Council of the European Union

Brussels, 16 September 2022
(OR. en)

12512/22
ADD 1

Interinstitutional File:
2022/0276(NLE)

CCG 38

PROPOSAL

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
date of receipt:	15 September 2022
To:	General Secretariat of the Council
No. Cion doc.:	COM(2022) 455 final Annex
Subject:	ANNEX to the Proposal for a Council Decision establishing the position to be adopted on the Union's behalf with regard to the decision of the Participants to the Arrangement on Officially Supported Export Credits to expand the scope of the Sector Understanding on Export Credits for Renewable Energy, Climate Change Mitigation and Adaptation and Water Projects

Delegations will find attached document COM(2022) 455 final Annex.

Encl.: COM(2022) 455 final Annex

EUROPEAN
COMMISSION

Brussels, 15.9.2022
COM(2022) 455 final

ANNEX

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to the

Proposal for a Council Decision

establishing the position to be adopted on the Union's behalf with regard to the decision of the Participants to the Arrangement on Officially Supported Export Credits to expand the scope of the Sector Understanding on Export Credits for Renewable Energy, Climate Change Mitigation and Adaptation and Water Projects

ANNEX

PROPOSAL

The position of the European Union is to support the proposed changes to the Sector Understanding on Export Credits for Renewable Energy, Climate Change Mitigation and Adaptation and Water Projects set out in this Annex.

This involves changes to the existing provisions. The articles set out below would replace the current provisions in the Arrangement, resulting in the deletion in their entirety of current Articles 2 and 4, and the deletion of the present Appendices I and II and their replacement by the revised Appendix I, included below.

ANNEX IV: SECTOR UNDERSTANDING ON EXPORT CREDITS FOR RENEWABLE ENERGY, CLIMATE CHANGE MITIGATION AND ADAPTATION, AND WATER PROJECTS

The purpose of this Sector Understanding is to provide adequate financial terms and conditions to projects in selected sectors identified including under international initiatives as significantly contributing to climate change mitigation, including renewable energy, greenhouse gas (GHG) emissions' reduction and high energy efficiency projects, climate change adaptation, as well as water projects. The Participants to this Sector Understanding agree that the financial terms and conditions of the Sector Understanding, which complements the Arrangement, shall be implemented in a way that is consistent with the Purpose of the Arrangement.

CHAPTER I: SCOPE OF THE SECTOR UNDERSTANDING

1. SCOPE OF APPLICATION FOR CLIMATE MITIGATION SECTORS ELIGIBLE TO APPENDIX I

a. This Sector Understanding sets out the financial terms and conditions that apply to officially supported export credits relating to contracts in a sector listed in Appendix I of this Sector Understanding.

b. Such contracts shall relate to the export of complete projects or parts thereof, comprising all components, equipment, materials and services (including the training of personnel) directly required for the construction and commissioning of an identifiable project, providing that:

   1. The project result**s** in low to zero carbon emissions, or CO2 equivalent, and/or in high energy efficiency**;**

   2. The project should be designed to meet, as a minimum, the performance standards as set out in Appendix I; and

   3. The terms and conditions provided shall be extended only to address specific financial disadvantages encountered by a project, and shall be based on the individual financial needs and specific market conditions of each project.

c. For contracts in the eligible sectors listed in Appendix I, Project Class 1, this Sector Understanding sets out the financial terms and conditions that apply to officially supported export credits relating to contracts in the eligible sectors listed in Appendix I, Project Class 1 of this Sector Understanding for:

   1. The export of complete renewable energy plants or parts thereof, comprising all components, equipment, materials and services (including the training of

personnel) directly required for the construction and commissioning of such plants.

