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Position paper

Clean Industrial Deal

Proposals from the German energy industry to strengthen European competitiveness and for a successful energy transition

Version 2.0

The energy transition represents a crucial economic and social transformation, essential not only for climate policy but also for industrial policy. However, significant steps are still needed to ensure that this transition also fosters prosperity and growth. In recent years, the competitiveness of European industry, in particular energy intensive industries, has faced severe pressure in the global market. This has raised concerns about the deindustrialisation of Europe and the migration of critical industries, which are vital for a successful transformation within the EU. Additionally, from a climate policy perspective, this also harbours the risk of CO_2 emissions being relocated to third countries (carbon leakage).

The reasons for these challenges are multifaceted and are described in the Draghi report on the future of EU competitiveness, among others: Factors include a shifting geopolitical landscape, an innovation gap, and lower labour productivity compared to the USA and China. Furthermore, energy prices in the EU, which in certain cases are significantly higher than in other regions of the world, are straining European industry. From the perspective of the German energy industry, however, when analysing average European energy prices, it is crucial to consistently differentiate between wholesale and end-customer prices, consider the varying situations in individual Member States, and account for differences across economic sectors (see appendix). Additional complicating factors include infrastructural challenges, including digital and demographic developments.

In response to these issues, the European Commission plans to put forward a Clean Industrial Deal and an Action Plan for Affordable Energy within the first 100 days of its mandate, aiming to enhance the competitiveness of European industry. From the perspective of the German energy industry, the following four aspects are particularly important to consider:

1. **Sustain and pragmatically implement the Green Deal**
2. **Lower system costs and foster innovation**
3. **Enhance the investment framework for the energy transition**
4. **Alleviate the burden on energy consumers**

1 Sustain and pragmatically implement the Green Deal

Competitiveness and decarbonisation are closely linked and must be considered together, as the Draghi report emphasises. The EU will only be able to compete internationally in the medium to long term if it continues to pursue ambitious climate action, the energy transition and is able to provide decarbonised energy at affordable prices, as this will reduce our dependence on fossil fuels and thus increase our resilience. However, resilience does not only mean reducing our dependence on energy imports, but also achieving strategic sovereignty in the production of transformation technologies that are important for the energy transition. Achieving this strategic sovereignty must therefore be an essential part of a holistic European industrial policy. In addition, future technologies and climate friendliness are increasingly becoming location factors. Structural change must be anticipated and accompanied, as the example of electromobility shows. Europe should also seize the opportunity to maintain and expand its technological market leadership in the hydrogen economy through a courageous hydrogen ramp-up.

The Clean Industrial Deal must therefore build on the Green Deal and make it manageable and implementable for industry and all consumers as part of a European growth programme for industry. The top priority must be to achieve the overarching climate targets in a cost-efficient manner. A prerequisite for this is to significantly increase the shar of renewable energies sources (RES) and to ensure their efficient integration into the energy system. Together with a faster hydrogen ramp-up and a significantly accelerated grid expansion, this will help to keep energy prices competitive and sustainable in the long term. At the same time, there must be an increased focus on the expansion of energy storage, dispatchable electricity generation and other flexibility solutions that support the overall system. It is therefore essential to stick to the objectives of the Green Deal at European level.

The EU Emissions Trading System (EU-ETS) will continue to be the key instrument for climate protection. This applies to both the existing Emissions Trading System (ETS 1) and the future system for buildings and transport (ETS 2). To enable it to achieve net-zero emissions, negative emissions must be included in the ETS in the medium term.

With the Green Deal and the legislative packages based on it, the EU made important and ground-breaking decisions for the energy transition in the last legislative period. The acceleration of planning and permitting procedures and the creation of the regulatory framework for the development of a hydrogen infrastructure are particularly noteworthy in this context.

Many of these measures will make an important contribution to the energy transition and also to lowering energy prices. However, the majority of them still need to be implemented at national level. In addition, many implementation measures are still pending at European level.

Instead of new legislative measures or short-term interventions in the energy markets, which create uncertainty for affected companies, the focus should be on implementing what has been decided at a national and European level as quickly as possible and utilising all the freedom available to make implementation as simple and unbureaucratic as possible.

Specifically, we suggest:

- **Prioritising implementation measures**: The adoption of measures, such as the delegated acts on low-carbon fuels, the methodology for calculating methane intensity (relevant for the production of low-carbon hydrogen) and the minimum detection limits for methane leakage should be prioritised and advanced swiftly in dialogue with the industry. The national implementation of existing EU legislation, such as the revised electricity market design, must also proceed quickly and efficiently.
- **Clear commitment to climate targets**: Targets adopted in the last legislature provide industry planning security for investments in decarbonisation. The upcoming discussion on the 2040 target should not be used to question these ambitions but to continue a realistic and ambitious target path beyond 2030. At the same time, it must be ensured that European targets do not lead to a further tightening of the already high German ambition level for 2040.
- **Strengthening the Emissions Trading System (EU-ETS)**: The medium-term inclusion of negative emissions will enable the cost-effective achievement of net-zero.

