Verband der Industriellen Energie- & Kraftwirtschaft
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VIK Position Paper on the Clean Industrial Deal Package

VIK German Association of Industrial Energy Consumers welcomes the Clean Industrial Package (CID) as an important step towards industry transformation and better competitiveness and would like to provide feedback on the key issues which are important for relevant industrial sectors.

General measures necessary for transition to the new industry competitiveness

A successful industrial transition toward climate neutrality depends on establishing the specific framework conditions, especially planning reliability by setting up a political framework allowing for business cases to enable companies to invest in long-term, low carbon initiatives. These must include:

- Affordable energy and carbon prices as well as a secure energy supply are essential for a competitive industry. Grid fees should be structured efficiently, taxes and levies as well as bureaucracy burdens should be reduced, and electricity bills should remain free of non-energy-related costs.
- Climate goals only offer the necessary planning certainty that companies urgently require when supported by practical, business-relevant solutions. Additionally, it is essential to analyse sectoral transition plans, including relevant impact assessments, to determine whether the 2040 climate targets can be achieved in specific sectors.
- For technical and economic reasons, industry in Europe is currently dependent on fossil fuels. The transition requires huge changes of infrastructure and use patterns. Currently, infrastructure funds in Europe do not address operating costs in this context. Companies currently lack the financial capacity, as they face structural challenges: rising energy costs, generally increasing expenses and reduced competitiveness. Under these conditions, large-scale investments are hardly feasible.
- Preventing de-industrialisation should be a top priority for the EU. In this sense, national governments require a broader state aid framework so that companies can be supported through additional subsidies. We need to return to the pre-COVID burden levels, the CISAF should be able to exert influence and take countermeasures.

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- In addition to lowering energy prices, the European Commission should address excessive bureaucratic burdens. Businesses should be able to prioritize innovation and competitiveness rather than being impeded by administrative obligations, prolonged approval processes, extensive reporting and documentation requirements, including those associated with the CBAM-framework. These challenges divert key personnel from essential tasks and should be systematically reduced to enhance operational efficiency.

There are already several more detailed suggestions on the table:

- It is important to find a future solution for the ETS-development, especially when the ETS-cap will be closer to being exhausted, free allocation will end, and affected companies will need protection against carbon leakage while the CBAM is not fit for all sectors. Policy makers should evaluate all options from amending the MSR (e.g. enabling re-marketing of invalidated allowances and filling it up with removals) to a possible link between the EU-ETS and carbon pricing mechanisms in third countries, including the measures under Art. 6 of Paris Agreement which should be incorporated into the EU Climate Law.
- The cost-increasing influence of the EUA-price on the electricity prices can be mitigated within the framework of electricity price compensation. For certain sectors, this regulation should be prolonged in the future, with the principal goal being a targeted extension of the lists of sectors at risk from carbon leakage. However, expanding the pool of beneficiaries under a revised regulation should only proceed with increased budgets to keep if the current level of compensation—along with the necessary increased budgets from member states—for existing beneficiaries is ensured and guaranteed.
- Taking into account the adjusted reality of the past several weeks as a fundamental aspect of security, Europe should take greater responsibility in resilience policy. This can only be achieved by safeguarding competitiveness of system-relevant products. In addition to all generally applicable aspects of the state aid guidelines, there is a need for targeted investment and operating cost subsidies for system-relevant goods and critical raw materials.
- Green lead markets can promote the market ramp-up of climate-friendly products, until these products will become competitive. Demand creation as well as a lack of bureaucratic burdens are needed to support the business case for investments in clean technologies. The concept of green lead markets should not exclude products which already achieved low carbon footprint without the new green label.
- CCU technologies contribute to leave fossil carbon in the ground by providing an additional carbon source for carbon-containing molecules. Thus, any CO_2-use regardless of how long the carbon dioxide is stored in the product, must be creditable in the EU-ETS.
- An important concern and reality check for politicians remains in increased focus on flexibility and the role of the demand-response. Some sectors rely on baseload as demand-side

flexibility would result in hinderance of their energy efficiency goals. In addition, not every production process can be run flexibly for technical reasons. Any new initiative on flexibility should remain voluntary and appropriately renumerated.

