SLOVAKIA ‘FIT FOR 55’
A EUROPEAN GREEN DEAL BALANCING ACT

THE PRESENT AND FUTURE COMPETITIVENESS OF INDUSTRIAL DECARBONIZATION

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SUMMARY OUTCOME

This webinar was meant to initiate a public-private dialogue on the challenges and opportunities facing deep decarbonization of heavy industry. Slovakia is one of the most industrialized countries in Europe, which can be considered and advantage, but the challenge is to align with the European Green Deal and carbon neutrality. It’s CO2 intensity per GDP is 6th in the EU and 41% of GHG emissions are from ETS industry and energy sectors. Slovakia has never had so much public funding available, and with EU climate spending mandates, this will be used as an opportunity to reduce fossil fuel inputs in the economy. US Steel will be a major test case for Slovakia, as the highest private employer, and for the EU, to remain globally competitive with countries like China.

The two most relevant ministries for Slovakia’s European Green Deal and industrial strategy made opening remarks. The **Ministry of Environment** discussed alignment of designing new legislation with the new available funds in mind. The Ministry is eagerly awaiting the European Commission’s June proposal, and although this will be announced in a matter of weeks not months, it is not sure what to expect with ETS, effort sharing and the CBAM design. The RRP was submitted on time at the end of April and the **Modernization Fund (MF) is nearly finalized**, prioritizing renewable energy source (RES), district heating, and energy efficiency. This was a big step in preparing the funding stream for clean technologies to industry. State aid rules are also under review, and an initial draft should be ready in the summer for stakeholder consultation, providing enough time for the next investment committee convening in December. The targets for Slovakia are ambitious but manageable, and actions must start now. The **Ministry of Economy** recognizes that the energy transition comes with a cost, but it is **competitiveness that must be prioritized when designing policies in Brussels**, acknowledging that countries like Slovakia have different starting points and economic structures, with such a large industrial footprint facing the challenge of carbon leakage. Industry is in the early stages of a new strategic value chain for green products like turbines and solar panels and maintaining this as part of **EU strategic autonomy** is crucial. In a globalized world we need to avoid a clean EU in a dirty world, meaning global competitors must also follow rules and adopt strict measures, and if not the EU cannot be shy to protect itself. Already the chemicals industry has committed to 2050 neutrality, which is big shift from industry just in the last few years. We can achieve this, but support and guidance of policymakers beyond money is needed. The money is there, with **Slovakia’s EUR 1.5 billion MF together with some EUR 2 billion of RRF for climate action**, which includes 350 million to decarbonization of industry with green innovation and a further EUR 140 million for

R&D. This is setting the stage for industry support within the EUR 13 billion of structural funds expected 2021-2027, plus the Just Transition Fund and a broad package of measures like Important Projects of Common European Interest (IPCEI). The challenges ahead are clear and policymakers are tasked with making the transition as smooth as possible.

From the private sector we welcomed US Steel and Evonik, from steel and chemicals respectively. Just as US Steel is indispensable to the Slovak economy, steel is indispensable for EU manufacturing to maintain a strong presence in EU value chains. A successful transition under the EGD should be agreed between the EU institutions, the steel industry and national governments with a **clear action plan establishing market for green steel from 2021-2030**. For all of the key EU industries like automotive, construction medical, households, the inputs are 100% recyclable. US Steel welcomes the approach put forth during the **German Council presidency** that commits funds to clean up steel production, and member states should follow this example. The EU ETS is the most extensive in the world, while similar systems are only under development in places like China and India, meaning CBAM is needed to make a market correction and prevent imports from 3rd countries without CO2 factored into the cost of production, which should be treated as a **dumped import**. Industry in favour of both systems, EU ETS with free allocation and CBAM. The new Slovak state aid scheme advancing from RES central heating to industry is a welcome development. With all of these EU funds it is important to take into consideration return on investment. In order to support climate action and meet targets, these funds must push industry to invest in market driven projects that compete globally. At EUR 500 million, Just Transition Fund will be used more for coal regions in transition. Finally, **electricity prices for industry require more attention**, with the RES tariff on top of the cost creating a West-East divide.

For chemicals decarbonization is an opportunity for biotechnology, benefiting from **competitive low-cost RES**. EU biotech manufacturing has become more of an import market because **regulatory requirements have been scaled up but not enforced for competitors outside the EU**, with cheaper coal-based power translating to lower equipment and raw materials costs that EU manufacturers cannot compete with. Thus the focus has shifted from large volume to smaller volume with higher value raising the barrier to entry for competitors. Shifting from ETS to CBAMs is not changing much, and for businesses with a high export share outside the EU, CBAM could lead to higher raw material prices. For an industry so reliant on electricity consumption, **least cost supply of RES can be the competitive advantage for EU biotech in the bioeconomy.**

During the discussion session, **Bruegel introduced a new proposal for Commercialization Contracts** which are contracts for difference for industrial carbon abatement similar to RES auctions, separated into technology baskets with similar abatement costs. The older infrastructure in CEE with lower marginal abatement costs would provide built in advantage compared to the West. The public response expressed interest upon further review and some caution over the administrative burden it would cause for the state regulator and private companies to avoid double counting with ETS.