

ANNEX 27**ENERGY AND ENVIRONMENTAL SUBSIDIES**

As part of the principles set out in Article 367(14) of this Agreement:

- (1) Subsidies for electricity generation adequacy, renewable energy and cogeneration shall not undermine the ability of a Party to meet its obligations under Article 304 of this Agreement, shall not unnecessarily affect the efficient use of electricity interconnectors provided for under Article 311 of this Agreement, and, without prejudice to Article 304(3) of this Agreement, shall be determined by means of a transparent, non-discriminatory and effective competitive process; and
 - (a) subsidies for electricity generation adequacy shall provide incentives for capacity providers to be available in times of expected system stress and may be limited to installations not exceeding specified CO₂ emission limits; and
 - (b) subsidies for renewable energy and cogeneration shall not affect beneficiaries' obligations or opportunities to participate in electricity markets.

- (2) Notwithstanding point 1, provided that appropriate measures are put in place to prevent overcompensation, non-competitive procedures may be used to grant subsidies for renewable energy and cogeneration if the potential supply is insufficient to ensure a competitive process, the eligible capacity is unlikely to have a material effect on trade or investment between the Parties, or subsidies are granted for demonstration projects.
- (3) If partial exemptions from energy-related taxes and levies¹ in favour of energy-intensive users are introduced, such exemptions shall not exceed the total amount of the tax or levy.
- (4) If compensation for electricity-intensive users is granted in the event of an increase in electricity cost resulting from climate policy instruments, it shall be restricted to sectors at significant risk of carbon leakage due to the cost increase.
- (5) Subsidies for the decarbonisation of emissions linked to own industrial activities shall achieve an overall reduction in greenhouse gas emissions. The subsidies shall reduce the emissions directly resulting from the industrial activity. Subsidies for improvements of the energy efficiency of own industrial activities shall improve energy efficiency by reducing energy consumption, either directly or per unit of production.

¹ For greater certainty, levies do not include network charges or tariffs.