May 19, 2025

IFIEC Europe's recommendations:

State Aid Guidelines for Indirect CO2 Cost Compensation in Electricity

European industry faces severe pressure from high energy prices and global competition. Many companies struggle with competition from outside the EU, reduced margins and low utilization rates, resulting in plant closures and layoffs. Revised guidelines must address these challenges to keep energy-intensive industries viable and prevent further decline.

This decline is further intensified by direct CO_2 emissions costs and indirect CO2 emissions costs that are passed on in electricity prices, significantly impacting competitiveness increasing the risk of carbon leakage. Non-European industries do not bear these costs, exposing European industry to unfair competition from imports that lack embedded indirect CO_2 costs.

To safeguard European industries, IFIEC Europe recommends:

1. **All Exposed Sectors and Sub-Sectors should be Eligible:** All industrial sectors at genuine risk of carbon leakage due to high exposure to international trade and significant indirect ETS costs should qualify for compensation. A reassessment based on electricity consumption, GVA data, and CO_2 prices is essential to ensure fair treatment and prevent further industrial decline at Sector level and at Sub-Sector level if necessary as some sectors are highly heterogeneous.

2. **Safeguarding European Strategic Independence:** Compensating for additional carbon costs is essential to maintaining Europe's strategic independence. Without sufficient support, industries face financial distress, declining competitiveness, and potential closures—undermining the industrial base, increasing external dependence, and weakening both economic stability and CO2 reduction efforts.

3. **Sufficient Budgets and Uniform Implementation:** as Draghi's Report clearly mentioned, a higher share of ETS auctions revenues should flow back to support competitiveness of energy-intensive industries. IFIEC therefore insists on the need:
   - to prolong existing compensation schemes in order to continue to protect the concerned industries.
   - to increase the available budgets for compensation schemes in order to better protect the currently concerned industries and to extend the protection to other sectors subject to carbon leakage.
   - to guarantee both adequate financial support and consistent application to maintain fair competition across the EU.

4. **Removal of Aid Intensity and Efficiency Factor:** To support industrial electrification as a competitive decarbonization pathway, aid intensity and efficiency factors should be set at 100%.

5. **Realistic Benchmarks and Emission Factors:** Industry benchmarks must reflect actual processes and not be based on niche or experimental processes, with adjustments based on verified data rather than theoretical assumptions. Emission factors should accurately represent the real marginal electricity generation emissions in each country.

6. **No Conditionalities:** Indirect cost compensation offsets the loss of international competitiveness caused by high CO_2 costs in electricity. It should not be tied to additional requirements, such as mandatory investments in decarbonization or energy efficiency. Moreover, due to rising costs and global competition, the industry is already continuously optimizing efficiency and processes.

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The review of State aid guidelines for indirect carbon cost compensation must ensure a fair and effective framework that prevents carbon leakage while sustaining European industrial competitiveness. Since its introduction in 2012, the indirect CO2 cost compensation scheme has, when backed by sufficient budgets, proven to be a highly effective carbon leakage instrument.

Keeping the compensation scheme until and beyond 2030 is therefore of utmost importance to the energy- and trade-intensive European industry, and further to Europe's competitiveness, security and global emission reduction efforts.

Strengthened guidelines will reduce relocation risks, support a high-performing European industry, ensure green production in Europe, and enhance the capability to develop and export future climate solutions. A harmonized, pan-European approach to state aid is essential to safeguard fair competition and accelerate industrial decarbonization.

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