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EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT REPORT

Accompanying the document

COMMUNICATION FROM THE COMMISSION

on Guidelines on certain State aid measures in the context of the system for greenhouse gas emission allowance trading post 2021

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Executive Summary Sheet

Impact assessment on **Guidelines on certain State aid measures in the context of the system for greenhouse gas emission allowance trading post 2021**

A. Need for action

What is the problem and why is it a problem at EU level?

The Emission Trading Scheme (ETS) State aid Guidelines provide the legal framework for the compensation granted by Member States to certain companies for indirect ETS costs in the Third ETS trading period 2012-2020. The evaluation of those Guidelines concluded that, for the Fourth ETS trading period 2021-2030, the increased carbon prices maintain the risk for sectors most exposed to indirect ETS costs of a transfer of production to other jurisdictions that have less stringent regulations or reduction of the European market share globally (carbon leakage). Since the 2012 ETS Guidelines are based on old data and assumptions, there is a risk that the list of sectors eligible for compensation and the aid amount that they can receive might be outdated. Carbon leakage would eventually lead to an increase in global CO_2 emissions. On the other hand, poorly designed compensation schemes risk distorting competition within the internal market and undermine the incentive for a cost-effective decarbonisation of the economy.

What should be achieved?

The intervention shall ensure that indirect ETS costs compensation offers effective protection against carbon leakage and, at the same time, remains sufficiently limited so as to avoid undue distortions of competition and preserve the ETS incentives for a cost-effective decarbonisation of the economy.

What is the value added of action at the EU level (subsidiarity)?

The assessment of the compatibility of an aid measure with the internal market is an exclusive competence of the European Commission under the Treaty on the Functioning of the European Union (TFEU). The ETS Guidelines provide Member States with ex-ante clarity about the criteria which the Commission will use when it assesses the compatibility of ETS compensation schemes proposed by Member States under Article 107(3)(c) TFEU. In the absence of ETS Guidelines, the analysis would be done on a case-by-case basis, with criteria that would not be transparent to Member States beforehand.

B. Solutions

What are the various options to achieve the objectives? Is there a preferred option or not? If not, why?

The baseline from which options are assessed is a prolongation of the current 2012 ETS Guidelines. Different policy options have been identified covering all relevant policy choices. The preferred option combines the most favourable option in relation to each topic. It allows Member States to grant compensation to ten sectors most exposed to a substantial risk of carbon leakage and 20 subsectors with a particularly high potential for the electrification of their production processes. Member States can grant aid up to 75% of indirect ETS costs and can further limit the exposure of beneficiaries to those cost at 1.5% of their gross value added ("GVA"). The aid will be based on regional factors where this is justified due to the existence of interconnection capacity and actual price convergence.

What are different stakeholders' views? Who supports which option?

The results of the consultation activities confirmed the problem definition, even if different categories of stakeholders sometimes disagree on which specific objective should prevail in the ranking of the options. Industrial stakeholders largely support options that would reduce the risk of carbon leakage to the minimum, by allowing full compensation to all sectors potentially at risk. Citizens employed in sectors potentially at risk also shared this view. The views of Member States vary considerably depending on the various options. While the majority argued in favour of the inclusion of specific sectors, which differed based on regional specificities, Member States mostly agree with a partial compensation based on regional factors. On the other hand, a few other Member States and all environmental NGOs are of the view that, in the absence of any evidence of carbon leakage, the options limiting the compensation to the minimum should be preferred to maintain the incentives for energy efficiency investments.

C. Impacts of the preferred option

What are the benefits of the preferred option (if any, otherwise of main ones)?

The risk of carbon leakage is complex to assess, since relocation decisions are multifactorial, making it difficult to isolate the impact of the compensation on the decision of undertakings to relocate outside the EEA.

The main advantage of the preferred option is that it targets the sectors that are most exposed to the risk of carbon leakage at Union level and it significantly reduces such risk exposure. By limiting the aid to the minimum necessary, it also achieves the best balance with the need to reduce competition distortions and to preserve the incentives for cost effective decarbonisation.

What are the costs of the preferred option (if any, otherwise of main ones)?

The preferred option excludes eligibility for sectors whose carbon leakage risk has been deemed too low, the disadvantage in terms of competition distortion probably outweighing the advantage of a compensation to avoid a potential carbon leakage risk that is very unlikely to materialise.

What are the impacts on SMEs and competitiveness?

While the Guidelines do not exclude as such SMEs, several national schemes currently in place do impose a minimum threshold of electricity consumption, in order to ensure that administrative costs are not higher than the actual compensation paid.

Will there be significant impacts on national budgets and administrations?

The choice on the implementation of State aid schemes lies with Member States. By limiting indirect cost compensation to the minimum necessary only for the sectors most exposed to a risk of carbon leakage due to indirect ETS costs, the Guidelines contribute to reduce the impact of possible future schemes on national budgets.

Will there be other significant impacts?

No

Proportionality?

The preferred option has been designed in a targeted way, to ensure that compensation does not exceed what is necessary to solve the original problem and meet the objectives of the initiative.

D. Follow up

When will the policy be reviewed?

The ETS Guidelines will be applicable for the fourth trading period lasting from 2021 to 2030. Certain aspects of the guidelines will be reviewed half way through the trading period, such as the CO_2 factors and the efficiency benchmarks. Commission will ensure that the Guidelines remain coherent with future legislative changes affecting the functioning of the EU ETS.