2. The modernisation of existing renewable energy plants in cases where the economic life of the plant is likely to be extended by at least the repayment period to be awarded. If this criterion is not met, the terms of the Arrangement apply.

d. This Sector Understanding does not apply to items located outside the power plant site boundary for which the buyer is usually responsible, in particular, water supply not directly linked to the power production plant, costs associated with land development, roads, construction villages, power lines and switchyard, as well as costs arising in the buyer's country from official approval procedures (e.g. site permits, construction permit), except:

1. In cases where the buyer of the switchyard is the same as the buyer of the power plant and the contract is concluded in relation to the original switchyard for that power plant, the terms and conditions for the original switchyard shall not exceed those for the renewable energy power plant; and

2. The terms and conditions for sub-stations, transformers and transmission lines with a minimum voltage threshold of 60kV located outside the renewable energy power plant site boundary shall not be more generous than those for the renewable energy power plant.

[…]

CHAPTER II: PROVISIONS FOR EXPORT CREDITS

4. MAXIMUM REPAYMENT TERMS

For officially supported export credits relating to contracts in the sectors listed in Appendix I, the maximum repayment term is **25** years.

[…]

CHAPTER III: PROCEDURES

5. PRIOR NOTIFICATION

a. A Participant intending to provide support in accordance with the provisions of this Sector Understanding, shall give prior notification at least ten calendar days before issuing any commitment, in accordance with Article 45 of the Arrangement.

b. Such notifications shall include an enhanced description of the project in order to demonstrate how the project complies with the criteria for support, as set out in Article 1 or 2 of this Sector Understanding.

c. For projects supported in conformity with Appendix II of this Sector Understanding, such notification shall include information on the technical or performance standards that are being applied, as well as the expected emissions reductions.

d. For projects supported in conformity with Appendix II of this Sector Understanding, such notification shall include the outcome of any independent third-party review.

CHAPTER IV: MONITORING AND REVIEW

6. **FUTURE WORK**

The Participants agree to examine the following issues:

a. Term-adjusted risk-premia.

b. Conditions for low emission/high energy efficiency fossil fuel power plants including definition of CCS-readiness.

c. Net zero energy buildings.

d. Fuel cell projects.

e. Emissions standards

f. Emissions accounting and reporting

g. Low emissions water transport

7. MONITORING AND REVIEW

a. The Secretariat shall report annually on the implementation of this Sector Understanding. This report will document the outcomes of any discussion procedure under Article 45 of the Arrangement. It will include a summary for public release.

b. The Participants shall regularly review the scope and other provisions of this Sector Understanding. For added certainty, a review will take place by the end of 2028 or after 50 CCSU transactions have taken place, whichever happens first. This review will be based on the body of experience developed from the notification process as well as an assessment of market conditions for climate-related technologies.

APPENDIX I: ELIGIBILITY CRITERIA FOR CLIMATE CHANGE MITIGATION PROJECTS

Project Class and Type	Definition	Rationale	Standards	Specific terms
PROJECT CLASS A: Environmentally sustainable electricity production *[Includes the exact content of current Article 1 and Appendix I, as well as electricity production from hydrogen.]*				
TYPE 1: Renewable energy projects and energy efficiency in renewable energy projects	*Scope of current Article 1 and Appendix I. We do not envisage that this could be a simple copy paste of Appendix I in the "Definition" box, as the actual definition of eligible projects is contained in Article 1, but on substance, we propose to reflect here the scope of current Article 1 and Appendix I, with no change on substance (i.e. no standard, N/A) and the necessary text adjustments of formal nature.*			
TYPE 2: Electricity production from gaseous and liquid fuels of renewable origin, including clean hydrogen	Construction and operation of electricity generation facilities that produce electricity using gaseous and liquid fuels of renewable origin, including clean hydrogen.	Low GHG emissions electricity production.	Life-cycle GHG emissions from the generation of electricity are lower than 100gCO2e/kWh. Life-cycle GHG emissions should be calculated based on project-specific data, using ISO 14067:2018 or ISO 14064-1:2018, and verified by a third party. Either at construction, measurement equipment for monitoring of physical emissions, such as methane leakage is installed or a leak detection and repair program is introduced; or at operation, physical measurement of methane emissions are reported and leak is eliminated.	25 years. *[To be discussed]*

PROJECT CLASS B: Remediation projects in fossil fuel plants, fossil fuel substitution

[Exact content of Appendix II, project class A, type 1, and project class B. We note that renumbering of project class A, type 1, should be reflected in Arrangement article 6 c).]

