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H.E.
Executive Vice-President
Frans Timmermans
European Commission
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H.E.
Commissioner for the Internal Market
Thierry Breton
European Commission
[redacted]

Your Excellency,

I am writing to you today about an urgent matter. We cannot achieve a carbon-neutral economy without an internationally competitive industrial sector. It is a central pillar safeguarding our economic prosperity. The energy-intensive industries in particular are closely integrated into the value chains of the entire goods-producing sector.

Europe's energy-intensive industries support the goals of the Paris Agreement. Already today, steel production in the EU is highly efficient compared with other countries, and meets the highest climate and environmental standards. Furthermore, steel is entirely recyclable and can

emission-intensive industrial sectors invested so much in mitigating the impact of their activities on the climate and the environment as in Europe.

Since the reduction of process-related emissions is a key milestone on the road to climate neutrality by 2050, industry is facing considerable challenges. It is tackling these challenges by introducing new low-carbon production processes and by tapping the potential for an even more efficient circular economy. The innovative products developed by European industry also reduce the carbon footprint caused by the use of these products. If Europe's industry is to tackle these challenges, it will need a policy environment which safeguards the international competitiveness of the industrial sector throughout the full period of transition. Without this, it will not be possible to achieve substantial carbon reductions in, for example, the steel sector without relocating production sites to third countries.

Europe's steel industry and other energy-intensive sectors are also faced with tough competition with manufacturers from third countries like China, the United States and Russia which do not have to meet anything like the climate, environmental and social standards found in Europe. Furthermore, the steel industry is operating in a market characterized by overcapacities, a general decline in demand and emergent protectionist tendencies.

Against this background, it is necessary to uphold a reliable business environment in order to retain – and where necessary, to expand – a competitive industrial sector.

One key way to safeguard competitiveness is to grant compensation for electricity prices to energy-intensive companies. The European Commission is preparing new guidelines, to be issued in the first quarter of 2020, for the design of State-aid rules governing electricity price compensation schemes in the fourth trading period of the EU ETS. In its letter of 25 November 2019 to the European Commission, the German Federal Government requested that consideration be given to all sectors affected by the risk of carbon leakage. In particular, in addition to objective quantitative criteria, it also remains necessary to have the possibility for a qualitative assessment, particularly using the price-taker criterion, in compliance with the green transition goals.

Also, scrutiny at Prodcom level should be permitted, and consideration given to the progress made on efficiency and the actual technological developments in the various sectors. The current fixed-rate and digressive nature of maximum aid intensities leads to a situation where

the level of aid granted to even the most electricity-efficient installations is not sufficient to compensate for the indirect carbon costs. Furthermore, it may become necessary to create the conditions for providing all Member States with more flexibility to be able to intervene to offset the prices of the electricity for energy-intensive companies including by means of using part of the higher revenues from CO_2 auctions allowances, connected to the efficiency level of the plants.

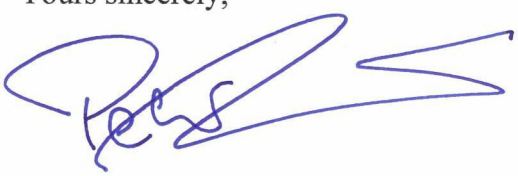
There continues to be a need for a reliable and consistent long-term framework for the distribution of emission allowances free of charge. The fact that this is clearly regulated up to 2030 by the latest ETS reform is most welcome. Nevertheless, the compensation, which is far from covering all the extra costs even of the most efficient plants, is already inadequate today. Given the likelihood of rising carbon prices, the absolute amount to be borne by the companies will also increase, as will their competitive disadvantage compared with companies from third countries. Not least against this background, a reduction in State aid possibilities to compensate for electricity prices is inappropriate. In order to give the companies a reliable basis on which to plan, it should not be considered.

All extensive instruments to avoid carbon leakage should be considered, as for instance a possible border adjustment mechanism, standards or approaches based on the consumption of emission-intensive goods.

In the context of increasing protectionist measures in international trade, the EU must be a proactive advocate of free and fair trade and of compliance with WTO rules. In response to the trade barriers imposed by the United States in the steel sector, the EU has rightly adopted countermeasures. These rebalancing measures were followed by the adoption of safeguard measures aiming at addressing the diversion of steel from third countries to the EU market as a result of the US tariffs and preserving a continued flow of steel imports in the EU. Where circumstances change, the European Commission can review the effectiveness of these safeguards pursuant to Art. 8 of Implementing Regulation (EU) 2019/159 of 31 January 2019. In view of the current developments on the international steel market, I ask the European Commission to launch the envisaged review without delay in order to adjust promptly the measures and to ensure that they better reflect the current situation in the steel sector.

This includes a renewed review of the level of the quotas and the consideration of a greater restriction on the access of specific countries to the remaining tariff quota.

On 11 December 2019, the European Commission presented a comprehensive climate and environmental protection program in the Communication on the European Green Deal. The initiatives announced in it are highly ambitious and go far beyond what companies from third countries competing with EU companies have to implement in terms of cost-imposing conditions. If we are to maintain the competitiveness of European industry, it is therefore crucial that careful consideration should be given to their repercussions on the competitive position of Europe's industry. In order to pursue ambitious objectives such as the gradual elimination of coal from production, in addition to supporting the investment, it may become necessary to make use of operating measures able to offset the higher energy supply costs for the companies concerned, to overcome fears of losing competitiveness and promote undoubted environmental advantages.

I offer my support for the implementation in the form of an intensive process of dialogue and analysis. Our shared goal should be to shape an ambitious EU climate policy in such a way that it ensures a socially fair transformation and a competitive economy that creates and safeguards forward-looking jobs.

Yours sincerely,