2 Lower system costs and foster innovation

The energy transition and decarbonisation are helping to strengthen competitiveness. However, it is clear that this transformation will also cost a lot of money: In Germany alone, the energy industry will require around 720 billion euros in investment by 2030[1] . It is therefore urgently necessary to minimise the transformation costs and thus also the burden for all consumers.

By cleverly dovetailing the various elements of the energy system, considerable costs can be saved in its construction and operation. Cost and system efficiency will become increasingly important, particularly with the further expansion of RES, the grid infrastructure and

[1] BDEW-EY "Progress Monitor 2024“

dispatchable generation, flexibility and storage. The role and necessity of a CO_2 infrastructure (CCU/CCS) should also be considered at an early stage all the while ensuring the protection of water resources. It is also essential to significantly reduce bureaucracy in the energy sector and to massively drive forward the digitalisation of the energy transition. Reducing costs and bureaucracy will make investments more attractive and reduce the burden on consumers. The aim is to secure the financing of the energy transition as well as trust in and approval of the energy transition.

The EU should focus on setting a clear regulatory framework that is geared towards achieving the climate targets. Within this framework companies should have the necessary freedom to implement measures as cost-effectively as possible and to drive innovation. This means that detailed regulations, such as the narrow rules for the production of renewable hydrogen, should be avoided as far as possible, as these generally increase the costs of the overall system, which ultimately also has an impact on prices for consumers. If detailed regulations at EU level make sense and are necessary to strengthen the internal market, it must at least be ensured that the associated conversion costs are reduced as far as possible.

Specifically, we suggest:

- **Leveraging the potential of the EU internal energy market**: Prioritise and adequately fund the expansion of cross-border infrastructure and distribution grids within the Connecting Europe Facility (CEF). Additionally, enhance and optimize cooperation between Member States, particularly in the area of offshore wind energy expansion.
- **Enabling transformation pathways:** Review and relax the electricity procurement criteria for renewable fuels of non-biological origin (RFNBO) and establish pragmatic criteria for low-carbon fuels from the outset. Introducing enabling criteria is essential to make the hydrogen ramp-up as cost-efficient as possible, which is crucial for achieving climate neutrality.
- **Reducing of excessively complex documentation and verification obligations**: Identify and eliminate superfluous or overlapping reporting obligations. Make Permitting requirements more practical, for example, by extending existing simplifications in RED III to other infrastructure projects. Reduce cross-sectoral reporting requirements in sustainability reporting and supply chain due diligence should. The planned Omnibus Package should aim for tangible simplifications rather than cosmetic changes genuinely reduce the burden on companies.

3 Enhance the investment framework for the energy transition

In addition to reducing transformation and system costs, it remains important to ensure that companies can continue to make the necessary investments.

To attract private investors, the framework conditions for financing the energy transition must be improved, for example through adjustments to capital requirements for bank loans, the review of the functioning of the Green Asset Ratio (GRA) in the EU Taxonomy as well as via tax incentives.

It is important to enable the utilisation of all financing instruments. The credit market is relevant for all companies, while the capital market is currently more relevant for the larger ones. Where public funds are also used for the energy transition, there are numerous additional opportunities for mixed financing from public and private funds (blended finance instruments). They strategically utilise public funds to activate private capital flows, because it is clear that a large proportion of the capital required for the energy transition will have to be raised by the private and public companies in the energy industry themselves. [2]

Government support measures such as financial guarantees or sureties are also necessary in order to minimise the risk for investors and thus create an attractive risk-return profile. This applies in particular where the risk for private investors cannot be adequately assessed due to a non-functioning market and private investment is therefore not forthcoming.

In the context of government support measures, EU-wide solutions should be sought wherever possible to minimise distortions of competition in the European single market. However, the majority of government support measures will continue to be implemented at Member State level in the future. In order for these to take effect as quickly as possible, State aid processes must be simplified and accelerated at EU level.

[2] BDEW-VKU-Deloitte strategy paper "Capital for the energy transition" (2023)

Specifically, we suggest:

- **Enabling investments through government support for de-risking**: Further expand the existing programmes for de-risking investments in the energy transition by the European Investment Bank (EIB) and national promotional banks, and extend them to other technologies. This also includes the ensuring sufficient funds for the EIB in the EU's next Multiannual Financial Framework (MFF).
- **Accelerating and adapting State aid processes**: Adapt State aid authorisation procedures for Important Projects of Common European Interest (IPCEI) or based on the Guidelines on State aid for climate, environmental protection and energy (CEEAG) to current challenges, and simplify and accelerate them by including clear deadlines for approval, similar to the requirements for Member States in RED III.
- **Applying a reduced capital adequacy requirement for infrastructure projects**: Utilising a reduced capital adequacy requirement within the Capital Requirements Regulation should be possible for all energy transition investments without excessive bureaucracy.
- **Deepening the European capital markets**: Establish a genuine Capital Markets Union to improve European companies' access to capital and thus close a competitive disadvantage compared to other regions, particularly the USA.