- Hydrogen supply requires clear strategic direction, as current volumes are insufficient, and prices remain prohibitively high. A technology-neutral approach is essential, particularly through the inclusion of low-carbon hydrogen in the REDIII.
- The CID-Framework refers to decarbonisation in an excessive number of places. For some industrial sectors, this cannot be accepted. Carbon of biogenic origin, for example, is an essential basic component of nutrition and in most of most everyday products in modern life. Recycling both of fossil and biogenic carbon is of increasing importance. Thus, circularity must inevitably be better considered. Finally, CCS can reduce the amount of fossil carbon entering the atmosphere and can even provide removals when biogenic carbon is stored. Thus, the proposal is to use the term defossilization in order not to undermine the essential position of carbon in any modern economic system through imprecise wording.
- Taking into account that the competitiveness of energy-intensive industries could be at risk during on the way to climate neutrality, the effect on other sectors should also be considered within the action plan.

Affordable energy prices

The climate target aims to reduce final energy demand by more than 35%, with a strong emphasis on electrification[1]. In many cases this is not achievable through efficiency, but by shutting down facilities which leads to the relocation of facilities outside the EU. Industry, especially in Germany, urgently needs a broad reduction in energy costs. In the past, traditionally higher costs for electricity and natural gas in Germany could be offset by other locational advantages. This is now only partially the case.

The global LNG price has become the decisive factor for Europe's natural gas price. Industrial large-scale consumers face additional burdens due to levies on natural gas. Specifically, the gas storage levy (§ 35e EnWG) will increase gas prices in Germany by approximately 10% compared to EU competitors until 2027 (without added value for the industry and without international comparability). In our view, this has to be abolished completely as soon as possible.

Electricity prices are now much higher than in competitor regions such as China and the USA. This is primarily due to the high input and system costs for electricity and natural gas (procurement costs,

[1] EU Electrification rates are not on track for 2050: time for an Electrification Action plan https://www.eurelectric.org/in-detail/electrificationactionplan/

additional direct cost components such as grid usage, levies, taxes, charges, etc., as well as indirectly associated costs, e.g., for the purchase of CO_2-certificates).

To make a continued existence of the energy-intensive industry in Germany and Europe possible all additional cost components added to the LNG and electricity prices must be eliminated for the industry so that it can purchase electricity at a price based on LNG. The impact of the ETS on electricity prices could be mitigated through a modified and expanded compensation system, which would include multiple industries and cover 100% of the ETS costs.

Grid costs for the industry must be limited to a competitive level. The industry should not be held liable for the problems arising from the energy transition. Therefore, the transformation-related grid costs should be financed from the federal budget. Grid-cost-reliefs should be sufficiently predictable ex ante to enable more competitive product pricing. For companies that cannot behave flexibly the individual grid fees must be retained, or alternative relief options must be provided.

Electricity surcharges for the entire industry must be further reduced. The Special Equalization Scheme (BesAR) should be expanded, e.g., to include chemical parks, where energy supply (electricity, steam, etc) may be organized in different legal entities. At the same time, the application process must be simplified to reduce bureaucracy. Also, industry should be exempt from the various surcharges arising from the energy crisis. Absorbing the costs of the gas storage levy by state budget would provide broad relief for both businesses and private households.

In the context of the current discussions on energy prices in the EU (including in the Draghi report), it is becoming clear that the focus is often not on industrial competitiveness but rather on the affordability of energy for consumers. To achieve industrial transformation on the path to climate neutrality, energy-intensive companies require competitive market prices for all sources of energy, including hydrogen. As other energy carriers develop in parallel (hydrogen, ammonia, synthetic fuels), a clear strategy is needed to optimise investment in infrastructure, striking the right balance between production and imports, while avoiding stranded costs.

