

Technical updates of the Emissions Trading System (ETS) State aid guidelines

In response to a European Commission consultation, CMW outlined its view on a potential scope expansion of the aid to cover for indirect costs for electricity use under the EU ETS

With a call for feedback on a potential expansion to further sectors to be covered by compensation for indirect carbon costs, the European Commission is not following an essential principle stated in the EU ETS Directive: carbon leakage measures are temporary solutions that should be phased out. In this view, Carbon Market Watch calls for **an explicit end to linking EU ETS revenues and indirect cost compensation**.

While the next EU ETS revision must include an end date for the indirect cost compensation scheme, numerous other avenues remain to significantly improve the CO₂ cost compensation State aid guidelines.

We identify the following main points for improvement:

- The **use of only fossil fuel generation capacity to determine the regional CO₂ emission factors**, as defined in point 15(10)¹. This method does not fit the [current trends](#) in the power sector, and leads to even more overcompensation for industry. In light of coal phase-outs and the pressure on the power sector to decarbonise, it is wrong to assume that only fossil-fueled power capacity will determine electricity prices throughout the EU until 2030. The CO₂ factors should be based on all electricity generation capacity and storage, and be updated annually.

¹ <https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52020XC0925%2801%29>

- The **potential inclusion of additional sectors through an intransparent qualitative assessment is problematic**. The call for evidence refers to “an increased risk of carbon leakage” for the chemical sector: the European Commission has not published data to support this claim. It is essential to highlight that carbon leakage is the relocation of activities due to the impacts of the EU ETS Directive and leading to increased emissions in another production country, and can’t be used as a synonym for loss of productivity or to cover for competitiveness issues that EU industry is experiencing.

→ A potential inclusion of the manufacturing of primary plastics and of organic chemicals is especially worrying. While more effort is being put into developing more circular products and increasing material efficiency, the inclusion of these sectors in the guidelines risks undermining these efforts by actively subsidising primary production that relies on fossil fuels.

- A **sunset clause and degressive aid intensity** should be included to effectively ensure indirect cost compensation is phased out over time. Discouraging aid dependency is a key principle for EU state aid guidelines.

- **Regional CO2 factors and electricity consumption efficiency benchmarks** should be set in line with reality and the EU's decarbonisation strategy and trends. They should also be **updated annually and automatically**. A mid-term revision for reviewing the methodologies used to calculate these variables is needed.

- There needs to be **more transparency at EU level** on how Member States transpose and use these guidelines - as public resources are used in a way that could distort intra-EU competitiveness, a high level of transparency is vital to maintain trust and accountability. There is currently no available information on which companies and installations receive compensation, let alone how this compensation has contributed to further climate action by the sectors concerned.

- The Article 10c derogation should explicitly **rule out all support for fossil fuel** electricity generation and infrastructure, as civil society reiterated in the joint letter “[ETS revenues from polluters to the people](#)”.

Lidia Tamellini

Policy Expert on EU Industrial Decarbonisation

lidia.tamellini@carbonmarketwatch.org

