



State of the Union: Commission adopts revised EU Emission Trading System State aid Guidelines*

Brussels, 21 September 2020

STATE OF THE UNION 2020

In line with the [European Green Deal](#) and the EU's objective to become the first climate neutral economy by 2050, the Commission adopted today revised [EU Emission Trading System State aid Guidelines](#) in the context of the system for greenhouse gas emission allowance trading post-2021 (the "ETS Guidelines"). They will enter into force on 1 January 2021 with the start of the new ETS trading period, and replace the previous Guidelines adopted in 2012.

Executive Vice-President Margrethe **Vestager**, in charge of competition policy, said: *"To sustainably tackle climate change and achieve our Green Deal objectives, we have to put a price tag on carbon emissions while avoiding carbon leakage. The revised EU Emission Trading System State aid Guidelines adopted today are an important element of this project. They enable Member States to support those sectors that, because of indirect emission costs, are most at risk of carbon leakage. At the same time, they help deliver on a cost-effective decarbonisation of the economy by avoiding overcompensation and undue distortions of competition in the Single Market"*.

EU State aid control has an important role to play in enabling Europe to fulfil its Green Deal objectives. In order to reap the full benefits of limited public funds, it is crucial that State aid rules continue to do their part. This means ensuring that public money does not crowd out private spending and maintaining a level playing field in the Single Market, while minimising costs for taxpayers.

The ETS Guidelines aim at reducing the risk of "carbon leakage", where companies move production to countries outside the EU with less ambitious climate policies, leading to less economic activity in the EU and no reduction in greenhouse gas emissions globally. In particular, they enable Member States to compensate companies in at-risk sectors for part of the higher electricity prices resulting from the carbon price signals created by the EU ETS (so-called "indirect emission costs"). At the same time, overcompensation of companies would risk running counter to the price signals created by the EU ETS to promote a cost-effective decarbonisation of the economy and create undue distortions of competition in the Single Market.

Against this background, the revised ETS Guidelines will:

1. **target aid only at sectors at risk of carbon leakage due to high indirect emission costs and their strong exposure to international trade.** Based on an objective methodology, 10 sectors and 20 sub-sectors are eligible (compared to 13 * sectors and 7 sub-sectors under the previous Guidelines);
2. **set a stable compensation rate** of 75% in the new period (reduced from 85% at the beginning of the previous ETS trading period), and exclude compensation for non-efficient technologies, to maintain the companies' incentives for energy efficiency; and
3. make **compensation conditional upon additional decarbonisation efforts** by the companies concerned, such as complying with the recommendations of their energy efficiency audit.

The Guidelines also take into account the specificities of small and medium-sized enterprises (SMEs), in line with the [SME Strategy for a sustainable and digital Europe](#), by exempting them from the new conditionality requirement in order to limit their administrative burden.

The Commission has completed an extensive evaluation and Impact Assessment, in line with the [Better Regulation Guidelines](#), with the support of an external consultant. In this context, the

Commission has conducted numerous consultations, including a [public consultation](#) based on a questionnaire and a targeted consultation to gather the input of interested sectors. The Commission also sought the views of relevant stakeholders on a proposal of revised Guidelines in a [public consultation](#) open from 14 January to 10 March 2020. All details about the public consultation are available [online](#).

The new Guidelines, the Impact Assessment Report and all supporting documents are available [here](#).

The Commission is also in the process of evaluating and reviewing other State aid guidelines, including the Energy and Environmental Aid Guidelines, to make sure they are fully aligned with the Commission's green and digital objectives.

Background

In December 2019, the European Commission presented the [European Green Deal](#), a roadmap for making the EU's economy sustainable and achieve climate neutrality by 2050 by turning climate and environmental challenges into opportunities across all policy areas and making the transition just and inclusive for all.

The EU ETS is a cornerstone of the EU's policy to combat climate change and a key tool for curbing greenhouse gas emissions cost-effectively. Set up in 2005, the ETS is the world's first major carbon market and remains the biggest one. It operates in all 27 EU countries plus Iceland, Liechtenstein and Norway. The United Kingdom is part of the EU ETS until the end of the transition period. Pursuant to the Ireland/Northern Protocol, the EU ETS will apply to and in the United Kingdom in respect of Northern Ireland insofar as it applies to the generation, transmission, distribution, and supply of electricity, trading in wholesale electricity or cross-border exchanges in electricity. By putting a price on carbon, it delivers concrete results for the environment: the European Union is already on track to meet its greenhouse gas emissions reduction target for 2020.

Last week, the Commission put forward a [plan](#) to further cut emissions by at least 55% by 2030. By June 2021, the Commission will also review and, where necessary, propose to revise all relevant policy instruments, including the EU ETS Directive, to deliver additional greenhouse gas emissions reductions.

Following the review of climate-related policy instruments, including the initiative for the creation of a Carbon Border Adjustment Mechanism, the Commission will check whether any revision or adaptation of the ETS Guidelines is necessary to ensure consistency with, and contribute to, the fulfilment of the climate neutrality objective while respecting a level playing field.

For more information

[Factsheet](#)

[State of the Union webpage](#)

* modified 21/09/2020, 17h30

IP/20/1712