Energy prices are one of the main factors for the economy in value chains. It should therefore always be a legal and economic priority that the links in a value chain where precisely these price factors have an above-average impact (usually the energy-intensive industry) must be exempted from additional fixed costs such as grid fees, storage equalization fees or similar additional cost drivers to a minimum. Otherwise, these additional cost effects would spread to an above-average extent across the entire value chain and thus probably prevent any economy.

For even lowering transformation cost there should be a shift from a singular look on hydrogen, rather setting goals for defossilization without giving quotas of specific or pathways of reaching these goals.

Therefore, it should be implemented that biomethane or e-methane which would reduce transformation cost tremendously by lowering invest-obligations because of lower necessity to rebuild production plants in an ineffective way in terms of today's efficiency as well as very much lower operational expenses on procurement and availability of these resources.

Electricity Market Integration within the EU

In our view, there is a need for coordinated grid investment planning, especially for cross-border interconnections and offshore developments, mainly financed by congestion revenues of TSO, including regulatory control. A focus on further integration is critical at this stage.

There is an option to consider some regulatory market measures within the EU. The energy crisis of recent years has shown that countries with regulated energy markets (e.g., Malaysia, Thailand, Mexico, China) provide the industry with not only significantly lower overall electricity costs (including taxes, levies, and grid fees) compared to Europe, but they have also navigated the crisis with considerably lower price volatility. Another advantage is that regulated markets can respond much faster to changing international competitive conditions. Complex energy legislation, levy structures, relief mechanisms, applications, and legal disputes become unnecessary.

Ensuring well-functioning gas markets

An integrated natural gas market, combined with market-driven price signals, is one of the most effective ways to optimize energy system costs, minimize unnecessary volatility, attract investment and ensure supply security. It is essential to prioritize any measure that can provide immediate relief to the situation. Market surveillance, demand aggregation and investigation of alternative ways to tap into new cost competitive LNG alone will not deliver this. We support national tax releases and underline that a zero-tax rate on natural gas as well as hydrogen usage would have a direct and immediate positive effect, somewhat alleviating the high commodity price of natural gas in a transition period. Furthermore, the European Commission just proposed an extension of the gas storage targets until the end of 2027, with mandatory 90% filling level target by 1.11 maintained. This risks further market distortions, as market participants will be reluctant to store gas, knowing that public authorities will have to intervene to reach this target. Therefore, this needs to be properly reassessed, as Europe now has significantly more LNG-import and storage capacities. There is a need of a thorough exploration of the effects of mandatory storage targets, as well as an investigation into alternative measures to guarantee security of supply. In the meantime, the costs of overshooting gas storage must be financed by state budgets.

Additionally, the transformation from using natural gas to hydrogen as a chemical energy carrier needs more support, as the process is currently slowing down. The CID-framework should also broaden its focus to include support for the creation of hydrogen markets.

Pilot Programme for corporate Power Purchase Agreements

In our view, there is no sourcing option fitting all as industrial players have heterogenous varying needs, industrial processes and operations. Therefore, sourcing strategy choices should be left to individual companies and uptake of PPAs never be subject to any form of coercion or penalties.

Although the focus on the supply of green electricity is on PPAs, unbundled Energy Attribute Certificates (EACs) must also be taken into account. PPAs are extremely complex, and in some regions, they cannot yet be fully utilized. High-quality EACs contribute to climate protection and the energy transition, as they provide evidence of the feed-in of green electricity. Coherent legislation on the eligibility of unbundled EACs (e.g., CBAM, EU Battery Regulation) is essential.

In addition, the proposed pilot PPA-program only provides support to counter-guarantee the industry's role in signing PPAs. However, the pilot program should also aim to cover the associated shaping and firming costs—the costs of transforming variable renewable generation into baseload. In most European markets, these costs remain prohibitively high for industry. Long-term PPAs also raise additional questions regarding the development of these costs over long periods of time, assuming that shaping and firming costs will increase as more renewables enter the grid.