Copy paste current content of Appendix II, project class A, type 1, and project class B.

Explanations: We suggest to split project class A into two, to have a clear distinction between CCUS projects as such (that can have many applications, not only in the energy sector, but also in manufacturing, and which we moved to the new project class D) and projects focused on electricity generation from fossil fuels (which we suggest to all put together into this new project class B). The EU flagged previously a need to update current standards in this section, but we can agree for the time being to address this at a later stage of the discussions.

PROJECT CLASS C: Energy efficiency

[Exact content of Appendix II, project class C.]

Copy paste current content of Appendix II, project class C.

PROJECT CLASS D: CO2 capture, utilization and storage

[Scope of current Appendix II, project class A, type 2. Here we propose updated standards, to reflect the fact that CCUS is a key technology to reduce GHG emissions in many industrials applications and the standards should not be focused on capture rate but on the effectiveness of the capture, meaning that CCUS projects should be eligible for incentives even if the capture rate is low. The rationale for the new standards proposed is that CO2 leakage can undermine the value of CCUS as a mitigation option. Therefore monitoring should be encouraged through policy provisions.]

TYPE 1: CCUS (Carbon Capture Utilization and Storage) projects as such	Construction and operation of facilities that provide Carbon Capture Utilization and/or Storage, including activities directly related to transportation and infrastructure essential to the operation, such as vehicles and ships.	*Copy paste current content in Appendix II, project class A, type 2.*	CO2 transported from the installation where it is captured to the injection point does not lead to CO2 leakages above 0.5 % of the mass of CO2 transported. Where transport and/or storage of CO2 is involved, appropriate leak detection systems and a monitoring plan are in place, with regular reports verified by the national authorities or an independent third party. Geological storage of CO2 complies with ISO 27914:2017.	*Copy paste current content in Appendix II, project class A, type 2.*
PROJECT CLASS E: Electricity storage				
TYPE 1: Electricity storage facilities	Construction and operation of facilities that store electricity and return it in the form of electricity. This includes pumped hydropower storage.	Storage of electricity allows a higher penetration of renewables and a better management of the demand on the grid.	If the activity includes chemical energy storage, the medium of storage (hydrogen or ammonia) complies with CCSU standards for clean manufacturing of the corresponding product.	25years. *[To be discussed]*
TYPE 2: Production and recycling of batteries	Manufacturing of rechargeable batteries, as well as battery packs and accumulators for transport, stationary and off-grid energy storage and other industrial applications. This includes the manufacture of respective components (battery active materials, battery cells, casings and electronic components). Recycling of end-of-life	Batteries are an important enabler for electricity storage, as well as low carbon transport.	No standard. N/A.	25 years. *[To be discussed]*

