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Press release

Berlin, 22 June 2021

What level of levies on electricity prices bears the risk that energy-intensive firms relocate? A consortium headed by E.CA Economics provides the EC with an economic study for the EEAG revision

New research from E.CA Economics in cooperation with DIW Berlin indicates existing, but limited, risk of relocation due to increasing electricity prices for electro-intensive and trade-intensive firms. The study offers key insights into the effects of environmental electricity levies on profitability of companies in eleven EU member states and the role of exemptions for energy-intensive firms. Based on the study, the European Commission is in the process of revising the guidelines for exemptions of electricity levies (the EEAG).

On 11 June 2021, the European Commission (DG Competition) published the draft revised Guidelines on state aid for climate, energy and environment (CEEAG) for consultation. The draft was developed based on a background study carried out by a research consortium that consisted of E.CA Economics, German Institute for Economic Research (DIW Berlin), LEAR, University of East Anglia and Sheppard Mullin.

The study assists the Commission in updating the Guidelines to ensure that they are fit-for-purpose, taking into account the general state aid modernisation objectives and the recent regulatory developments (notably the Clean Energy Package, Clean Mobility Package and Circular Economy Package), and that they facilitate implementation of the European Green Deal.

E.CA Economics and DIW Berlin address one of the three main objectives of the overall study, that is the effects of the EEAG on energy-intensive users ("EIUs"). The researchers provided the European Commission with an analysis of the economic parameters currently used by the EEAG 2014 to determine the eligibility of sectors for exemptions from decarbonisation levies for energy-intensive users, assessing whether they are the most relevant parameters for the risk of relocation from an economic perspective. Secondly, the study determined the extent to which the risk of relocation – proxied by profitability – of EIUs is affected by different levels of Renewable Energy Sources (RES) and Combined Heat Power (CHP) levies on electricity for a sample of ten sectors.

Beyond a critical review of the literature, insightful statistics are provided on RES and CHP full levies and exemptions thereof for the time from 2011 to 2018. For example, regarding individual

countries, the authors found that Germany has the highest and over time increasing *full* levies. However, given the applicable exemptions, the effective levies for EIUs in Germany were at the EU average.

“We found profound heterogeneity in levies on electricity prices across countries, sectors and time. In Germany the levies were the highest of all countries, showing the ambition to collect significant budget for renewable energy sources from electricity users,” says Ela Głowicka. “However, energy-intensive users in Germany received the largest exemptions from the levies, showing that policymakers make efforts to create a level-playing field for German firms on the European market.”

Based on the comparison of different scenarios, the study finally assesses the trade-offs between key policy objectives: maximising the budget available for the Green Deal, minimising competition distortions within the EU and minimising the risk of relocation. The study finds that scenarios in which exemptions are granted conditional on the full levy exceeding a certain threshold are best in resolving the trade-offs between these policy objectives. Such a scenario would allow an increase in budget available for the Green Deal and reduce the current heterogeneity in levies – i.e. the competition distortions. In addition, according to the authors’ estimations, it would be unlikely to cause large profitability reductions in most countries and sectors, limiting the risk of relocation.

“Our simulations show that levy reductions for energy-intensive users can have very different effects on corporate profitability and, hence, the risk of relocation depending on the type of the intervention,” says Anselm Mattes. “That’s why policymakers should be very careful when designing the reductions.”

The research in this part of the overall study (study item 3) was carried out by Hans W. Friederiszick, Ela Głowicka and Anselm Mattes, Jan Christopher Rönn and Arvid Viaene, all E.CA Economics, and Tomaso Duso, Joanna Piechucka and Jo Seldeslachts, of DIW Berlin.

The public consultation on the revised Climate, Energy and Environmental Aid Guidelines (CEEAG) will close on 2 August 2021.

Link to the study: **https://ec.europa.eu/competition-policy/system/files/2021-06/kd0521173enn_EEAG_revision_2021_0.pdf**

Further information and documents on the CEEAG: **https://ec.europa.eu/competition-policy/public-consultations/2021-ceeag_en**

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About E.CA Economics

E.CA Economics is one of the leading European competition economics consultancies, advising law firms, companies and authorities in the fields of competition policy and regulation. This includes work such as mergers, antitrust or state aid cases and economic analyses within regulatory procedures and studies on competition policy issues for international organisations. Our international team of over 40 economists works in a wide variety of sectors and in numerous European jurisdictions. Our offices are based in Berlin, Brussels and Munich.

We contribute substantial value for our clients by providing tailormade advice built on robust economic analyses and thorough research. As a partner of ESMT Berlin, a leading business school in Germany, E.CA Economics can draw on the latest economic research. On transatlantic cases, we work jointly with our US partner firm, Bates White LLC. E.CA Economics has been named in Global Competition Review's annual ranking of the Top 21 consultancies for antitrust economics advice since 2008. **www.e-ca.com**