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BusinessEurope submission to the public consultation of the draft EU ETS state aid guidelines

BusinessEurope is grateful for the opportunity to provide inputs on the draft EU ETS state aid guidelines.

The European business community supports the EU ambition of net-zero greenhouse gas emissions (climate neutrality) to reach the objectives of the Paris Agreement. Several studies show that a climate neutral Europe will be a much more electrified Europe, with electrification having the potential to serve up to 62% of the decarbonisation efforts of Europe's economy.¹ In particular, the amount of electricity from clean 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 in 2016)², which is more than even the most extreme scenario considered in the European Commission's long-term climate strategy.³ For some industries, this is as much as four to nine times higher than in a scenario where no efforts are made to reduce emissions.⁴

With this shift to much more electricity consumption by energy-intensive industries, the corresponding exposure to indirect costs from the passthrough of EU ETS carbon costs by the power sector to these industrial consumers will substantially increase. Indeed, the shift to a climate neutral economy will require at least EUR 100 billion of investments per year by the power sector alone⁵, a huge sum that will only partly be supported by the Guidelines on State aid for environmental protection and energy (EEAG). Furthermore, it is highly likely that the European Green Deal will significantly increase the EU ETS carbon price beyond the maximum price that the consultant report⁶ accompanying the EU ETS state aid guideline review uses to determine the exposure of sectors to indirect carbon leakage. The carbon content of Europe's domestic electricity mix is expected to 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.

¹ For example, see: [European Commission](#), 2018. In-depth analysis accompanying the European long-term climate strategy. [WindEurope](#), 2018. Wind Energy and the Electrification of Europe's Energy System

² [IES](#), 2018. Industrial value chain – A bridge towards a carbon neutral Europe

³ Figure 73 in the Commission's long-term climate strategy considers the lower bound of 2,980 TWh from the EIS study to be their most extreme electricity demand scenario for industry. Most other scenarios assume lower demand levels of 1,000-2,800 TWh.

⁴ [McKinsey](#), 2018. How industry can move toward a low-carbon future.

⁵ [Eurelectric](#), 2019. E-invest – The power sector investment challenge: 100 billion per year and counting.

⁶ [DG COMP](#), 2020. Combined retrospective evaluation and prospect impact assessment support study.



The EU ETS state aid guidelines can therefore provide a unique win-win situation. On the one hand, it can become a key mechanism to incentivise energy-intensive industries to switch to more electrification and – assuming electricity can be more easily decarbonised than other energy carriers – can thereby reduce Europe’s industrial greenhouse gas emissions. At the same time, it can maintain the competitiveness of these key industries as they move to more electrification or energy forms based on electrification (e.g. hydrogen) against the large expected cost passthroughs by the power sector, and therefore against indirect risks of investment and carbon leakage.

Having said this, we are concerned that the current draft of the EU ETS state aid guidelines does not yet fully bank on the opportunity for this potential win-win situation. Because rather than increasing the possibilities for Europe’s industries to receive state aid and therefore be incentivised to shift to electrification, the current draft guidelines are trying to limit state aid compensation. For example:

- The **aid intensity** has decreased from 85% at the start of phase III to 75%. BusinessEurope welcomes the possibility for member states to further limit the amount of indirect costs to be paid at undertaking level based on the undertaking’s gross value added (GVA). However, the decrease in aid intensity runs counter to the goal of incentivising energy-intensive industries to decarbonise through clean electrification, and increases the risks of investment and carbon leakage.
- We welcome the possibility for an **early revision** planned for the EU ETS state aid guidelines as defined under paragraph 67 (page 15), since 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 that the Green Deal will have on the EU ETS carbon price, but once it is certain that there is a significant increase, then the possibility to increase state aid compensation should be given as soon as possible.
- On the **list of eligible sectors**, it is crucial that sectors have a chance to qualify on the basis of a second level **qualitative assessment** if they provide convincing data and information, and we therefore welcome the Commission keeps open this option. That said, it is unclear why the indirect carbon leakage risk indicator proposed for this qualitative assessment is more stringent than the one used in the EU ETS Directive (0.2 instead of 0.15), and why 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.
- There are no **mechanisms** proposed by the Commission **to incentivise member states** to increase the amount of state aid they make available, nor ways to move to European standardisation in order to prevent distortions between member states or between sectors originating from unequal state aid provisions.



- Most provisions for **conditionality** in section 5 are too stringent, do not deal with the carbon leakage risk and hence, are not realistic. Firstly, the 5-year pay-back requirements ignores the fact that energy efficiency is already dealt with in the Energy Efficiency Directive and that effective indirect cost compensation does not stand in the way of efficiency improvements, on the contrary. 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. Secondly, the requirement to install onsite renewable energy generation covering at least 50% of an installation's electricity needs does not match with the large consumption needs of many industrial sites and physical limits of such on-site generation. Both requirements also ignore the fact that investment decisions have to take into account a host of factors. If an investment is realised, this has to earn its money before further measures to the same installation can be conceived.
- The **CO2 emission factors** in the current draft proposal are mostly country-specific or do not reflect the regions correctly. For example, the "Nordic region" only includes Sweden and Finland, while it should also include Norway and Denmark as is the case in the current Guidelines. **Regional CO2 emission factors** should be used more and be based on 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 Nord Pool and CWE (Central and Western Europe) countries, which are divided into several bidding areas, or for countries that import the lion's share of their electricity from neighbouring countries (e.g. Luxembourg). 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)

Europe has a unique opportunity to create a Green Deal mechanism that will both boost industrial competitiveness while at the same time significantly reduce its industrial greenhouse gas emissions. The draft EU ETS state aid guidelines should reflect this unique opportunity. We stand ready to work together with policymakers to make the current guidelines more effective, as well as the wider Green Deal initiatives to help Europe shift to a climate neutral economy.