POSITION PAPER

July 2025

The Future of the ETS, priorities for the chemical industry.

Whilst with different cost-implications and impact across sectors, the EU Emissions Trading System (ETS) provided reasonable protection against carbon leakage. Thus, finding ways to ensure ETS liquidity and sustained carbon leakage risk mitigation, even after 2040, is crucial to improve the climate policy framework.

Recent ETS changes, combined with geopolitical and economic challenges, are causing significant strain on the EU industry. European companies need to remain competitive globally while transforming to meet EU climate objectives. With the ETS cap set to reach zero by 2039, the current trajectory is deemed unfeasible. Investments, technology and infrastructures are not at the required level, hence the framework should be reassessed for a greater flexibility.

A resilient and future-proof ETS should be anchored in a clear set of principles guiding any future revision. These include a realistic cap timeline, strong carbon leakage safeguard, appropriate benchmark values, removal of the MSR invalidation rule, integration of carbon removals, elimination of conflicting regulations, implementation of Article 6 of the Paris Agreement, linking the ETS to similar schemes, and improved investment conditions driven by market demand for low-carbon goods.

Provided that the chemical industry remains fully supportive of to reach climate neutrality by 2050, a more realistic approach to what is actually economically achievable in the short, medium, and long term is required. Cefic reflects on the key conditions that should lead to an improved ETS beyond 2030.

A realistic cap timeline

The ETS cap is set to reach zero by 2039, but this trajectory is impracticable. Technology and infrastructure development across Europe have not reached the required level, and investments are lagging behind. Within the accelerated timeline it is also unclear how residual emissions will be addressed.

This is resulting in an increasing gap between the regulatory framework and the feasibility and affordability of technical implementation. Industry, especially hard-to-abate sectors, is more exposed to the risk of carbon leakage. Structural changes to the ETS, such as integrating carbon removals, allowing greater flexibility, and recognising sector-specific abatement needs as well, are needed.

Cefic asks adopting a more pragmatic approach to setting timelines for the ETS cap decline. This should reflect the actual pace of enabling conditions such as effective market pull measures for low-carbon products, energy and CO2 infrastructures, and innovation across the EU.

Strong carbon leakage protection

The uncertainty surrounding the effectiveness of CBAM and the reduction of free ETS allowances raises significant concerns for the chemical industry regarding safeguards against carbon leakage. The broader debate on carbon pricing in the EU fails to adequately address the sector's need for an immediate robust carbon leakage protection. Tightened benchmark values together with the exclusion of certain chemical subsectors—particularly organic chemicals—from the compensation for indirect carbon costs under the ETS State Aid Guidelines, further limit industry's capacity to invest.

The chemical sector regards effective carbon leakage protection as fundamentally rooted in the allocation of free allowances and indirect carbon cost compensation extended to all sectors subject to quantitative assessment, such as organic chemicals and polymers. This should be maintained at least until CBAM proves to be reliable and effective.

Appropriate benchmark values

Benchmark values should be based at realistic performance level, reflecting the EU-wide availability of energy, feedstock, process technologies and infrastructure. Parameters based on unrealistic extrapolation, anticipated future performance, and inappropriate mathematical baselines should be removed. Benchmarks should also reflect the technology available to a representative part of the production activity of the installations concerned. Where installations use resources, infrastructures or technologies that cannot be implemented in economies of scale in Europe, those installations should not determine the benchmark. This approach would also reduce the applicability of the cross-sectoral correction factor.

Cefic calls for a more realistic approach when designing benchmark values with a more appropriate exercise of calculation of the performance level and reflecting the current technology progress.

Removing the MSR invalidation rule

Currently, the efficacy of the MSR to tackle future scarcity is questioned. the MSR needs more versatility to handle consequences of rapid economic changes leading to limited liquidity in the ETS market, by adding back supply rather than invalidating allowances. This could help moderate prices and contribute to make the MSR be more efficient.

Cefic asks to change the MSR by returning invalidated allowances to the reserve, halting further invalidation immediately (not just 2030), and adjusting release rules.

Inclusion of carbon removals

A robust CO2 accounting should be the basis to an effective ETS. The current rules differentiate between fossil CO2 (fully counted), CO2 from sustainable biomass (zero-rated), and the exemption of surrendering allowances for ETS installations that perform permanent Carbon Capture Use and Storage (CCUS). However, effective accounting for non-permanent carbon capture utilisation (CCU) and permanent carbon removals is essential to prevent that these are disincentivised. Cefic reflects on some technology routes, which ETS review should facilitate.

