**The Federation of Austrian Industries** (Industriellenvereinigung, IV) is a voluntary and independent interest representation of the Austrian industry and its related sectors. It represents more than 4.500 members in the manufacturing, credit and insurance sector as well as in infrastructure and in industry-oriented services in Austria and Europe. In Austria, the Federation's members represent more than 80 per cent of domestic manufacturing companies. IV acts as the interface between business, politics and the wider public. On European level, the Federation of Austrian Industries is a member of BusinessEurope.

IV takes the opportunity to comment on the Draft ETS State Aid Guidelines, although the current ETS State Aid Guidelinies have not been implemented yet in Austrian legislation. The current government, however, has voiced its support for an implementation.

Under the current regime of ETS State Aid Guidelines **competitiveness distortions** exist on the European Union's internal (energy) market as well as on international level vis-à-vis third-country competitors not subject to comparable prices or CO2 premiums. In Austria, these cost disadvantages amount to six- to seven-figure sums for installations compared to competitors just across the border to neighbouring countries with indirect ETS cost compensation in place. Thus, the Commission should propose a **mechanism to better standardise** the application of EU ETS indirect cost compensation across Europe. In a first step, this mechanism should monitor and assess indirect EU ETS costs in EU Member States to illustrate inconsistent EU-wide implementation. Then, it should strongly encourage Member States to offer state aid for indirect ETS cost compensation in order to prevent distortions between member states or between sectors originating from unequal state aid provisions.

The by the Commission envisioned **decarbonisation** will lead to increased electrification across sectors, which substantially increases the corresponding exposure to indirect costs from the passthrough of EU ETS carbon costs by the power sector to (energy-intensive) industrial consumers. The carbon content of Europe's domestic electricity mix may decrease over time, but due to the marginal price mechanism of the power market, and the significant increase of the carbon price to support the investment in new renewable electricity capacity, the energy-intensive industries will be increasingly exposed to indirect ETS costs, regardless of their renewable energy supply decisions. The **indirect risk of carbon and investment leakage** will therefore likely only grow, in addition to the risks of leakage for industries through their increasing direct EU ETS costs.

Considering these arguments, the new ETS State Aid Guidelines will be key for **preserving European energy-intensive industries' competitiveness**, while providing the right incentives to further decarbonise Europe and to contribute to the very ambitious goal of climate neutrality by 2050, in line with the European Green Deal. Both, ETS free allocations and indirect cost compensation, must ensure that the EU best performers do not face undue direct or indirect carbon costs.

The EU ETS state aid guidelines can therefore provide a unique win-win situation. First, it can become a key mechanism to incentivise energy-intensive industries to switch to low-carbon energy sources (incl. electrification or energy forms based on electrification, such as hydrogen), thereby reducing Europe's industrial greenhouse gas emissions. Second, it can protect these key industries against the large expected cost pass-through by the power sector and therefore against indirect risks of investment, job and carbon leakage.

Concerning the current draft EU ETS State Aid Guidelines, the Federation of Austrian Industries is concerned that this draft does not fully reflect the possibilities for this potential win-win situation. They are trying to limit the eligibility for state aid compensation instead of increasing the possibilities of support for European industry. IV proposes to take the following points into consideration:

- The **aid intensity** has decreased from 85% at the start of phase III to 75% and can only under certain conditions be topped up by Member States. This runs counter to the goal of incentivising energy-intensive industries to decarbonise through clean electrification. Aid intensity should be set to 100% for best performers, to be compatible with the ETS Directives' goals and wording. Lower levels of aid intensity could undermine the effectiveness of carbon leakage provisions. In this context, IV backs the possibility for extra-support for installations in the most electro-intensive sectors, with particularly high exposure (GVA-cap).

- There is no **early revision clause** planned for the EU ETS state aid guidelines. This would be very important in order to anticipate at an early stage i) the potential for new sectors to become eligible for indirect ETS cost compensation due to their increased electricity use, and ii) any potential increase in indirect EU ETS costs following the revisions and new policy proposals planned under the Green Deal. The current state aid review cannot possibly factor in all of the potential impacts the Green Deal will have on the EU ETS carbon price. Once a significant increase is apparent, the possibility to raise state aid compensation should be given as soon as possible.
- The **list of eligible sectors** has decreased, without full transparency on how the calculations have been performed (e.g. the sector fiches have not been made available for this public consultation). In addition, unlike under the EU ETS Directive, the draft proposal does not allow for an assessments and qualification at PRODCOM level. This penalises some subsectors that show an under-evaluation of either their trade and/or emission intensity when assessed only at NACE level, which in turn could demonstrate substantial risk if left out of the list of eligible sectors. Furthermore, sectors need to be given a chance to qualify on the basis of a **qualitative assessment,** if they provide sufficient data and information for the Commission to assess.
- The provisions for **conditionality** are in many cases too stringent and hence, not realistic (e.g. a payback time of five years for energy-intensive industries is far too long). Effective indirect cost compensation and efficiency improvements do not contradict each other – on the contrary, energy efficiency savings bear cost-incentives for industries, which allows them to stay competitive. Thus, proposed conditionality requirements referring to other legislation (e.g. Energy Efficiency Directive) might overlap with this legislation and contradict each other. Compensation for indirect ETS costs, however, is a necessary measure to avoid cost burdens that place European industry at a competitive disadvantage on the internal EU market as well as with international competitors.
- The definition of the **CO2 emission factors and the geographic areas** in the current draft proposal are mostly country-specific and do not reflect the regions correctly. **Regional CO2 emission factors** should rather be used and they must be based on actual electricity market models, which is the best way to take CO2 emissions costs' impact on power prices in each market into account. This is for example relevant for the Norpool countries as well as for the Central and West Europe region (AT, BE, DE, FR, LU, NL), which are divided into several bidding areas. These bidding areas are connected geographic markets with price convergence, which should therefore not be artificially separated into national factors. Furthermore, due to high intra-annual variability, we believe that emission factors should be calculated as the average value of at least the last three years (2017-2019).

A standardised application of the ETS State Aid Guidelines and ETS indirect cost compensation across the European Union has the potential to create a successful mechanism that serves the Union's objectives outlined in the European Green Deal, decreases industrial greenhouse gas emissions and boosts industrial competitiveness across the continent. The Federation of Austrian Industries is prepared to provide further input and collaborate with European and national policy-makers to increase the current draft guidelines effectiveness.