Warsaw, 23.12.2024

Dear Ms. Ursula von der Leyen
President of the European Commission

Dear Madame President,

As representatives of the European Union's industry we welcome the commencement of the discussion on the European Competitiveness Fund (ECF). Establishing a Fund aimed at boosting the competitiveness of the European industry appears as a good idea for coherently directing EU funds towards objectives implementing specific EU policies.

In this letter, we point out that if the ECF is to support the competitiveness of the EU economy, it should address all factors relevant for competitiveness – in particular those determining the competitiveness of energy-intensive industries ('EIIs') compared to the world's largest economies.

Climate Policy and Competitiveness

"The future of European competitiveness. Part A: A competitiveness strategy for Europe", developed under the leadership of M. Draghi, highlights the issue of asymmetric decarbonization, i.e. the disparity in how easy it is to reduce greenhouse gas emissions in different sectors. For instance, while it is quite straightforward in the case of electricity generation, in other sectors it requires a radical remodelling of technological processes. EEIs are one of the so-called *hard-to-abate* sectors. The strategy emphasizes that the EEIs face greater competitive pressure from the world's largest economies precisely due to the characteristics of the EU's industrial policy, which makes it more difficult to apply subsidies, and also because of the EU's climate policy ambitions going further than those of its competitors.

The EU is already applying certain policies aimed at mitigating cost disparities borne by EU industries and third country industries due to climate policy. Those policies are, however, not sufficient to keep the EU industry competitive in particular in the light of extraordinary events that have taken place in recent years (inter alia the COVID-19 pandemic or the energy crisis following Russia's military aggression towards Ukraine), One of the tools functioning within the EU ETS system is the free allocation of emission allowances for industries at a risk of carbon leakage. It addresses that risk effectively, according to the assessment of the Commission in a staff working document[1]. In particular, that tool ensures level playing field for the European industry both in the internal market and in the markets of third countries. Another mechanism is the CBAM (Carbon Border Adjustment Mechanism); however, this tool has only been introduced recently, it is functioning to a limited extent until the end of 2025,and we do not yet know to what extent it will deliver. Most importantly, CBAM is not a direct revenue source for undertakings, but comes along with the abolition of free CO_2 emission allowances, which aggravates production costs and further worsens the competitive position of EU undertakings. At the same time, the decarbonization of energy-intensive industries requires significant investment – not only in research and development, but also in the implementation of technologies and the modernization of industrial facilities.

Particularly, the latter should be the subject of dedicated financing mechanisms, including the use of public funds. The needs are enormous and vary significantly between Member States – depending, among other things, on the characteristics of a given industrial base, but also on the capacities of national budgets.

Treaty Framework for EU Industrial Policy

In our opinion, EU primary law on industry justifies giving appropriate significance to the decarbonization of EEI. According to Article 173(1) of the Treaty on the Functioning of the EU ("TFEU"), the objective of the Union and Member States' industrial policy is to *ensure that the conditions necessary for the competitiveness of the Union's industry exist*, among others *by speeding up the adjustment of industry to structural changes*. Actions implementing the EU's climate policy are undoubtedly such a change. According to paragraph 3 of the aforementioned provision, policies and actions taken under other treaty provisions—such as Article 191 regarding policy on the environment—*should contribute to the achievement of the objectives set out in paragraph 1*. In other words, climate policy should not be at odds with the competitiveness of the Union's industry.

Moreover, one of the principles of EU employment policy included in Title IX of the TFEU is the contribution to *a high level of employment*. That goal should be *taken into*

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consideration in the formulation and implementation of Union policies and activities (Article 145). We are concerned that leaving out the financial needs arising from the decarbonization of existing energy-intensive sectors from the new budget perspective may lead to a significant decrease in industrial employment, along with aggravating carbon leakage, i.e. relocating industries outside of the EU. Regardless of the pace at which workers in these sectors can adapt to work in new industries—for example, those covered by the Net-Zero Industry Act—it must be borne in mind that in some Member States these industries hardly exist in the current industrial base, and would therefore have to be created from scratch. In practice, this can lead to glaring disparities in the geographical distribution of the social costs and benefits arising from the transformation of the Union's economy. Therefore, in light of the principles of EU employment policy, it is reasonable to focus on first adapting the existing industry to new conditions in which it must function.