- CCS with biogenic CO2 or with CO2 from Direct Air Capture (DAC), which are currently not recognised into the ETS. These could be included either modifying the Monitoring and Reporting Regulation (MRR) art 49 or referencing to the Carbon Removal Certification Framework (CRCF) as this recognises as a permanent carbon removal any activity capturing and storing atmospheric or biogenic carbon.
- CCU to materials from fossil CO2, transforming carbon into new materials. This requires revising the concept of “permanently chemically bound” comprising at the end-of-life as in the ETS directive, including the waste sector into the ETS, and addressing the Renewable Energy Directive (RED) Delegated Act on RFNBO, which does not allow the use of captured CO2 for

RNFBO production as of 2036 or 2041[1]. Therefore, CCU materials require a downstream accounting, unless practically not possible such as in the case of urea.

- CCU to fuels from fossil CO2 where captured CO2 produces synthetic fuels. Recent MRR review zero-rate CO2 emitted when combusting RFNBO, but the CO2 captured and used to produce fuels is rightfully accounted. The CO2 cost should remain upstream.
- CCU materials from biogenic CO2 or DAC should be recognized as removals, binding atmospheric CO2 or CO2 from sustainable biomass.
- Use of bio-based feedstock assigning credits that chemically bind biogenic carbon, based on biogenic feedstock.

For the chemical industry, a consistent CO2 accounting allows the use of both permanent carbon removals and non-permanent CCU, with a clear distinction between non-permanent CCU products (with a downstream accounting) and CCU fuels (with an upstream accounting).

Avoid conflicting legislation

The increasing overlap between EU climate and energy legislation has made it harder for companies to invest in low-carbon solutions. First, introducing the new conditionalities in the ETS for receiving free allowances, based on recommendations from energy audits conducted under the Energy Efficiency Directive, adds additional requirements. Second, allowing all eligible CO2 sources to account for RFNBO or RCF production could remove the challenges presented by RED III and support the development of CCU. Third the industry RFNBOs target does not align with the principle of technology neutrality and GHG reduction in a cost-effective way as established by the ETS, and has no associated carbon leakage cost mitigation.

Cefic recommends regulatory coherence across EU legislation to ensure simple, implementable rules that support low-carbon solutions.

[1] Delegated Act 2023/1185 Annex I, Paragraph 10 (a).

Implementation of Art. 6 Paris Agreement and bilateral linkage

The introduction of international credits would enhance the liquidity of the ETS after 2030 and beyond. The implement Article 6 of the Paris Agreement, which establishes an international carbon crediting mechanism will be incorporated within the Union since the EU is a signatory to the agreement.

In addition, bilateral linking the ETS with similar systems of other countries would help to increase liquidity, fostering climate change mitigation. A recent positive example is the proposal of the EU and UK authorities to link their respective ETS systems.

The Chemical Industry welcomes the implementation of Article 6 as a valid policy option to improve mid-and long term liquidity in the EU ETS, while inviting to carefully consider the cost implications for businesses. This operationalisation may lead to invest EU industry funds in non-EU economies. An international common understanding of these credits is critical to avoid double counting and ensuring the same quality as the EU processes.

Adequate investments framework

Currently, Europe lacks the conditions needed for industry's investments. Due to the current complexity of business' operational framework in the EU, combined with a challenging international business environment, it is essential to re-think how to enable EU industry to be competitive at a global scale and progress towards climate transition.

ETS revenues should fund not only project-tech development like in the case of the Innovation Fund but, at the same time, broader market-forming policies should also be established. Recognising sector specific technological and operational constraints will help hard-to-abate sectors to be part of support systems as well. Furthermore, ETS revenues should be entirely channelled back to industry in scope, to reinvest it in their climate transition and safeguard industrial competitiveness.

Trade-exposed companies lack the business-case for their low-carbon products. The EU needs to create markets focusing on the consumer demand side, which needs to systematically value lower carbon goods and services. Absent that, there can never be a realistic business case for trade exposed Industry to make the massive investments required for the transition at scale.

Cefic requests that in the future ETS, the dimension of market pull measures targeting consumer products, should also be further developed simultaneously. This approach will be critical for businesses to remain competitive and advance towards climate transition, while being protected against carbon leakage.

For more information please contact:
Carolina Mazzone, Climate Change and Energy, Climate Policy Manager: cam@cefic.be

About Cefic

Cefic, the European Chemical Industry Council, is the forum of large, medium and small chemical companies across Europe, accounting for 1.2 million jobs and 13% of world chemicals production.
On behalf of its members, Cefic's experts share industry insights and trends, and offer views and input to the EU agenda. Cefic also provides members with services, like guidance and trainings on regulatory and technical matters, while also contributing to the advancement of scientific knowledge.