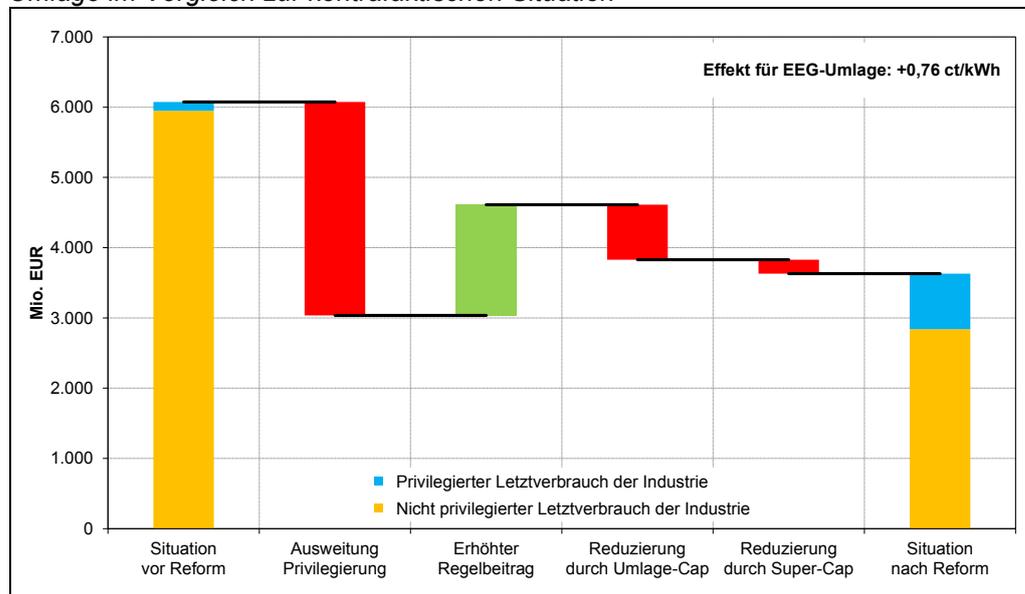
## ANNEX

Felix Chr. Matthes / Öko-Institut  
7. April 2014

### Variante A.1

- 65/68 Sektoren zzgl. Unternehmen mit Stromintensität  $\geq 20\%$  und Zugehörigkeit zu einem Sektor mit Handelsintensität zum Nicht-EU-Ausland  $\geq 4\%$
- Cap 5%, Super-Cap 2,5%
- 1:1-Umsetzung der Beihilfe-Richtlinien in Deutschland, d.h. keinen weitere Restriktionen

*Beitrag der (gesamten) Industrie zur Finanzierung des EEG sowie Erhöhung der EEG-Umlage im Vergleich zur kontrafaktischen Situation*



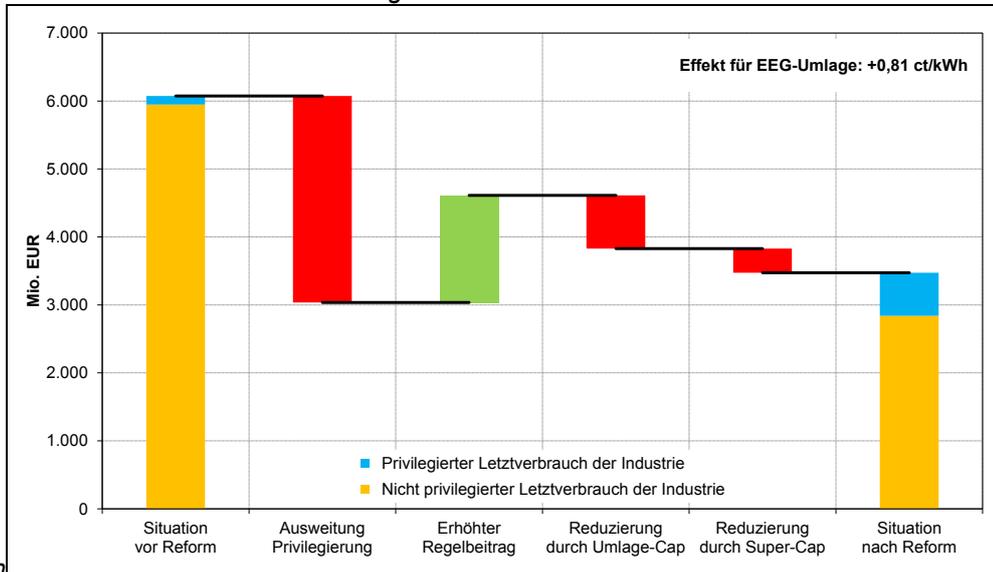
Quelle: Berechnungen des Öko-Instituts

### Variante A.2

- 65/68 Sektoren zzgl. Unternehmen mit Stromintensität  $\geq 20\%$  und Zugehörigkeit zu einem Sektor mit Handelsintensität zum Nicht-EU-Ausland  $\geq 4\%$
- Cap 5%, Super-Cap 1,5%

