

Revision of ETS state aid guidelines: views from the pulp and paper industry

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Some key principles

1. State aid to be in line with provisions in the ETS directive
2. ETS compensation and internal market
3. Regulatory stability and predictability

State aid to be in line with provisions in the ETS directive

1. The purpose is to protect against the risk of carbon leakage
 - Final check: is indirect compensation fit for purpose?
2. No justification to apply for indirect compensation rules different than for direct carbon costs
 - 100% protection up to the benchmark
 - No discrimination within eligible sectors
 - No ad hoc rules, such as energy efficiency requirements
3. Current rules on indirect cost compensation need to be aligned with revised ETS directive and, more generally, with EU Long Term Strategy
 - Need to adjust to revised rules in ETS (allocation plans, activity levels update, review of benchmark values)
 - Need to reflect carbon costs formation in electricity prices
 - Need to take into consideration the role electrification will play (be careful with KPI: efficiency vs electrification)

ETS compensation and internal market

Intra-EU trade is as relevant as extra-EU trade. Therefore the risk of distortion of competition within the EU is always relevant. However:

- The number of countries providing compensation has constantly increased.
- Several governments are currently considering developing compensation schemes.
- Increased exposure to carbon costs, due to increase in carbon prices, have contributed in intensifying these discussions.
- Although schemes are different from one country to the other, similar levels of compensation reduced significantly the risk of market distortion.
- It is indeed true that several governments have not yet provided compensation for indirect costs. However, there is no technical reason preventing these countries to provide financial compensation for indirect carbon costs.

Regulatory stability and predictability

1. Rules on compensation need to be predictable and reliable
 - Methodology to calculate compensation need to strike the right balance between accuracy, feasibility, transparency, and administrative burden.
 - What ultimately matters for operators is the ability to calculate upfront the compensation levels. And to make sure compensation will ultimately be there.
2. Timing is also important
 - The new ETS aid rules will be adopted few months before the starting of the next trading period.
 - It is of paramount importance to ensure regulatory stability and predictability for operators.

Thank you

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