EUROPEAN COMMISSION

Ursula von der Leyen
The President

Brussels, 14 December 2022

Dear colleagues,

Russia's unjustified military aggression against Ukraine and its use of energy as a weapon have caused a sharp rise in energy prices. As we prepare to meet this week, we have all seen how this undermines European competitiveness. Companies across our Union, in particular those in more energy-intensive industries, are finding it difficult to compete on the global stage, as the cost of energy weighs heavily on them. Increasing numbers are pausing expansion, halting operations or are rethinking their future investment decisions. Many are now considering relocating activities outside the EU, potentially affecting entire supply chains.

While this poses new issues, the only effective way out of Europe's energy challenges remains the same: the transition to low carbon solutions, like home-grown and affordable renewables. But this transition will take time and we need to bridge this gap as fast as possible.

This is all the more acutely important as global competition speeds up. We have, for instance, seen the recent US Inflation Reduction Act (IRA), a substantial investment plan in green tech in the United States. In many ways it mirrors our European Green Deal and the green investments provided by NextGenerationEU. The two biggest and most advanced economies in the world are now moving in the same direction towards a net-zero future.

However, it is also clear that elements of the IRA risk un-levelling the playing field and discriminating against European companies, for example through tax credits and production subsidies. My firm conviction is that competition drives innovation and pushes our industries to excel, innovate and transform faster. And we have all seen that European companies are ready to compete in global markets. But competition has to be fair and that means ensuring a level playing field.

We are now grappling with this combination of higher energy prices in Europe and the impact of the IRA. This is the backdrop to our meeting later this week and, in response, I would like to propose a ***four-point plan*** *to address this dual challenge:*

First, we are working closely with the Biden administration on the most concerning aspects of the IRA. *We are discussing how to jointly strengthen our clean energy industrial bases and how to make sure that our respective incentive programmes reinforce each other. In October, we launched the US-EU Task Force, notably to discuss shared challenges such as our over-dependency on Chinese raw materials that are critical for our green transition. A possible solution could be to create a raw materials club to overcome China's monopoly in this area. By for example diversifying primary raw material supply and boosting investments into recycling capacities to create a well-functioning secondary raw materials market. We, the European Union and the US, stand stronger when we stand together collectively.*

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Second, we have to adjust our state aid rules for some years. *We have to make it easier for public investment to power this unprecedented transformation. Our state aid rules exist to make sure that companies from all Member States compete on an equal footing inside the Single Market. However, we are now taking a fresh look to ensure a simpler, faster and even more predictable state aid framework. We need to enable support throughout the whole value chain, down to the production of the most strategic green-tech solutions and clean end products.*

To this end, we are consulting Member States with a view to a time-limited adaption of our state aid rules around five key axes:

- *Simplification of aid for renewable energy deployments;*
- *Simplification of aid for decarbonising industrial processes;*
- *Enhanced investment support schemes for production of strategic green transition goods.*
- *Further targeted aid for new production projects in strategic clean tech value chains, taking into account global funding gaps including subsidies provided outside the EU;*
- *Significantly increasing notification thresholds for state aid in these fields.*

These changes could be implemented at the beginning of 2023.

Third, we must boost European public investment to accelerate the energy transition. *It is clear that not every Member State has the fiscal space for state aid, and we need complementary European financing, including through revenues from ETS, to move all together in the same direction. This also reflects the need to protect our Single Market from fragmentation and uncoordinated responses.*

In the short term, I have proposed to further boost REPowerEU to address critical pan-European interconnectors, energy efficiency and renewables.

In the mid-term, we need a structural solution to boost clean-tech industry in Europe. Our ambition is to be world leaders in the clean transition and to do this, our European industrial policy requires common European funding. This is why I introduced the idea of establishing a European Sovereignty Fund and why we will come forward with concrete proposals in the summer.

And fourth, we have to step up the deployment of renewables. *Thanks to their low operational costs, renewables will positively impact energy prices across the EU. This is why, following our last meeting in October, the Commission proposed a new temporary emergency regulation to speed up the permitting process for renewables.*

In the coming days, we will also launch the consultation for the reform of the electricity market design, as a first step to our legal proposal at the beginning of 2023. This will provide consumers better access to lower cost renewables and more stable prices in the long run.

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In conclusion, let me express my full belief in the Single Market as the solid bedrock to deliver on this four-point plan. With the 30th anniversary of the Single Market drawing near, the time has come to accelerate our work under the Swedish presidency.

I look forward to our discussion on Thursday.

Yours faithfully,

Ursula von der Leyen