POSITION PAPER

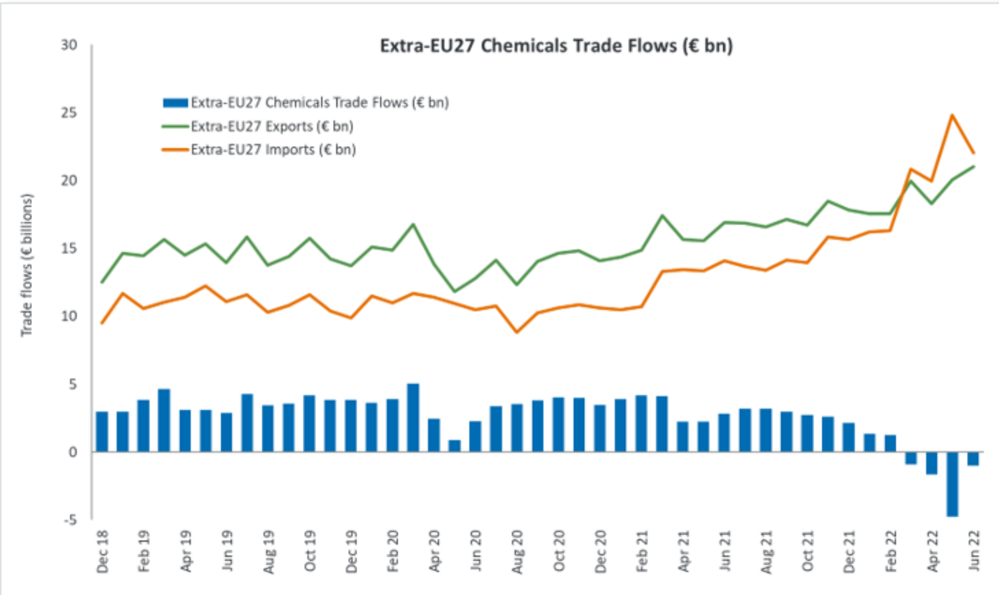
OCTOBER 2022

Energy crisis: the EU chemical industry is reaching breaking point

The current energy crisis has reached an unsustainable level for the European chemical industry. For the first time ever, the EU imports more chemicals than it exports, both in volume and value, resulting in a trade deficit of € 5.6 bn for the first half of 2022.

This same energy crisis is making a dent in the competitiveness of the chemical industry, which is one of the most energy intensive in Europe[1], having to compete on the global market with players from regions with more favourable energy prices. The EU chemical sector supplies virtually all other value chains, including food, healthcare, construction and transport, and any disruptions it undergoes endanger the EU's aim to be strategically autonomous.

"We are approaching the point of no-return: if no emergency solution to the energy prices is provided to our sector, we are not far off the breaking point. Hundreds of businesses in the chemical sector are already in survival mode and we have started seeing the first closures. We need action now." says Marco Mensink, Cefic Director General.



Source: Eurostat and Cefic Analysis, data correct at the date of publication (20 October 2022)

[1] In 2019, the fuel and power consumption of the EU27 chemical industry, including pharmaceuticals, amounted to 50.8 million tonnes of oil equivalent (about 591 TWh). EU27 gas and electricity account for nearly two thirds of total energy consumption (respectively 211 TWh and 166 TWh). Gas consumption in the chemical industry accounts for about 10% of total EU gas consumption (Source: Cefic elaboration of Eurostat figures).

European Chemical Industry Council - Cefic aisbl
Rue Belliard 40 b.15 B-1040 Brussels Belgium
Tel. +32.2.436.93.00 mail@cefic.be www.cefic.org
EU Transparency Register n° 64879142323-90

Chemistry can

We call on the European Commission and Member States to immediately design and implement closely coordinated pan-European measures to limit the impact of energy prices vis-à-vis competing economies, increase energy supply and incentivise reductions in energy consumption, which both target the upcoming winter and prepare for 2023 and beyond.

More concretely:

- **Emergency measures to go through this winter should aim to:**
    - Secure the competitiveness of energy supply
    - Safeguard the survival of EU industry
    - Support energy savings
    - Preserve the functioning of the energy market

- **Immediate action to prepare for 2023 and beyond should**:

    - Ensure security of supply
    - Develop EU energy infrastructures
    - Keep promoting renewable and low-carbon energy sources
    - Design a summer 2023 resilience plan
    - Timely deliver the Electricity Market Design review

Cefic has elaborated a detailed set of proposals on all of the above-mentioned points on the following pages.