Improved framework for climate policy instruments

The ETS has as a strong influence on the electricity prices. In our view, the Market Stability Reserve (MSR) should be adjusted to address the current challenges and secure the transformation of the European industry. For the time being, a rapid adjustment of the MSR could help defuse carbon price fluctuations, which would reduce the economic burden on the industry. It might be helpful to initially refrain from further tightening the MSR. This could provide flexibility to for at least temporary relief and give the companies the necessary time to adjust to the changes. When being refilled by removals, the MSR could even provide a prolonged relieve, better matching the EU Commission prognosis for future ETS emissions.

Policy makers should analyse all relevant options for the ETS as soon as possible, from amending the MSR to a possible link between the EU-ETS and carbon pricing mechanisms in third countries, including the measures under Article 6 of Paris Agreement which should be incorporated into the EU Climate Law. Major international efforts should be made to promote global CO2 certificate trading.

The cost-increasing influence of the EUA-price on the electricity prices can be mitigated within the framework of electricity price compensation for certain sectors and this regulation should be prolonged in the future. However, the principal goal should be a targeted extension of the eligible beneficiaries, by addition to the lists of sectors at risk from carbon leakage. However, expanding the pool of beneficiaries

under a revised regulation should only proceed if the current level of compensation—along with the necessary budgets from member states—for existing beneficiaries is ensured and guaranteed.

In addition to electricity, the expansion of the ETS to the maritime sector (and ETS2 in the future) will result in the pass-through of associated CO2 costs in the form of increased prices for customers, including energy-intensive industries. A solution must be found to offset these indirect costs, as energy-intensive industries are already covering their own emission costs, and some sectors cannot further pass these increases on to consumers.

The use of CCUS technologies independent of the lifetime should be fully recognised within ETS, with robust GHG-accounting rules assuring that emitted carbon dioxide is not double counted. Reinforced European budget and fair access of CCUS project to infrastructures should be guaranteed.

The method of final storage of captured, purified and compressed carbon dioxide from industrial sources (CCS) is an acceptable interim solution for the coming years. Nevertheless, both a functional system for CCUS will inevitably require a sufficiently dimensioned, functional pipeline network for CO_2-transfers. This should also be urgently taken into account within the CID framework, by legal recognition and technical regulation.

Lead Markets and subsidies for industry transformation

We support the plans to establish Lead Markets to strengthen the demand for clean products and support competitiveness. This mechanism is particularly important for industries with short production chains, such as steel, with high environmental benefits and scalability potential. However, for sectors with more complex value chains, especially the chemical industry, targeted solutions are needed, as additional costs cannot be directly transferred. It is important that these plans are established based on or aligned with international standards for Product Carbon Footprints and ensure that the methodology used to assess CO_2-impact is aligned with international standards—ideally, also with industry-driven guidelines for PCFs, such as “Together for Sustainability for the chemical industry”.

It remains uncertain whether it will be possible to establish globally recognized lead markets for new low-carbon products, including electricity, hydrogen, ammonia and recycling-based circular economy products within the next 5-10 years. Given this uncertainty, policymakers should establish a fair financing system to support mass manufacturers of essential and strategically significant products in their transition to climate neutrality.

CBAM should be further developed and introduced only if it confirms its effectiveness

The removal of free allocation in the EU-ETS should be postponed until adequate solution against carbon leakage should be found while the CBAM is not fit for all sectors. If the existing CBAM-design

has not proven its effectiveness and circumvention has not been ruled out, the future inclusion of further basic materials should be avoided**. If necessary, the option of withdrawing the CBAM should not be excluded.**

VIK welcomes the European Commission's efforts to simplify CBAM operators' reporting obligations according to imported volume, as part of the upcoming omnibus package, based on the fact that "10% of importers are responsible of 99% of emissions". We are also in favour of use of default values, extension of reporting timing, reduced pressure on cash and increased control and sanctions. **However, provisions must also be established in the CBAM regulation to guarantee that European producers remain competitive in the EU and non-EU markets, including solutions for exports, thereby maintaining the profitability of European production sites.**

The competitiveness of the European industry also depends on the ability of European industries to export green production in global markets. One of the biggest challenges of the CBAM effectiveness is that third countries could circumvent a CBAM by altering trade flows (resource shuffling), ensuring that products with the lowest CO_2-content are exported to Europe, while the remaining high-CO_2-products are sold in regions without protectionist measures on carbon content. For European industry, this means a competitive disadvantage due to increased material input costs and higher process costs, both for exports and in the domestic market.

