Position Paper on

the revision of State Aid Rules for environmental protection in relation to financial compensation under ETS for indirect CO_2-costs passed on in electricity prices.

Brussels, 03.05.2012

1. Criteria set by the European Commission to determine sectors eligible for financial compensation under the ETS Directive.

The ETS Directive provided for the possibility to identify 'carbon leakage' sectors that would be threaten by the taxation direct CO_2-costs installed by ETS, and to grant financial compensation to sectors suffering from indirect CO_2-costs, notably related to increased electricity prices.
As far as financial compensation is concerned, the quantitative criteria proposed to determine those sectors that would be eligible for financial compensation were taken up from the initial criteria established by the Commission to identify sectors at risk of 'carbon leakage'. These were set as follows:

- The induced CO_2-costs related to indirect and direct emissions need to be more than 5%
- The trade intensity criterion needs to exceed 10%

EuSalt (the European Salt Producers' Association) has undertaken to identify with verifiable data the subsector that should be eligible to receive financial compensation for indirect CO_2-costs passed on in electricity prices. This study was performed by an independent consultancy firm Ecofys.
According to the verified results from Ecofys of the electricity intensive subsector within the European salt industry, the process of Mechanical Vapour Recompression (MVR) has:

- An indirect Induced Carbon Cost Ration of 15.8%, and
- a trade exposure ratio average of 11.6% for the years 2008-2010, just as the whole salt sector according to Eurostat.

EuSalt calls upon the European Commission services to apply its conditions and criteria as stipulated in the guidelines. Based on the above criteria the subsector of evaporated salt production using MVR-technology should be eligible for financial compensation.

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2. Eligibility for financial compensation at subsector level and for specific technologies

Since NACE-codes cannot reflect the heterogeneity of the sector and confronted to the fact that no specific Prodcom code exists to identify the electricity intensive technologies for evaporated salt, the list of sectors eligible to receive financial compensation should foresee the possibility a descriptive identification of a sector on a case-to-case approach.

Within the NACE code 08.03 (previous NACE-code 14.40), the manufacture of salt there is no possibility to identify the production of evaporated salt through the technology of Mechanical Vapour Recompression (MVR) with a Prodcom code or other code. So the identification of this specific subsector evaporated salt produced by MVR technology in the list of sectors eligible for financial compensation should be recognized and granted for by a clear description.

3. The EU Roadmap to Energy 2050: Need for a long-term strategy to sustainability that maintains flexibility and competitiveness in industry

Sustainable energy sources are often in the form of electricity, rather than heat. Therefore if the European policy is to promote diversity in energy carrier use, it should assure the viability of these technologies in the future. Industry has already invested in recent years to convert to this non-polluting, electricity-driven technology in order to respond to sustainability objectives. If the MVR-technology would not be eligible for financial compensation, salt production using this electricity intensive technology will be put at a disadvantage and pushed out of the European market.

Electricity based processes are more likely to be supplied with sustainable energy sources in the future, answering to the need for diversity in energy sources. However, due to financial disadvantages electricity based processes will be pushed out of the market in a larger sector with mainly heat based processes. This could happen to the MVR technology in the salt sector.

The European strategy should provide a balance between long-term strategy and the maintaining of an equal, competitive level playing field assuring that both technologies should stay equally competitive in order to fully embed future developments in renewable energy technologies and energy efficiency improvements.

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1. Criteria set by the European Commission to determine sectors eligible for financial compensation under the ETS Directive

Since the NACE –codes and the inherent statistical data used by the European Commission to identify the sectors eligible for financial compensation, do not identify the specificity of the salt sector, EuSalt decided, in collaboration with the independent consultancy Ecofys, to review the dataset for evaporated salt so to substantiate the argumentation.
The survey represents the majority of the electricity intensive subsector and provides a relevant data to conclude that the subsector within the salt industry that uses the MVR process meets the carbon cost criterion as set in the draft guidelines for financial compensation
According to the verified results from Ecofys of the electricity intensive subsector within the European salt industry, the process of Mechanical Vapour Recompression (MVR) has:

- An indirect Induced Carbon Cost Ration of 15.8%
- a trade exposure ratio average of 11.6% for the years 2008-2010, just as the whole salt sector according to Eurostat.

The trade of the electricity intensive subsector is the same as the whole sector, because same products are made with the same processes in the same factories as the steam intensive salt. It is therefore not possible to distinguish the trade in these products from the trade in products made using mainly steam instead of electricity.

Because of confidential information the individual data in the data set and verifier statements are available upon request by the authorities at Ecofys.

2. Eligibility for financial compensation on subsector level and to specific technologies

In the revised Guidelines for State Aid Rules for Environmental Protection, DG Competition has already identify some sectors/subsectors that would be eligible for financial compensation for indirect CO_2-costs
The manufacture of salt NACE 08.03) (previous NACE-code 14.40) refers to a heterogeneous sector and solution mining is one of the many ways to produce salt (sodium chloride), which is then named vacuum/evaporated salt. Evaporated salt production results in the evaporation of brine resorting to the 'multiple-effect evaporation' (MEE), mainly using steam, or to the 'Mechanical Vapour Recompression' (MVR), meaning the evaporation of the brine through a heat pump and almost exclusively requiring electricity.

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The absence of financial compensation would result in major distortion of competition within the salt sector as well as between European and global salt producers as higher electricity prices would impact the production costs and the price of salt.

Moreover, evaporated salt is at the very beginning of a long chain of chemical transformations and is intensively used by the chemical industry as basic raw material in the production of many substances, among which, and in priority, chlorine and soda ash. This preference for evaporated salt lies in the fact that only this method of production results in a very fine, pure, high quality salt, which is ideal for chemical applications, since it requires less energy for the production of chemical substances. The subsequent businesses (like chlor/alkali) might be electricity intensive. It is then highly important not to reinforce the risk of 'carbon leakage' for the entire value chain by passing on indirect electricity costs.

EuSalt is a non-profit organization representing the common interests of salt producers located across Europe. The production of salt in Europe is estimated at 68 million Tonnes, which represents nearly a third of the worldwide production. The vast majority of the salt produced is dedicated as primary source material in the production of many chemical industrial applications of which the production of Chlorine and Soda Ash are the largest applications.

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