COMMENTS

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SUBMISSION EU ETS STATE AID GUIDELINES PUBLIC CONSULTATION

We appreciate the opportunity to provide inputs to improve the functioning of the EU Emissions Trading System (EU ETS) state aid guidelines as sectors prepare for the 4th phase.

BusinessEurope has consistently supported the EU ETS and firmly believes it is the main driver for the European industry and power sector to reduce greenhouse gas emissions in a cost-effective manner whilst remaining competitive. The reform of the EU ETS Directive has clearly resulted in a more meaningful carbon price. Although this stronger price signal is important to incentivise emission reductions, it raises the challenge of higher electricity costs arising from the EU ETS for energy intensive sectors that are genuinely exposed to the **risk of investment and carbon leakage**[1] due to their indirect EU ETS costs.

This challenge needs to be seen in the perspective of the transition to net-zero greenhouse gas emissions (climate neutrality).[2] In particular, it will require a much stronger electrification of industrial processes, a faster substitution of carbon intensive energy carriers and feedstock from low-carbon energy, requiring significant amounts of from low-carbon electricity in the coming decades.[3] It is crucial that energy-intensive industries are supported effectively by the EU and their national governments, one of the ways being to improve the EU ETS state aid guidelines.

The following aspects are crucial to account for:

- **Level of support**. An aid intensity limited to 75% would not be sustainable for European industry as the CO_2 price will increase. European industry's exposure to electricity costs will automatically increase during phase 4 due to an increasing CO_2 price **and** rising electricity consumption (as more industrial processes are expected to be electrified or switch to low-carbon energy). Therefore, a degressive approach would create a contradictory effect, and increase rather than prevent the risk of carbon and investment leakage as long as other major economies do not become equally ambitious. This would consequently decrease European industry's competitiveness compared to the rest of the world. The level of support should therefore be effective to offset undue costs and remain stable through Phase IV.

- **Scope.** The market price that energy-intensive industries using a lot of electricity pay for their electricity consumption is the same for all generation sources (e.g. coal, gas,

[1] Even if businesses do not move their manufacturing sites outside of the EU overnight ('carbon leakage'), they may still decide to gradually shift more investments out of the EU, rather than invest in new manufacturing sites or upgrade existing ones in the EU, depending on carbon price ('investment leakage')
[2] For more information, see BusinessEurope, 2019. European business views on a competitive energy and climate strategy.
[3] The amount of installed capacity from electricity sources needed to meet the demand for energy-intensive industries is estimated to increase to 2,980-4,430 TWh by 2050 (up from about 1,000 TWh today), according to IES, 2018. Industrial value chain: A bridge towards a carbon neutral Europe.

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nuclear and renewables) due to the mechanism of the marginal price. Therefore, the level of support should take into account all electricity consumption of the eligible sector installations.

- **Eligibility**. The list of eligible sectors for state aid should take into account the growing costs related to the use of electricity, as more and more energy-intensive companies are expected to progressively switch from fuel to electricity and other low-carbon energy sources in industrial processes in the low-carbon energy transition. Furthermore, eligibility should cater to sectors that become more dependent on electricity consumption during the 4th trading period (due to increased sector coupling/ integration).

- **Conditionality**. Compensation should not be made conditional on energy efficiency requirements. In fact, energy efficiency improvements are a must for industries with high energy costs in order to reduce energy usage and remain competitive. This should not be confused with compensation of indirect costs, which is a necessary measure to avoid cost burdens that place European industry at a competitive disadvantage with international competitors. There are many initiatives designed to address energy efficiency foreseen by national and EU legislation (e.g. mandatory energy audits in Art. 8 EED), which should continue to be the focus for energy efficiency efforts.

- **Harmonization**. The EU single market represents the very essence of the EU project and its integrity should be preserved. Ideally, a harmonised EU-wide indirect investment and carbon leakage protection mechanism (cost compensation) should therefore be introduced to create an intra-EU level playing field. In the meantime, the differences in current Member State approaches with regard to the EU ETS state aid should not be a reason to limit the financial compensation under Phase IV. The leakage risks are caused by different cost burdens on a global level. Indirect cost compensation should therefore be dedicated to address these differences and restore global competitiveness.

- **Updating parameters**. Given the significant changes expected to happen to the EU's economy during the energy transition, a mid-term review on the effectiveness of the parameters of the State Aid Guidelines could be considered. This review should also allow to update the electricity consumption efficiency benchmarks and the evolution of the power market, based on actual data, to maintain the incentive to achieve cost-effective decarbonisation. Furthermore, the current system bases the compensation on a 5-year historical production level, which is not effective, as it could lead to overcompensation and provides no incentives for growth. In the next phase, compensation should be granted based on previous year's production data or based on the rolling average of the last two years. This will incentivize growth investments, as well as avoid over/under compensation.