Compared to other developed economies where renewable energy is cheaper, the production prices of green products made in Europe, including net-zero technologies, will be higher. In this sense, we would like to point out the possible "cash-out effects" if CBAM revenues are not paid by importers at the European border. The higher end product prices paid by European customers will mainly support non-EU producers. Also, when no transition has taken place, but the producing country introduces CO2-pricing, the EU has no control mechanisms to check how these revenues are used in third countries, whether it is for climate protection and industry defossilization or other purposes like support of their local industry.

Better regulatory framework for the hydrogen market

We acknowledge the significant role of hydrogen in the transformation process; however, a critical reassessment of the objectives for green hydrogen (10 MT of EU production and 10 MT of imports) is necessary, along with a review of the current secondary legislation. Essential new market-pull measures should be introduced, grounded in the principle of carbon neutrality and incorporating value chain-specific approaches. Additionally, the effective implementation of public procurement regulations is crucial to facilitating market development and achieving economies of scale. Furthermore, the necessary complementarity between different types of hydrogen must be recognized to ensure a balanced and efficient energy transition.

To develop a market price for hydrogen and establish it as a commodity in the medium term, widespread infrastructure is essential. State guarantees and pragmatic regulation are necessary to ensure this infrastructure is built swiftly and aligns with demand.

In our view, the Clean Industrial Deal Framework does not provide sufficient impetus for the hydrogen ramp-up in Europe. The planned adoption of the delegated acts on low-carbon hydrogen[2] is a step in the right direction, but the available volumes on the market remain too low and prices too high. Many industrial players have provided feedback on critical points, such as the default value for upstream emissions and the requirement that electricity emissions must either comply with RFNBO standards or default to grid averages. It will be appreciated if the European Commission will take this feedback into account and ensure a workable definition of low-carbon fuels.

To establish a functional market, all low-carbon hydrogen technologies must be incorporated. The European Hydrogen Bank can support the expansion of capacities and lower prices in the long term, thereby strengthening the competitiveness of the industry. However, the current proposal neglects essential hydrogen imports.

In addition, Regulation (EU) 2023/1184 on power sourcing for RFNBOs must be urgently revised, as it has not yet sufficiently mobilized cross-sector investments. A successful ramp-up requires realistic criteria for green hydrogen and a technology-neutral strategy. Producers of green hydrogen will not be sure in the coming months whether they still have to produce on the basis of the RFNBO specifications or not. A short-term decision is needed here.

VIK calls for a reliable framework for hydrogen as well as for CCUS to ensure investment security and support market ramp-up. This includes a grandfathering provision for new industrial installations which should be tied to the date of the Final Investment Decision (FID). These facilities must be assured the right to operate under the regulatory conditions in place at the time of the FID for a minimum of 15 years. This provision should also extend to scheduled regulatory reviews to avoid delays in FID caused by possible changes. As demonstrated by the delegated act on RFNBOs, such uncertainty can significantly hinder the transition to renewable energy sources. Additionally, the RED III-framework should be extended until 2050 to ensure long-term planning security for the industry. Since the current REDIII-Directive only applies until 2030 and lacks clarity beyond that, a stable regulatory pathway is necessary for investment decisions and a successful transition.

[2] In this context, we understand low-carbon hydrogen to include all types of hydrogen with reduced CO_2 intensity – not only those defined in the Delegated Regulation of the European Commission on the methodology for calculating the greenhouse gas savings of low-carbon hydrogen.

