Open statement by energy intensive industries
ENVI Committee vote on Emissions Trading System and Carbon Border Adjustment Mechanism

Energy-intensive industries (EIIs) 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 have already led to production curtailments and stoppages may cause further disruptions in the near future. Another economic downturn, the third in just four years, is looming.

In this new context, it is essential that the implementation of the Fit for 55 Package and in particular the Emissions Trading System (ETS) and Carbon Border Adjustment Mechanism (CBAM) deliver the agreed 2030 climate targets while supporting companies' investments, preserving effective carbon leakage measures and avoiding disproportionate costs, capacity closures and job losses. Higher climate ambition needs to be achieved cost effectively and be accompanied by strengthened carbon leakage protection from international competition that is not subject to comparable carbon costs, if any costs at all.

Against this background, in view of the upcoming ENVI Committee vote scheduled for 17th May, 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.
- **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. 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. 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.

- **Overburdening conditionality criteria:** benchmarks already provide a bonus/malus system, since free allocation is granted only at the level of best 10% performers. Free allocation should remain conditional to the sole criteria of exposure to risks of carbon leakage. Additional conditionality criteria create a further administrative and financial burden and could create the conditions for the materialisation of the carbon leakage risk that was meant to be avoided by the free allocation.
- **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, it is essential to maintain indirect carbon costs compensation and ensure effective protection in all EU member states.
- **Disproportionate costs 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. Additional measures such as the one-off cancellation of allowances (rebasing) and stricter rules of the Market Stability Reserve should be avoided as they create artificial shortage in the carbon market and increase further the carbon price while businesses and households are struggling in the face of skyrocketing energy costs. 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 ENVI Committee vote and recommend not to support amendments 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 EIIs 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.

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