- 1:1-Umsetzung der Beihilfe-Richtlinien in Deutschland, d.h. keinen weitere Restriktionen

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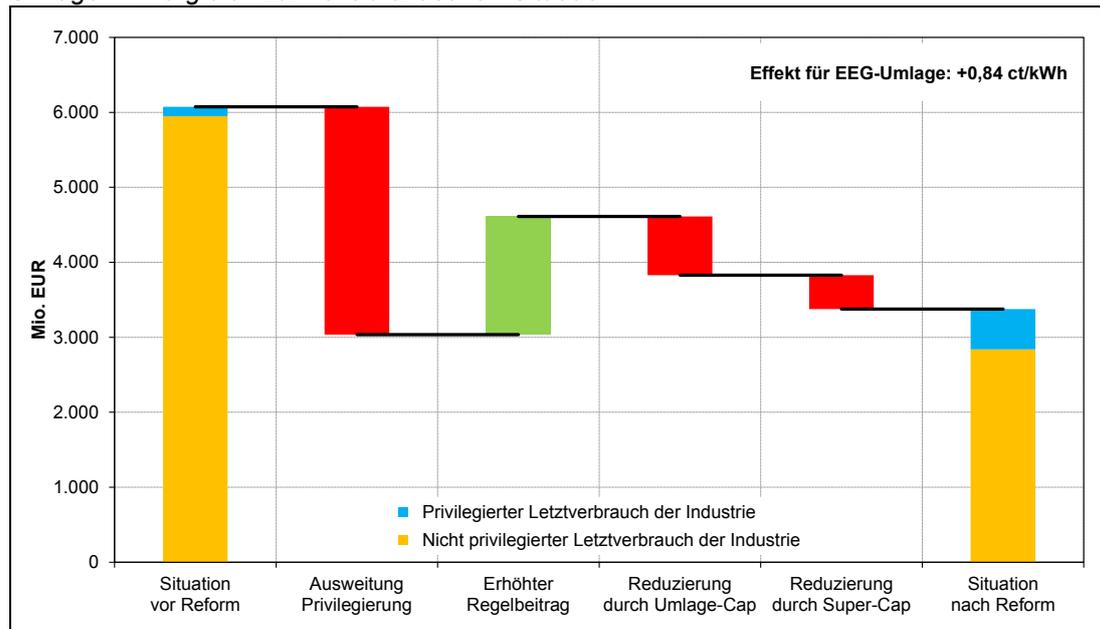
Situation

Quelle: Berechnungen des Öko-Instituts

### Variante A.3

- 65/68 Sektoren zzgl. Unternehmen mit Stromintensität  $\geq 20\%$  und Zugehörigkeit zu einem Sektor mit Handelsintensität zum Nicht-EU-Ausland  $\geq 4\%$
- Cap 5%, Super-Cap 1,0%
- 1:1-Umsetzung der Beihilfe-Richtlinien in Deutschland, d.h. keinen weitere Restriktionen

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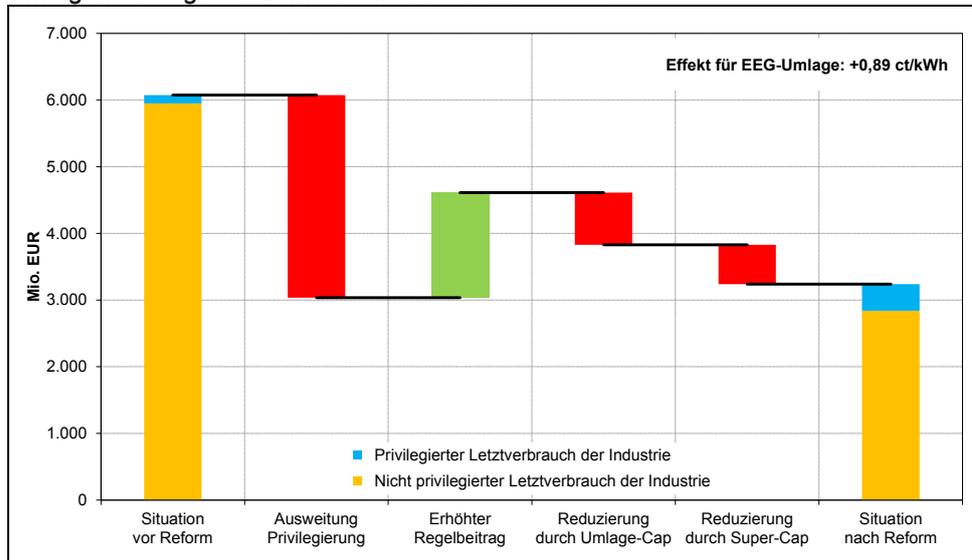


Quelle: Berechnungen des Öko-Instituts

#### Variante A.4

- 65/68 Sektoren zzgl. Unternehmen mit Stromintensität  $\geq 20\%$  und Zugehörigkeit zu einem Sektor mit Handelsintensität zum Nicht-EU-Ausland  $\geq 4\%$
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Quelle: Berechnungen des Öko-Instituts