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Impact of the EU ETS on Energy-Intensive Industries

- *Information from Bulgaria, Czech Republic, Greece, Poland, Romania and Slovakia*

The European Union Emissions Trading System (EU ETS) has long been a cornerstone of the EU's climate policy, designed for cost-effective emission reductions and to guide the European energy and industrial sectors on path towards gradual transition to the EU's climate neutrality goal. However, EU's climate policy approach must be adjusted to reflect the new reality. The ongoing geopolitical crises and exceptionally high energy prices recognized as serious concern for the energy-intensive industries also by the March EUCO Conclusions, combined with the upcoming revision of ETS benchmarks for free allocation of allowances in the 2026–2030 period pose significant challenges and risks for Europe's energy-intensive industries (EIIs). This could lead to increased threat of loss of their competitiveness in global markets, of closures or relocation outside of the EU. These sectors – including chemicals, steel, cement, ceramics, or aluminium – are essential to the EU's industrial base and open strategic autonomy. Their decarbonisation trajectory must therefore be accompanied by coherent European-level measures that will strengthen EU's industrial competitiveness and security, while preserving environmental integrity of its policies.

Impact of the 2026–2030 Benchmark Revision

The update of free allocation benchmarks for the 2026–2030 period will substantially influence the industry's carbon costs. The proposed revision of these benchmarks, particularly for heat and fuel, foresees the maximum reduction permitted under existing rules (-50 % compared to the 2013–2020 period). This adjustment alone could inadequately increase the effective carbon costs borne by a broad range of industries between 2025 and 2026, in a situation where they already face serious challenges caused by extraordinary energy prices and global competition.

Many of the affected installations rely on fossil-based heat due to technological constraints or a lack of scalable and cost-effective alternatives. The current methodology, which uses the 10 % most efficient installations, no longer reflects the realities of what is physically possible.

Thus, we call for realistic benchmark adjustments. A temporary freeze of benchmark values at their 2021–2025 levels, accompanied by an adjustment of the cross-sectoral correction factor (CSCF), would be a preferred solution that would provide a pragmatic bridge towards more comprehensive and methodologically sound review during the upcoming EU ETS revision. Alternatively, flexible methodological approaches for fallback benchmarks could be introduced. Benchmark methodology based on the top 10 % of installations in terms of emissions could be replaced with the top 10 % of installations in terms of existing production capacity. Benchmarks could be derived from historical reference technologies (such as efficient natural gas-based systems), or from weighted averages reflecting the EU energy mix and the realistic availability of low-carbon fuels. Additionally, gradual adjustment mechanisms could help avoid sharp cost shocks, where benchmark reduction trajectories could be structured as linear or progressive annual decreases, cushioning industries from abrupt transitions while retaining long-term decarbonisation signals.

Concerns Regarding CBAM, Industrial Competitiveness and Carbon Leakage

For numerous sectors exposed to international competition and not fully covered by the Carbon Border Adjustment Mechanism (CBAM), the revised benchmarks risk eroding free allocation coverage and imposing costs unmatched by competitors outside the EU. But even industrial sectors covered by CBAM are still disadvantaged compared to competitors from non-EU countries, especially when exporting to markets outside the EU. Excessive decline in the number of free allowances may result in heavy compliance burden borne by European consumers and reduced financial capacity for decarbonisation investments. Therefore, we should consider all options available, including analysis of the phase-out of free allocation of allowances and review of the CBAM factor in order to find additional measures to protect European producers against export carbon leakage.

Measures to Ensure a Just and Effective Transition

A coordinated European approach is needed to sustain industrial competitiveness while maintaining focus on further emissions reduction. Several complementary measures could be considered.

First, targeted additional support should foster decarbonisation investments. Additional free allocation should be granted to EII operators who commit to verifiable emission reduction plans and reinvest equivalent values in decarbonisation projects within the EU. The distribution could reflect criteria such as exposure to carbon leakage, high energy intensity, and the economic context of lower- or mid-income Member States.

Second, financial instruments for the transition need to be enhanced. Alongside the free allocation, access to bridging funds from existing EU mechanisms — such as the Innovation Fund, the Modernisation Fund, or the upcoming Investment Booster with a special mechanism for lower-income Member States or Member States with historically high emission intensity-based economy — should be targeted towards projects delivering tangible emission reductions in EII. Such instruments should address competitiveness gaps associated with the transition and ensure maintaining a global level playing field for EU industries.

Third, indirect cost compensation in EU ETS should continue to play a role alongside electrification incentives. This would accelerate the shift towards climate-neutral production without putting competitiveness at risk during the transition phase.

Conclusion

Energy intensive industries are vital to European prosperity, employment, and technological innovations. A coordinated European response — combining methodological prudence, targeted financial support, and gradual implementation — is therefore essential to secure the twin objectives of climate neutrality and a competitive, sovereign European industrial base.