



Open statement by energy intensive industries Plenary votes on Emissions Trading System and Carbon Border Adjustment Mechanism

Energy-intensive industries provide direct employment to around 2.6 million people and represent the foundations of critical and strategic value chains for the EU economy and society. We support the objectives of the European Green Deal and companies in our sectors invest in concrete projects across a range of technological pathways to deliver deep emission reductions.

While the EU's climate transition has assumed also a more urgent and larger geopolitical dimension since the Russian attack against Ukraine, its short-medium term implementation for EU industry is more challenging than ever. Skyrocketing energy prices, high inflation, soaring carbon prices and raw materials shortages are unprecedented challenges that already lead to production curtailments and stoppages and may cause further disruptions in the near future.

In this new context of a severe economic downturn looming, it is essential that policy makers shape the Fit for 55 Package and in particular the Emissions Trading System (ETS) and Carbon Border Adjustment Mechanism (CBAM) towards supporting companies' investments, preserving effective carbon leakage measures and avoiding disproportionate costs, capacity closures and job losses. The increased EU climate ambition for 2030 can be achieved in a sustainable, socially sound manner only when accompanied by strengthened carbon leakage provisions in view of international competition that is not subject to comparable carbon costs, if any costs at all.

Against this background, in view of the upcoming European Parliament's plenary votes scheduled for early June, we urge Members of the European Parliament to focus on:

- **Realistic benchmarks:** benchmarks are already very strict, since they are based on the average of best 10% performers. They should remain technically and chemically achievable. Therefore, the update of product and fall-back benchmarks should reflect the gradual transformation of sectors and take into account EU-wide availability of technologies, resources (e.g. biomass, electricity and hydrogen) and related infrastructure. Abrupt reductions of benchmark values in 2026 should be avoided, considering that alternative technologies and/or underlying energy sources and feedstock are still very limited. The report from the ENVI Committee does not address these concerns so far; hence, plenary amendments will be necessary in this regard.
- **Sufficient free allocation levels:** as already widely recognised, industry needs sufficient legal predictability to move forward with the significant investments required by the climate transition. The Cross Sectoral Correction Factor should therefore be avoided since it reduces free allocation below the best performers' benchmark level. The report from the ENVI Committee fails to provide a structural solution to this issue. This can be achieved by increasing the 3% flexibility between auctioning and free allocation shares and by using allowances from the Market Stability Reserve.
- **Cautious interaction between ETS and CBAM:** free allocation and, where granted, indirect costs compensation have proven to be effective measures against carbon leakage to a large extent so far.

However, the carbon price increased by over 700% in just four years, reaching levels that the Commission Impact Assessment had projected only in 2030. When the CBAM is introduced, it should include a solution for exports and co-exist with the current system of full benchmark-based free allocation in a transition period until 2030 to test its effectiveness, focus companies' financial resources on low carbon investments, and avoid market disruptions across value chains. On the contrary, the report from the ENVI Committee exacerbates these concerns, since it accelerates the phase out of existing carbon leakage measures and does not provide a concrete solution for EU exports. As already proposed by the Commission, the CBAM to be paid by importers will take into account free allocation granted to EU industry, which avoids any potential risks of double protection.

- **Disproportionate conditionality does more harm than good:** benchmarks already provide a bonus/malus system, since free allocation is granted only at the level of best 10% installations. Free allocation has worked well and should remain conditional to the sole criteria of exposure to risks of carbon leakage. Additional conditionality criteria, such as those proposed in the report from the ENVI Committee, make compliance even more complex for authorities and companies and undermine carbon leakage provisions' reliability.
- **Effective measures for indirect costs:** direct and indirect electrification represents one of the key solutions for transforming EU industry towards the climate neutrality target. However, high electricity prices are a major barrier for such process. At present, carbon leakage protection for electricity consumption is insufficient and fragmented across EU member states. Therefore, we welcome the ENVI support to maintain indirect carbon costs compensation and to ensure effective protection in all EU member states.
- **Disproportionate interference from Market Stability Reserve and rebasing:** the climate ambition of the EU ETS will be defined by the stricter 2030 cap through an increased linear reduction factor. A one-off cancellation of allowances (rebasing) and stricter rules of the Market Stability Reserve should be avoided as they create unnecessary, artificial shortage in the carbon market thereby inflating carbon costs for businesses and households struggling already with skyrocketing energy costs. The report from the ENVI Committee aggravates these concerns, since it increases both the one-off cancellation and the number of allowances to be injected in the reserve. Following the ESMA report on the carbon market, appropriate measures should be investigated to improve transparency and address excessive carbon prices and financial speculation.

We call on you to take these comments into account when finalising positions in view of the plenary votes and recommend not to support proposals which do not provide a realistic business case for the successful transition of manufacturing industry in Europe.

As highlighted in the "Masterplan for a competitive transformation of EU EIs enabling a climate neutral, circular economy by 2030", the successful deployment of breakthrough technologies requires three key enabling conditions, notably (1) access to abundant and competitive low-carbon energy and feedstock, (2) funding support for the upscale and roll-out of such technologies and (3) a supportive regulatory framework that creates lead markets for low-carbon solutions while preserving the competitiveness of industries highly exposed to global competition.

We remain committed to providing strong support to the development of policies that truly enable the competitive transition towards climate neutrality.