More detailed Cefic views on the European energy crisis and emergency measures needed

The chemical industry is the fourth largest manufacturing industry in the EU supplying virtually all other value chains, including food, healthcare, construction, and transport. It is also one of the largest energy-intensive industries in Europe, with the consequence that - triggered by the war in Ukraine - the energy crisis has affected it to an unsustainable levels.

For the first time ever, the EU imports more chemicals than it exports, both in volume and value, resulting in a trade deficit of € 5.6 bn for the first half of 2022. This also means that new import dependencies are being created.

Skyrocketing gas and electricity prices vis-à-vis competing economies, the potential risk of gas supply shortages and mandates of electricity consumption reduction are putting hundreds of chemical plants at risk throughout Europe.

We welcome the intent of the European institutions and Member States to address the impact of this crisis and strongly support the EU continuing to do its utmost to act to attract sufficient volumes of natural gas at cost-competitive prices. We encourage the European institutions to assess the unintended consequences of any policy option, in particular negative implications for the liquidity of wholesale markets and cross-border energy flows, as well as the impact on gas demand.

Unfortunately, this is not enough. The impact of this prolonged energy crisis and diverging energy costs in Europe compared to the rest of the world is far-reaching, affecting the survival of entire industrial value chains in Europe.

Moreover, we see the risk that an uncoordinated implementation of different measures will not only lead to a fragmentation of the internal energy market, but even to its regression. This would further harm European industry. National measures in place of EU-wide measures will harm the level playing field in the chemical and other European industries, despite this being an important pillar of the EU internal market.

For all these reasons, we call on the European Commission and Member States to urgently trigger the levers already available to immediately design and implement closely coordinated measures to limit the impact of energy prices in a fast and decisive manner to already ensure relief during this winter. A comprehensive package is needed to lower the impact of energy prices in Europe, increase energy supply and incentivise the reduction of energy consumption.

Building on the Temporary Crisis Framework and the Proposal for a Regulation on an emergency intervention to address high energy prices, we ask to:

- Design, develop and apply a temporary EU set of instruments that can be immediately implemented to help industry overcome the challenges in the upcoming winter, while at the same time preparing for the challenges for 2023 and beyond. Measures should be adapted to the seriousness of the situation.

- Increase support, expertise, and funding for DG Energy in the European Commission, enabling it to fast-track the necessary measures. This involves putting a crisis structure in place, re-allocating resources where they are most needed, including in the Energy Council and preparatory meetings.

- Accommodate the much-needed measures aimed at energy consumers by mobilising all remaining available resources and tools and expanding policies to provide financial stress relief for industry in need, such as a SURE-like EU solidarity mechanism. Repurpose all EU funds still available, such as the remaining funds from the NEXT Generation EU recovery package.
- Develop coordinated pan-European measures to avoid the fragmentation of the internal energy market and prevent distortion of intra-EU competition.
- Assess and prioritise measures to deliver the highest impact at the lowest cost to society. Actively share best practices among Member States and engage with the sectors most impacted in industry.
- Establish an EU-wide industrial crisis platform of the key leading industry CEOs from the different energy-intensive sectors to facilitate a discussion to give fast and direct feedback to the highest EU policymaking levels and Heads of States and governments.

More concretely, the European Commission and Member States should start implementing the following short to medium-term measures:

- **<u>Emergency measures to get through this winter</u>**
  - <u>Secure the competitiveness of energy supply</u>
    - Push for more international solidarity from our allies (e.g. Norway, USA) to deliver their gas to Europe at cost-competitive prices.
    - Remove all obstacles to allow for all available (idle and backup) power plants in Europe to increase the production of low-cost electricity. Unlock the potential of all electricity generation assets to minimise the use of natural gas in electricity. Remove regulatory bottlenecks preventing free flows of electrons and molecules across Europe.
    - Ensure emergency measures targeting the skyrocketing energy prices, in particular for gas and electricity. Especially ensure that the deployment of floating regasification units (FSRUs) takes place at the highest possible speed and without unnecessary administrative delays.
    - Reinforce the RePower EU planned monetisation of the Market Stability Reserve to lower power prices in the short term, along with the European Commission proposals, since this preserves the integrity of the carbon markets in the long term while contributing to a positive impact on the cost of electricity.
    - Design and implement urgent measures to remove permitting bottlenecks hampering both short-term fuel mix change and the expansion of renewables and other low-carbon solutions. This concerns both existing fuel installations and the construction of new ones.
  - <u>Safeguard the survival of EU industry</u>
    - Alleviate the impact of energy-related costs for industries without causing an unintended increase in energy consumption, awarding the right behaviours and discouraging the wrong ones.