4 Alleviate the burden on energy consumers

Targeted relief for energy consumers is also a necessary and sensible measure to distribute the costs of the transformation fairly while keeping both the competitiveness of industry and citizens in mind. Instead of measures that only benefit individual consumers, the focus should primarily be on structural relief measures through the reduction of taxes and levies. It Such relief measures should ideally support the energy transition, for example by incentivising the switch from fossil fuels to RES.

It is also important that these measures must be located outside the energy markets. Interventions in the functioning of the market, such as the excessive regulation of PPAs proposed in the Draghi report, or even price regulation, would damage investment security, the functioning of the market, competition and ultimately the competitiveness of the EU. This is because market interventions increase costs for the implementing companies and reduce the sector's ability to invest, thus leading to higher system costs overall.

Specifically, we suggest:

- **Strengthening the internal energy market:** Market interventions negatively impact the functioning of the market, competition, and ultimately system costs and consumer prices. Therefore, such interventions should be avoided.
- **Reducing taxes and levies in the energy sector**: Lower the electricity tax nationally to the European minimum level. At EU level, conclude the revision of the Energy Taxation Directive, which has been under discussion since July 2021, particularly with a view to reducing the burden on energy consumers while creating further incentives for the energy transition.
- **Providing relief for grid charges**: Consider relief measures for all consumers using public funds, given the anticipated increase in grid fees due to the high need for grid expansion.

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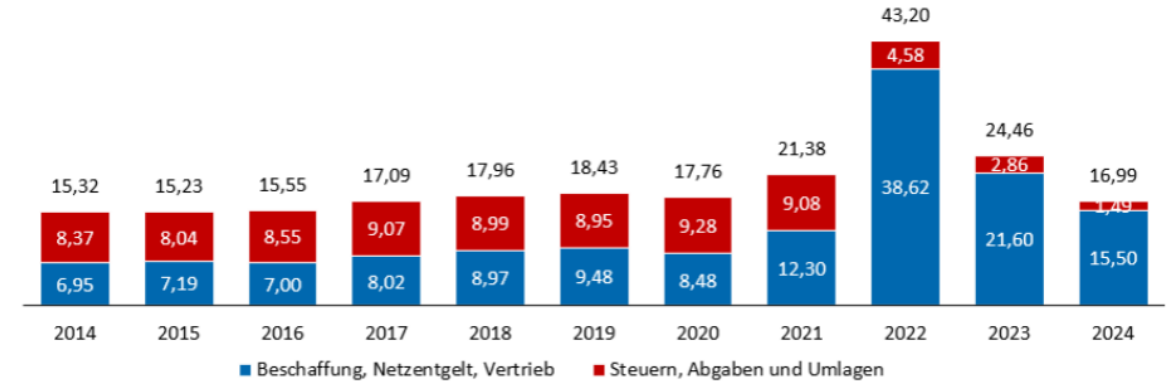
5 Appendix: Contextualisation of electricity prices in Germany

All current developments in electricity prices in Germany can also be found in the regularly updated BDEW electricity price analysis.

Electricity prices for industry (incl. electricity tax)

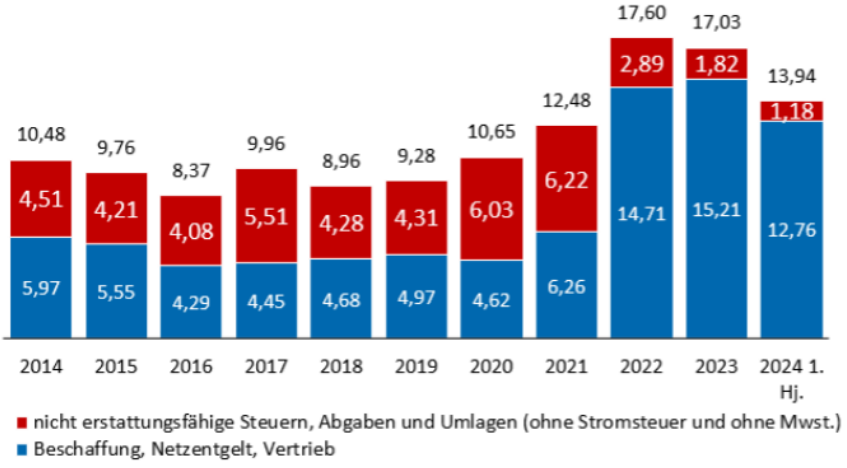
Average electricity price for new contracts in the industry in ct/kWh (incl. electricity tax), annual consumption 160 000 – 20 million kWh, medium-voltage supply



Quelle: VEA

Electricity prices for industry

Bulk buyers 70 – 150 million kWh/a (excl. refundable taxes) in ct/kWh



Anmerkungen:
1) Nicht erstattungsfähige Steuern, Abgaben und Umlagen (Konzessionsabgabe, EEG-Umlage, KWKG-Umlage, §19 StromNEV-Umlage, Offshore-Netzumlage, Umlage f. abschaltb. Lasten) können nicht einzeln ausgewiesen werden.
2) Rückerstattungsfähige Steuern sind die Stromsteuer und die Umsatzsteuer
3) Je nach Abnahmeverhalten/ Netznutzung können die nicht erstattungsfähigen Steuern und Abgaben individuell deutlich variieren.

Quelle: Eurostat