Introduction of the Clean Industry State Aid Guidelines (CISAF)

The Guidelines for State Aid for climate, environmental protection and energy and CISAF should be flexible enough to ensure industrial energy consumers' competitiveness and rapid actions of both EU and member-states[3], not only in case of new energy crisis. An introduction of the new Clean Industry State Aid Framework needs to be shaped in a way that unlocks more funding for cleantech and green projects by streamlining State Aid procedures and eliminating the need for complex individual assessments. The implementation period for the new state aid framework is 36 months—adjustments should be made here as well, extending it to 48, 60, or even 72 months as a significantly more realistic approach.

The current CISAF-draft is not sufficient to address support for industrial steam in the case that steam is produced not in the same legal entity as it is consumed. This excludes, for example, industrial or chemical parks where steam is produced by the site operator but consumed on-site by a chemical company that is a separate legal entity. Supply relationships within such chemical sites should also fall within the scope of CISAF, as strict "self-consumption" rules would unfairly disadvantage these highly efficient chemical parks. An enabling, technology-neutral CISAF framework needs to effectively foster the necessary complementarity between different types of hydrogen[4] rather than unfortunate competition and allow for the support of low-carbon heat and steam production, especially in the context of industrial parks where the steam producer and the steam-consuming company are separate legal entities located in proximity at the same industrial site. In addition, it is important that the use of hydrogen should not be limited by the CISAF-framework to certain applications. It is crucial to create a functional hydrogen market as quickly as possible, which will be driven by a wide range of hydrogen applications rather than just a few. Therefore, it is essential to foster technological openness.

Concerning the listed investment subsidies for storage it should be required that investments in storage for industrial sites with local relevance (i.e., directly at or on the site) should be promoted, and that this investment support should not conflict with presumed subsidies in the form of special grid fees. That is, special grid fees should also be granted if the investment in storage has already been subsidized. Additionally, "general" storage systems do not need to be subsidized, as this is already causing significant issues for network operators in terms of grid security. The funding should be limited

[3] The CID and the state aid framework should adjust and complement subsidies at both the EU and national levels (e.g., adaptation of the GBER). This should be given greater consideration, as it will have long-term effects on energy-intensive industrial companies. The central framework for all subsidies—GBER, IF, IPCEI, CCfDs, coupled with PPAs, etc.—must be taken into account, ensuring its general applicability.

[4] Specifically, the condition that a percentage based on the renewable share in the country of location must be used for aid to investments in low-carbon hydrogen is undermining the business case for low-carbon hydrogen projects.

to storage systems that are installed directly for industrial companies at or within their production sites. Chemical parks should be considered as production sites in this context.

In relation to state aid for flexibility, it is important to note that the proposed list should be expanded to include flexibilities that serve to balance self-operated renewable energy systems or PPAs. For example, through cogeneration plants with flexible electricity generation control, heat pumps or electric boilers. Additionally, the capacity mechanism should be open to demand-side management and storage. However, the framework conditions, including supply period possibly spanning several months, are not feasible. Therefore, it should be required that the framework conditions for demand-side management and storage be designed in such a way that they are enabled to participate technically and economically. In general, an effort should still be made to reduce the minimum percentages specified wherever they are mentioned, in order to include more projects within the scope.

Finally, subsidies for fossil raw materials and energy carriers are not adequately considered, even though substantial savings could be made in this area, and CAPEX and OPEX would initially be lower than for other investments. It is mentioned in CISAF that the focus should not be on a single technology (technology neutrality) but should take a holistic approach to renewables. However, the primary focus remains on green hydrogen, green electricity, and water electrolysis. Biomass is only considered marginally and under specific conditions. In our view, all subsidies should be maintained to a certain extent and linked closely to circular economy.

VIK is the association of industrial energy consumers in Germany. For more than 70 years VIK represents in his role as an industry-wide association the interests of companies from e.g., aluminium, chemicals, glass, paper, steel and cement. VIK advises its members on all energy and energy-related environmental issues.