	batteries.			
PROJECT CLASS F: Transmission and distribution of low carbon electricity				
TYPE 1: **Transmission and distribution of low carbon electricity**	Construction, expansion and operation of facilities that transport low carbon electricity. This includes direct connections to low carbon sources and whole networks where the average system grid factor meets the standards over a 5-years rolling period.	This supports of a higher penetration of low carbon energy sources.	Low carbon electricity sources are defined as renewable sources or where GHG emissions from the electricity produced is below the threshold value of 100 gCO2e/kWh measured on a life cycle basis. *[As mentioned previously and in our paper for the TEP, we are open to discussing additional eligibility criteria.]*	25 years. *[To be discussed]*
PROJECT CLASS G: Clean hydrogen production, hydrogen transmission and distribution and hydrogen storage				
TYPE 1: **Production of clean hydrogen**	Construction and operation of facilities that produce hydrogen in an environmentally sustainable way, and/or of equipment for the production of hydrogen.	Sustainable production and use of hydrogen is an opportunity for GHG emissions reductions in many sectors, especially energy, manufacturing and transportation.	Manufacture complies with life-cycle GHG emissions lower than 3 kg CO2e per kg of H2 produced. *[Standards should be reviewed regularly. This could be flagged as part of a general review clause.]*	25 years. *[To be discussed]*
TYPE 2: **Hydrogen transport networks**	Construction and operation of networks dedicated to hydrogen transport or other low-carbon gasses (i.e. from a renewable source or matching the standard for production of clean hydrogen). Repurposing of natural gas networks to 100% hydrogen and retrofitting of natural gas networks that enables the integration of hydrogen and other low-carbon gasses (meaning including that increase the blend of hydrogen and other low-carbon gasses in the system).	Sustainable production and use of hydrogen is an opportunity for GHG emissions reductions in many sectors, especially energy, manufacturing and transportation.	The activity includes leak detection and repair of existing gas pipelines and other network elements to reduce methane leakage.	25 years. *[To be discussed]*
TYPE 3: **Storage of hydrogen**	Construction of hydrogen storage facilities, conversion of existing underground gas storage facilities into storage facilities dedicated to hydrogen storage and operation of hydrogen storage facilities.	Sustainable production and use of hydrogen is an opportunity for GHG emissions reductions in many sectors, especially energy, manufacturing and transportation.	In the case of projects linked to operating the facilities, hydrogen stored in the facility should meet the standards for production of clean hydrogen from this Appendix.	25 years. *[To be discussed]*
PROJECT CLASS H: Low emissions manufacturing				
TYPE 1: **Production of clean ammonia**	Low emissions manufacture of anhydrous ammonia.	To promote the production of clean ammonia and its usages that have the potential to reduce GHG emissions in	Ammonia is produced from clean hydrogen produced according to the standards defined in this Appendix or is recovered from waste water.	25 years. *[To be discussed]*

		several areas.		

TYPE 2: Low emissions manufacturing in hard-to-abate sectors (including cement, iron and steel, aluminium)	Low emissions manufacturing including complete manufacturing plants and part thereof, supplies of equipment and directly associated infrastructure and services.	To incentivize manufacturers to move toward sustainable practices in hard-to-abate sectors.	The EU proposes the following activities to be eligible based on a reference value for top tier less emitting manufacturing installations[1]:
			
			<u>For cement</u>:
			a) Grey cement clinker where the specific GHG emissions are lower than 0,722 tCO2e per tonne of grey cement clinker.
			b) Cement from grey clinker or alternative hydraulic binder, where the specific GHG emissions from the clinker and cement or alternative binder production are lower than 0,469 tCO2e per tonne of cement or alternative binder manufactured.
			
			<u>For iron and steel:</u>
			a) Iron and steel where GHG emissions, reduced by the amount of emissions assigned to the production of waste gases do not exceed the following values applied to the different manufacturing process steps:
			a. hot metal = 1,331 tCO2e/t product;
			b. sintered ore = 0,163 tCO2e/t product;
			c. coke (excluding lignite coke) = 0,144 tCO2e/t product;
			d. iron casting = 0,299 tCO2e/t product;
			e. electric Arc Furnace (EAF) high alloy steel = 0,266 tCO2e/t product;
			f. electric Arc Furnace (EAF) carbon steel = 0,209 tCO2e/t product.
			b) Steel in electric arc furnaces (EAFs) producing EAF carbon steel or EAF high alloy steel, and where the steel scrap input relative to product output is not lower than 70 % for the production of high alloy steel and 90 % for the production of carbon steel.
			
			<u>For aluminium:</u>
			a) Primary aluminium where the economic activity complies with the following criteria:
			a. GHG emissions do not exceed 1,484 tCO2e per ton of aluminium manufactured.
			b. The average carbon intensity for the indirect GHG emissions does not exceed 100g CO2e/kWh. c. The electricity consumption for the manufacturing process does not exceed 15.5 MWh/t Al.
				25 years. *[To be discussed]*

[1] The reference values are based on the EU Emissions Trading Scheme (ETS) benchmark, where reference values on GHG emissions for the manufacturing of a given product are derived from the average GHG emissions intensities of the 10% most efficient installations EU wide.