- Ensure all energy-intensive industries are eligible for support. In defining such measures, excessive requirements concerning the eligibility criteria for energy-intensive recipients should be avoided, otherwise the necessary impact of the emergency relief granted will be watered down by additional costs at times when industry is striving for survival.
- Constantly monitor the impact of sanctions on trade flows from Russia, China, USA, and Turkey and assess the impact they have on EU manufacturing. Provide further supportive actions as appropriate.
- Provide access to financing mechanisms especially for SMEs, to prevent the further erosion of industrial value chains in Europe. Take proper account of the fact that when one crucial link in a value chain get impacted, the entire value chain faces consequences that are not in line with the EU's aim to be strategically autonomous.
- Make all possible measures for temporary technical unemployment available across Europe to provide relief to companies, while keeping the much-needed talent in the industry.
- (Temporarily) increase the possibilities and levels of the temporary State Aid frameworks and allow for more sectors to be included in a fair way in the Indirect EU ETS compensation already in place – this can be decided single-handedly by DG Competition.
- Ensure national energy tax levels do not exceed the minimum levels set in the EU Energy Tax Directive. Also here, ensure a European level playing field.
- Support the design of reporting structures compliant with competition law into the European Commission to give short-term feedback on capacity reduction and closures. Take stock of the state of the industry with much shorter lead times than the current ex-post statistics can provide.
- Expand and fast track the spending of the EU ETS innovation fund, ensuring that these crucial projects for future decarbonisation continue to be pursued.
- Actively study and apply the lessons from the US Inflation Reduction Act, specifically with regard to the use of tax breaks as incentives versus costly measures such as mandates and bans.

o <u>Support energy savings</u>

- Give direct support (grants and loans) to voluntary measures that reduce demand now, both in large companies and SMEs. Allow for project funding by national governments under the EU State Aid frameworks. Specifically safeguard the survival of breakthrough projects that are at risk of being put on hold now because of the unsustainable cost levels.
- Incentivise voluntary measures by providing easy access and remunerating fuel.
- All sectors need to contribute: saving energy only by reducing industrial production is not a sustainable strategy.

- Preserve the functioning of the energy market
    - Learn from the different proposals given by Member States and allow for emergency measures, but ensure they do not cause a risk of the security of supply and are considered as exceptional and strictly temporary, based on the exceptional situation of the energy markets.
    - Design these measures in such a way that they do not change the power merit order or result in an undue increase in gas consumption, ultimately endangering the security of gas supply.

➢ **Acting now to prepare for 2023 and beyond**

- Ensure security of Supply: Secure additional gas supplies for spring 2023 onwards, sending reassuring messages to the market. But also elaborate on all other energy carriers, as this will not only be a gas issue.
- Develop EU energy infrastructures: define the planning of the necessary EU energy infrastructure to allow for much faster and competitive electrification, CO_2 and hydrogen transport in Europe, to also provide the opportunities for industries located in disadvantaged areas. Plan the necessary resources to be made available, especially to overcome cross-border issues both within the EU and with other jurisdictions.
- Keep promoting renewable and low-carbon energies: accelerate the approval of pending authorisation procedures for the deployment of renewable and low-carbon energies and energy infrastructures. Find a solution to shorten the permitting of renewable and low-carbon projects in Europe as soon as possible.
- Design a resilience plan for summer 2023: Stress tests for electricity adequacy in view of the summer of 2023, including both the gas and the power sector and the largest industrial energy consumers in the EU in the stress testing, so that we do not face the same situation next winter.
- Timely deliver the Electricity Market Design review: create the enabling conditions to unlock the potential of electrification as a climate solution.

*****

For more information please contact:
Nicola Rega, Energy Director,Cefic,
+32 485 403 412, nre@cefic.be

About Cefic
Cefic, the European Chemical Industry Council, founded in 1972, is the voice of large, medium and small chemical companies across Europe, which provide 1.2 million jobs and account for 15% of world chemicals production.