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Eurometaux position paper on the draft new State aid Framework to support the Clean Industrial Deal (CISAF)

Introduction

Eurometaux represents European producers of Non-Ferrous Metals such as Aluminium, Copper, Lithium, Nickel, Zinc, Silicon, but also ferro-alloys, among other energy transition metals. The European Non-Ferrous Metals (NFMs) industry is a critical enabler of the twin transitions and is vital to providing European made materials necessary for our defence in an increasingly unstable world.

Our industry is still facing electricity prices significantly higher than before the crisis – still around two times their historical levels – and higher than those faced by competitors established in third countries1. Given that non-ferrous metals are extremely electro-intensive, with electricity representing up to 40% of total production costs of aluminium zinc, and silicon (outside crisis periods), and that they are priced at global level, it is impossible for European producers to pass on these extra costs to customers.

Therefore, the upcoming State aid Framework to support the Clean Industrial Deal (CISAF) must deliver concrete and effective measures to improve access to globally-competitive, decarbonised energy and ensure the competitiveness of our industry.

However, having reviewed the draft document under consultation, we would like to express **our deep concern and worry** regarding some aspects which may significantly worsen the situation for European electro-intensive industries and the absence of measures substantially addressing our sectors' competitiveness.

We call on the European Commission to align the State Aid Framework for the Clean Industrial Deal with its declared political goal of "prosperity and competitiveness" by taking into consideration our recommendations, with particular attention to the following key aspects:

1. **Aid for non-fossil flexibility support schemes (Section 4.2, paragraph 66)**. We call on the Commission to align its upcoming aid rules for non-fossil flexibility to its declared objectives of industrial competitiveness and refrain from **penalising baseload industrial consumers for their stable consumption profile** which provides grid stability and predictability.

2. **Aid to deploy industrial decarbonisation (Section 5.4, paragraphs 98 and 111)**. The rules regarding indirect emissions from the electricity are severely limiting, particularly for industries that are not already located in regions with a near-completely decarbonised electricity mix. Therefore, we call for the removal of these conditionality rules which again penalise industrial consumers for the failure of the power sector and Member States to decarbonise.

[1] According to Mario Draghi, electricity retail prices – specifically those for industrial sectors – are currently two to three times those in the US and China: *Mario Draghi, The Future of Competitiveness – Part B, Section 1, p.5*

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3. **Aid for production or recovery of critical raw materials (Section 6, paragraph 122)** is highly welcome, but for greater benefits and policy consistency **the scope should be extended to include "strategic raw materials" and the 'carrier metals' which contain the critical and strategic raw materials.** And it should go beyond production of equipment or key components. Beyond incentivizing new investments, it should also target existing capacities which have been idled due to high energy prices. Restarting idled capacity is less costly than building new ones, it is economically more sensible, and it is a more efficient way of spending public money, while immediately reinforcing Europe's industrial competitiveness and security of supply. Finally, given that the stated objective is to boost competitiveness and industrial production in Europe, the unjustified restriction on increasing production capacity (paragraph 103) must be removed.

4. **Missing from draft CISAF**: **Aid needs to equally support the consumption of decarbonised electricity for already electrified industrial processes**. As highly electro-intensive consumers, access to low-carbon electricity at globally-competitive prices is vital for our business. There are currently no mechanisms helping electricity consumers switch to consuming low-carbon electricity sources, e.g. by signing a RES PPA. Electro-intensive consumers are currently unable to sign RES PPAs due to the specific barriers they face (primarily shaping and firming costs that increase the final price of the renewable PPA), therefore aid reducing scope 2 emissions needs to become eligible.

5. **Also missing from draft CISAF**: The Clean Industry State Aid Framework must include an improved version of provision **2.4 in the TCTF,** allowing for immediate support to energy intensives, to cope with very high energy prices. EU energy markets are not yet stabilised, as electricity prices reached even 900€/MWh in South-Eastern Europe last summer.

6. **Simplification goals are completely missed** as the draft proposal introduces additional complexities (such as high GHG emissions reduction thresholds). The detailed and technical requirements may create barriers to investment and slow down project implementation, thereby delaying the decarbonisation process. In this respect, we advise the Commission against using the 'do no significant harm' principle in this State Aid Framework, as it brings another layer of restrictions. Also, faster and streamlined aid approval procedures (similar to TCTF) are not provided in the framework.