			b) Secondary aluminium. *[Standards should be reviewed regularly. This could be flagged as part of a general review clause.]*	
PROJECT CLASS I: Zero and low emissions transport				
TYPE 1: **Zero emissions transport and enabling infrastructure**	Zero direct emissions fleets including vehicles for road, rail and water transport and associated infrastructure[2] essential to operating such vehicles.	The transition to zero and low direct tailpipe emissions fleets is key in achieving climate change mitigation.	Direct tailpipe CO2 emissions of the moving assets are zero. Only in case of freight transport, vehicles, train, wagons or vessels are not dedicated to the transport of fossil fuels and infrastructure is not dedicated to the transport or storage of fossil fuels.	25 years. *[To be discussed]*
TYPE 2: **Low emissions water transport**	Low emissions water vessels.	The transition to zero and low direct tailpipe emissions fleets is key in achieving climate change mitigation.	For inland passenger water transport: Hybrid and dual fuel vessels derive at least 50% of their energy from zero direct (tailpipe) CO2 emission fuels or plug-in power for their normal operation. For inland freight transport: Vessels have direct (tailpipe) emissions of CO2 per tonne kilometre, calculated (or estimated in case of new vessels) using the Energy Efficiency Operational Indicator (EEOI) developed by the International Maritime Organisation (IMO), 50% lower than average reference value for CO2 emissions for heavy duty vehicles based on an internationally or any other recognized standard. For sea and coastal freight and passenger water transport, as well as vessels for port operations, auxiliary activities and specialised operations: Hybrid and dual fuel vessels derive at least 25% of their energy from zero direct (tailpipe) CO2 emission fuels or plug-in power for their normal operation at sea and in ports. Alternatively, the vessels have an attained IMO Energy Efficiency Design Index (EEDI) value 10 % below the EEDI requirements applicable if the vessels are able to run on zero direct (tailpipe) CO2 emission fuels or on fuels from renewable sources. Enabling modal shift from road to water: If vessels are used exclusively for operating coastal and short sea services designed to enable modal shift of freight currently transported by land to sea, it is sufficient	25 years. *[To be discussed]*

[2] This includes: For road: the construction, modernisation, maintenance and operation of electrical charging and hydrogen refuelling installations. For rail: track-bound transportation infrastructure assets as specified in the RSU, as well as electrified trackside infrastructure and associated subsystems, the electrification of existing infrastructure and the installations dedicated to switch from other modes of transport to zero direct emissions rail. For water: electric charging and hydrogen-based refuelling, infrastructure dedicated to the provision of shore-side electrical power to vessels at berth, to the performance of the port's own operations with zero direct emissions and installations for switching from another mode to zero direct emissions vessels.

			that vessels have direct (tailpipe) CO2 emissions, calculated using the IMO EEDI, 50 % lower than the average reference CO2 emissions value for heavy duty vehicles based on an internationally or any other recognized standard. *[We propose to review this project type in 2025. This could be flagged as part of a general review clause.]*	
TYPE 3: **Retrofitting and upgrades for water transport**	Retrofitting and upgrades of vessels to reduce emissions.	The transition to zero and low direct tailpipe emissions fleets is key in achieving climate change mitigation.	Fuel consumption of the vessel is reduced by at least 10 % expressed in litre of fuel per tonne kilometre and this is clearly demonstrated by a comparative calculation. Vessels retrofitted are not dedicated to the transport of fossil fuels. *[We propose to review this project type in 2025. This could be flagged as part of a general review clause.]*	25 years. *[To be discussed]*
TYPE 4: **Low carbon airport infrastructure**	Construction, modernisation, maintenance and operation of low carbon airport infrastructure, meaning dedicated to the operation of aircraft with zero tailpipe CO2 emissions, to the provision of fixed electrical ground power and preconditioned air to stationary aircrafts or to the zero direct emissions performance of the airport's own operations.	The transition to zero and low direct tailpipe emissions fleets is key in achieving climate change mitigation.	No standard. N/A.	25 years. *[To be discussed]*