Own Industry Protecting Union's Security

In the current geopolitical situation, thinking about competitiveness cannot overlook the issue of security. In recent years, various EU policies have increasingly recognized the risk of supply chain disruptions due to, among other things, military aggression. This is evident in e.g. the EU's policy on critical raw materials – the Critical Raw Materials Act and the list of materials defined thereunder. It should be noted that coking coal used in steelmaking is one of such critical raw materials. Thus, the EU legislator recognizes the strategic importance of the capability to produce steel and other metals, hence this sector should be an area of intervention under EU industrial policy. Chemical industry also serves the role of connecting the value chain and supporting functioning of numerous other sectors, allowing them to function efficiently. The same applies to many other raw materials and goods that enable the economy to function – fertilizers, chemicals, plastics, lime, cement, and glass. While, in the times of peace, the aforementioned cost disparity due to climate policy is the main problem with importing industrial products from third countries, during a war every supply chain link located outside the Union—particularly in a hostile country or an ally of a hostile country—becomes a potential security problem. Therefore, the EU's climate policy should recognize not only the issue of carbon leakage but also the geopolitical consequences of depending on imports for certain goods or raw materials. This issue has already been acknowledged in the area of fuel supply, as evidenced by the plan to make EU independent from the imports of Russian fuels (REPowerEU), but it also occurs in the context of industrial production.

ECF in the Mandate of the New Commission

Although the detailed concept of the ECF has not yet been officially announced in any document, we note that the President addressed these issues in the Mission Letters outlining the tasks of the commissioners.

In the letter to Commissioner Henny Virkkunen, you have highlighted the importance of building the European Defence Union – not only for security, but also for the competitiveness of the EU's defence industry. It should be emphasized that this competitiveness depends, among other things, on the situation of the industries that make up the value chain in this sector, a significant part of which is energy-intensive.

In the letter to Commissioner Piotr Serafin, there is a task involving the shift of the EU budget's nature – from programme-based to policy-based. In this context, the establishment of the ECF as a mechanism for achieving investment capacity to support sectors of strategic importance for the Union's competitiveness is officially mentioned; according to M. Draghi's report, this also includes the EIIs.

Last but not least, in the letter to Commissioner Stéphane Séjourné, whose mandate covers the EU's industrial strategy, you have entrusted him with tasks related to the decarbonization of industry – mentioning the future Industrial Decarbonisation Accelerator Act. However, Commissioner Séjourné's tasks also include the development of the ECF. Thus, it seems clear that these areas must be consistent – there is no reason to implement actions related to the decarbonization of the existing EII outside the context of the Union's economic competitiveness, for example by excluding financial support for modernization from the ECF.

The Necessity of Coordinating Funding at the EU Level

We see another reason for shifting the centre of financing the decarbonization of processes in EIIs towards greater coordination at the EU level. According to Article 173 of the TFEU, industrial policy is, of course, an area of shared competence. However, due to the large financial needs and the importance of energy-intensive sectors for the economies of some Member States – and their labor markets – support for EIIs often comes from public funds. The lack of coordination of national policies in this area leads to a situation where only industries from the wealthiest Member States can compete in the global market, and the potential of sectors existing in less affluent states does not support the competitiveness of the Union as a whole.

In this context, the Mission Letter to Commissioner S. Séjourné indicated the need to ensure that the ECF is consistent with EU policy regarding State aid. We see an opportunity in the better coordination of public intervention at the EU level, as this can limit their negative impact on the internal market.

Current Opportunities and Future Needs

We note that, according to media reports on the draft concept discussed in the Commission, the ECF would include among others the funding provided by the European Institute of Innovation and Technology. Under the Horizon Europe program, research related to the decarbonization of steelmaking is already being funded. This is the right direction, but one deserving of intensification and enlargement to other sectors in the new budget perspective: in practice, as mentioned above, the costs of transforming energy-intensive industries are primarily the investment costs associated with implementing technologies developed in research processes. Considering the trajectory of climate policy, including rising EU ETS costs, undertakings in *hard-to-abate* industries may soon face the problem of a lack of prospects for profitability within the Union. To prevent an investment paralysis, a clear signal must be given to the industry whether it can count on support in the processes necessary for transformation.

We therefore believe that the decarbonization of EIIs should be a prominent element of the Union's industrial strategy, and the distribution of funds allocated for this purpose should take into account the specifics of the economies of individual Member States. Only then can this transformation be performed in the spirit of solidarity.

We remain at the disposal of the European Commission for discussing the needs, but also the importance of specific industrial sectors for the competitiveness of the Union.

Yours faithfully,

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Elżbieta Rozmus, Member of the Board, Polish Chamber of Industrial Energetics and Energy Customers

Marcin Leszczyński, Chairman of the Board, Polish Lime Association

Krzysztof Kieres, Chairman of the Board, Polish Cement Association

Kazimierz Poznański, Chairman of the Board, Economic Chamber of Non-Ferrous Metals and Recycling

Szymon Liszka, Chairman of the Board, National Association „Respect for Energy and the Environment"

Jan Świątek, Chairman of the Board, Polish Glass Manufactures Federation

Przemysław Świerkowicz, Chairman of the Board, Industrial Gases Association

Tomasz Katewicz, Chairman of the Board, The Association of Polish Papermakers

Mirosław Motyka, Chairman of the Board, Polish Steel Association

Ferdynand Gacki, Chairman of the Board, Polish Ceramic Union

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