Section-by-section recommendations:

Aid schemes to accelerate the rollout of renewable energy (Section 4.1)

- **Paragraph 32.** A technology-neutral approach must be applied to aid accelerating the roll-out of new energy generation, targeting **all** low carbon technologies – in line with Article 194 TFEU confirming Member States' rights to determine their own energy mix, particularly since national budgets will be engaged to support such measures. Aid should also be allowed for all technologically permanent carbon removal solutions, addressing both their CAPEX and OPEX needs.

- **Similarly, investments in demand response projects should be eligible for aid and equally treated under Paragraph 32** as their contribution to grid flexibility is as important as investments in storage projects.

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- **Paragraph 39.** Given the announced objectives of simplification and streamlining, we advise the Commission against using the "do no significant harm" principle in CISAF.

- **Paragraphs 43 and 46**. The proposed 25 years duration for two-way CfDs is excessively long and it will lead to overcompensation, therefore it should be reduced to 10 years. In addition, the State Aid Framework should include an eligibility conditionality requiring a significant portion of CfDs to be allocated to PPAs, and the requirement of competitive bidding in relation to PPAs should be removed.

- Also, CfDs provisions in this draft framework should make reference to related CfDs provision in CEEAG – for legal coherence purposes.

Aid for non-fossil flexibility support schemes (Section 4.2)

- **Paragraph 66**. We welcome aid measures for non-fossil flexibility support schemes as this would allow flexible industrial plants to help balance the grid, however we caution against **penalising baseload industrial consumers for their stable consumption profile**.

  The need for flexibility in the power system is not created by stable industrial consumers, therefore no additional costs should be placed on industries already carrying the burden of high energy prices. In fact, given the stability and predictability of their consumption, baseload consumers are the ones who contribute the least to creating this need for flexibility. The costs for power grid imbalances and for creating risks to security of supply must be bored by those causing them (namely intermittent RES), as part of their responsible participation to the power system. This approach has already been used in numerous previous flexibility schemes (e.g. SA.38711, SA.48780 and SA.56103), where the Commission recognised that it is variable RES producers who create the need for flexibility and therefore levied the cost of these schemes on electricity producers in accordance with the capacity factor for each electricity generation technology.

  We thus call on the Commission to align its upcoming aid rules for non-fossil flexibility to its declared objectives of industrial competitiveness and **refrain from adding more costs to providers of grid stability and predictability as well as of critical and strategic materials.** Similar refrain should be applied to additional costs for electricity consumers created by locational technical criteria.

  We also recall that investments in demand response – where technically and economically possible – must remain voluntary and must be adequately incentivised, whilst most of system flexibility will have to come from the generation side through investments in storage, batteries and other technologies, dispatchable generation, digitalisation etc.

- **Paragraph 57 (and footnote 37)**. We would also like to mention the provisions of Art 19(g) of the Electricity Market Design Regulation 2019/943 which allows Member States to implement non fossil fuel flexibility support schemes, whilst also applying capacity mechanisms. State aid rules should thus comply fully with this provision and foster its implementation, not restricting it.

- **Paragraphs 32b and 53**. A notable lack of coherence can be identified between the scope of section 4.1, which limits aid to specific sustainable flexibility technologies (i.e. storage for RFNBOs, biofuels, bioliquids, biogas and

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biomass fuels) and section 4.2, which broadly supports all non-fossil flexibility technologies. This discrepancy excludes valuable flexibility options like industrial demand-side response from the support offered in section 4.1. To ensure technology neutrality, we request that all non-fossil flexibility technologies be included within the scope of both sections.

- Hydro storage technologies are also not included within the scope of Section 4.2, despite their contribution to grid flexibility; this mishap should be fixed.

Aid to deploy industrial decarbonisation (Section 5)

The severely limiting conditionality requirements for state aid for industrial electrification represent another key area of concern. Given the already existing significant technical and economic challenges of industrial electrification, adding conditions that practically prevent most industries from receiving support will only hinder progress. Therefore, we recommend the reconsideration of the inadequate requirements to ensure the new State aid framework facilitates, rather than impedes, industrial decarbonization.

- **Section 5.4, paragraphs 98 and 111**. The rules regarding indirect emissions from the electricity are severely limiting, particularly for industries that are not already located in regions with a near-completely decarbonised electricity mix.

  Our calculations estimates that the CAPEX needed to enable a medium-sized aluminium smelter to use only fully renewable electricity (as defined in the draft CISAF) would exceed €20 billion, an amount significantly beyond both individual companies' investment capacity and Member States expected financial support levels. This is also an inefficient way to advance electrification, by trying to match industrial demand with specific generation assets and thereby missing the greater efficiencies that can be achieved at the grid/system level. Instead, it must be recognised that adopting electric-based processes, coupled with the ongoing decarbonization of the European electricity mix, inherently leads to substantial emission reductions compared to conventional industrial processes. Therefore, we call for the removal of these conditionality rules.

- **Section 5.1, paragraph 72**. Regarding aid for reduction of **direct** emissions, respectively energy consumption, **thresholds** set in the draft State Aid Framework are overly high and discourage any action.

  A more reasonable approach would consider **a case-by-case assessment** of energy consumption and emission reduction, taking into account best available technologies, historical energy efficiency improvement rates and technical feasibility, while recognizing that the value of any emission reduction is preferable to no reduction at all.

  The draft framework **overlooks the importance of indirect emissions.** By limiting aid for industrial decarbonisation only to direct emissions, paragraph 72 doesn't acknowledge the fact that for electro-intensive sectors, the **biggest portion of their carbon footprint comes from the electricity they consume**. Therefore, switching from grid or on-site coal/oil/gas-fired generation to renewable electricity through long-term PPAs would NOT be considered industrial decarbonisation under the CISAF, despite the massive emission reductions that can be achieved in this manner**. The definition of industrial decarbonisation must be extended to include reductions in indirect emissions.**

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- **Paragraph 79a.** The requirement that projects financed by State aid **must be in operation within 36 months** after the date of granting the aid *is* overly prescriptive and will disqualify numerous investments from receiving state aid, thereby impeding industrial decarbonization efforts. It should therefore be extended to at least 48 months, especially for large and complex projects such as CCS projects, and take into account that the pre-construction phase can be lengthy, especially since obtaining public funding typically precedes the Final Investment Decision (FID) by several months.

- Another aspect to be considered is that for CCUS projects, the storage part of the project is not under the control of the industrial plant, it is under the control of a separate economic operator.

- **Aid for investments in decarbonisation of industrial heat** should also be granted in the form of CfDs or CCfDs to subsidize the increased OPEX caused by fuel switching. Not granting support for the OPEX increase would render such decarbonisation investments economically unviable.

- **Section 5.5, paragraphs 103 and 116.** Asking Member States to demonstrate that **the aid does not finance an increase** of the overall production capacity of the beneficiary **exceeding 5%,** compared to the situation before aid, appears inconsistent with the European Union's stated objective of reindustrialization. In addition, it would prove challenging to decrease the energy consumption at the level required without increasing production capacity. And limiting capacity growth could place EU industries at a competitive disadvantage in the global market, where non-EU competitors may face fewer restrictions.

- **Section 5.3.1, paragraph 90 and section 5.3.2, paragraph 94.** To ensure a successful energy transition, aid intensity must not discriminate between technologies and the levels should be increased to 50% for all technologies. Similarly, the limits to the highest allowed funding currently limited to EUR 200 million or to 10% of a national scheme's budget need to be increased to have a true incentivising effect.

- **Section 5.2, paragraph 86(a).** The EU's business environment can be improved by adding more flexibility to **the "funding gap" requirement**, leaving it as an option for each Member State to consider. It should also be kept in mind that such "funding gap" requirement is usually not implemented in other competitor jurisdictions, thus making them more attractive for investments.

- **Section 5.33, paragraph 95. Competitive bidding.** Competition should be sector specific or production process specific ensuring all technological industry processes can compete. Furthermore, State Aid should also be given to technological solutions not ready to be implemented until mid-2030 or late 2030s. Otherwise only industries with mature technological solutions will be granted State Aid, leading to competitive distortion.

- **Section 5.2, paragraph 86(b).** The requirement for a 10% GHG emission reduction when below the ETS benchmark, or for a 40% GHG emission reduction when above the benchmark is **overly strict**, hindering investments aligned with EU climate goals. **Instead of rigid targets, a case-by-case assessment recognizing the value of any emission reduction is preferable,** as current high thresholds discourage projects. It would also avoid penalising highly efficient plants just above the average with disproportionate improvement demands.

  For higher decarbonisation impact and equal treatment, eligible beneficiaries must not only be installations with product benchmarks, but **equally those under process emissions and fallback approaches based on heat and fuel**.

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- **Section 5.1. Paragraph 75(c)**. While we welcome that the document also covers aid for investment in the self-production of energy, we recommend re-evaluating the threshold level of energy produced in the beneficiary's own industrial activities. Moreover, the requirement that the heat produced is fully used by the beneficiary should be removed. Such a limitation will hinder the opportunities to fully use surplus heat for socially beneficial purposes, including new business development.

Aid to ensure sufficient manufacturing capacity in clean technologies (Section 6)

- **Paragraph 122**. Aid for production of new or recovered critical raw materials is highly welcome, but for greater benefits and policy consistency **the scope should be extended to include "strategic raw materials" and the 'carrier metals' which contain the critical and strategic raw materials** and it should not be limited to the production of clean-tech equipment or key components but also cover production of equipment and key components for defence, digital infrastructure, and other strategic autonomy-related applications.

- **Paragraph 126**. According to the draft State Aid framework, the aid intensity cannot exceed 15% of the eligible costs and the aid amount is capped at EUR 75 million per project, whereas the TCTF allowed a ceiling of EUR 150 million. Given that mining and refining projects can be highly capital-intensive, this cap should be removed—at least for "Strategic Projects" recognized under Regulation (EU) 2024/1252 on Critical Raw Materials.

Aid to reduce risks of private investments (Section 7)

- **Paragraph 150.** The maximum of EUR 100 million per project should be removed, as it is not pertinent in the case of equity, loans and guarantees.

Elements missing from the draft CISAF

Although important for reinforcing Europe's industrial base, measures aimed at decarbonising and electrifying energy-intensive industries shouldn't be seen as the sole answer to ensure Europe's competitiveness and must be complemented by state aid in other key areas, drawing inspiration from the Temporary Crisis and Transition Framework (TCTF).

- We call for the European Commission to urgently reintroduce the TCTF measures that help European industries affected by the impact of Russian aggression against Ukraine, including **aid for high energy cost** (Section 2.4 TCTF). This serious disturbance of the EU economy is still present, EU wholesale electricity prices remaining higher than before the crisis, at around two times their historical levels and with the gloomy perspective of further increases in 2025. This ongoing instability underscores the critical need for certainty that support will be swiftly deployable in case of another escalation in energy prices.

- Aid needs to **equally support the consumption of decarbonised electricity for already electrified industrial processes**. As highly electro-intensive consumers – a medium size aluminium smelter at full capacity consumes

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the electricity equivalent of 1.23 million EVs per year – access to low-carbon electricity at globally-competitive prices is vital for ability to continue operating. There are currently no tools to help electricity consumers switch to low-carbon electricity sources, e.g. by signing a RES PPA. Electro-intensive consumers are currently unable to sign RES PPAs due to the specific barriers they face (primarily shaping and firming costs that increase the final price of the renewable PPA thus rendering it economically unviable for electro-intensives), therefore **aid reducing scope 2 emissions need to become eligible**. Long-term RES PPAs with baseload electro-intensive industry would also provide certainty to investors in RES capacities, helping them to finance their projects in a more financially efficient manner than relying solely on direct price support schemes and thus speeding up the energy transition. In general, equal treatment of PPAs and CfDs should be ensured, given that both instruments achieve the same thing on the generation side (i.e. incentivising more RES investments), but on the demand sidePPAs can help consumers access viable electricity prices (provided certain measures are taken, such as the ones above) whereas CfDs provide no direct benefits to consumers.

- Aid should not be limited only to new investments in manufacturing capacities; **it should also target existing capacities which have been idled due to high energy prices**, covering technical damages incurred by the curtailment (e.g. reopening costs). Restarting idled capacity is less costly than building new ones, it is economically more sensible, and it is a more efficient way of spending public money. Aid should also be granted on a technology-neutral approach.

  Aid for projects like capacity restarts and new manufacturing capacities needs selection criteria beyond emission reduction, such as **emissions per unit**, given that specific projects may lead to actual emission increase locally in Europe. On a global scale, emissions will go down as production is shifted from more emission intensive production in other parts of the world, to a greener production in Europe, resulting in more self-sufficient production in Europe.

- Aid should extend beyond CAPEX to include the significant OPEX of nascent clean technologies, ensuring the long-term viability of industrial decarbonisation projects. Specifically, for CCS and Carbon Dioxide Removal (CDRs) technologies, eligible OPEX should include the costs of Renewable Energy Sources (RES) for power, liquefaction, transport, and storage.

- **Approval of aid notified should be carried out swiftly and with the same level of urgency and prioritisation as schemes notified under TCTF.**

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