FuelsEurope
FUELLING EUROPE'S FUTURE

POSITION PAPER

FuelsEurope position paper on the Carbon Border Adjustment Mechanism

Brussels, 02 July 2025: FuelsEurope, the EU conventional, renewable and low carbon fuels and industrial value chains products manufacturing industry, supports the EU's goal of climate neutrality by 2050, recognising that achieving this target will require not only breakthrough technologies, but above all, substantial and timely investments supported by an improved, stable and predictable policy framework. The EU's refining sector is currently facing two critical challenges: competing in international markets and implementing an industrial transformation to support the EU's climate targets.[1] In this context, FuelsEurope calls for effective measures that restore a global level playing field to ensure the sector can remain globally competitive and hence to enable its transformation by:

- Levelling the playing field on carbon costs, thereby avoiding growth of international emissions and enabling ambitious yet economically achievable environmental action
- Providing a predictable and enabling regulatory framework, resulting in clear, long-term signals to guide investors, thereby preventing carbon and investment leakage
- Effectively creating the business case for scaling up breakthrough and innovative solutions for the energy transition

Consistent with the above premise, FuelsEurope urges the EU Institutions to address fundamental flaws in the current CBAM design before progressing a potential scope extension of the CBAM Regulation to refinery products, and to address concerns on the current trajectory of the ETS 1 cap and free allowance decline rate in order to restore international competitiveness and enable the decarbonisation investments required for the transition. The following elements shall be considered:

- The revision of CBAM should be considered in parallel with the revision of the EU ETS and expansion of its scope should be carefully impact assessed, in particular for the refining sector
- CBAM should coexist with current carbon leakage risk mitigation measures, which should not be further reduced compared to today's level until CBAM effectiveness for the refinery sector has been demonstrated
- An effective and adequate solution for export related carbon leakage risk must be included in the carbon leakage framework
- Provide a level playing field between EU and non-EU suppliers on GHG emission costs
- Address the risks of circumvention and resource shuffling
- The carbon leakage risk associated with indirect emissions costs should be addressed through an EU-wide harmonised system of indirect cost compensation for all trade exposed sectors, rather than being included in CBAM (as indirect costs are not directly related to indirect emissions)
- A fair methodology for the refining sector shall be developed

[1] Since 2009, out of close to 100 refineries operating in Europe, 27 refineries with a capacity over 30 kbl/d or 1.5 Mt/a were closed or transformed.

Bd. du Souverain 165
1160, Brussels | Belgium
T +32 (0)2 566 91 00

info@fuelseurope.eu
www.fuelseurope.eu

Transparency Register
26207914726-42

The revision of CBAM should be considered in parallel with the revision of the EU ETS and expansion of its scope should be carefully impact assessed, in particular for the refining sector

The European Commission is expected to present soon a proposal to revise the CBAM Regulation, including a possible extension of the scope. In the same timeframe, a proposal to revise the EU ETS will be submitted to the co-legislators by the end of July 2026.

In light of the interdependencies between ETS and CBAM, it is of utmost importance that the upcoming EU ETS and CBAM proposals for revision and impact assessments are conducted in parallel, considering that changes applied to one of the two would have direct implications for the other. Assessing the two proposals together would help ensure consistency, avoid potential discrepancies and maintain the overall integrity of the legislation. In particular, we recommend that the phasing out of free allowances applicable to sectors producing CBAM goods (an ETS directive provision) that would be considered in the context of the extension of the CBAM regulation scope is considered in a coordinated manner.

Moreover, we believe that any proposal to expand the scope of the mechanism to other products should be conditional upon a careful impact assessment, that should demonstrate the effectiveness of CBAM and the absence of any deterioration of the competitiveness of the EU industry.

CBAM should coexist with current carbon leakage risk mitigation measures, which should not be further reduced compared to today's level, until CBAM effectiveness for the refinery sector has been demonstrated

According to the most recent data published by the European Commission, the free allocation balance for the refinery sector under the EU ETS at the start of the fourth trading period already had a shortfall of 35% on average.[2] The CBAM should co-exist with the current level of carbon leakage protection (free allocation at the benchmark level 2021-2025, with eligibility for indirect ETS cost compensation under an EU-wide harmonised State Aid Guidelines) until it's proven effective, to provide confidence for low-carbon investments and avoid market distortions. In this way, CBAM would complement benchmark-based free allocation, applying to the level of emissions not covered by free allocation, hence ensuring that one tonne of carbon is not protected twice. Maintaining free allocation at adequate levels is crucial to level the playing field on carbon costs, thereby avoiding growth on international emissions and safeguarding the EU industry from carbon leakage, as highlighted in the Draghi Report. Reducing these protection mechanisms without establishing proven equivalent carbon leakage protection could lead to the shutdown of efficient industrial assets in the EU, as they are crucial to prevent the relocation of production and associated emissions outside the EU, which would undermine global climate effort. Considering that CBAM sectors would be exposed to considerable risks if free allocation is phased out at a time the mechanism has not demonstrated its effectiveness, any subsequent modification of the rules needs to be conditional to a monitoring system assessing and ensuring the effectiveness of the CBAM both domestically and on international markets including through a thorough impact assessment.

An effective and adequate solution for export related carbon leakage risk must be included in the carbon leakage framework

To effectively avoid an increase in global emissions, the CBAM should level the effective cost of carbon of EU industries both in the domestic market and in export markets, ensuring that climate policy delivers genuine environmental integrity without displacing emissions outside the EU, hence protecting the competitiveness of the EU industry against players from regions with lower climate ambitions.

[2] *European Commission, Update of benchmark values for the years 2021 – 2025 of phase 4 of the EU ETS, 2021.*

Refining is a highly trade intensive sector. Fuels production yields a range of different products, and refinery output streams are not mutually independent. For some products, the EU demand exceeds the EU production (hence imports take place), while other products are exported since the EU production exceeds the EU demand.

For products where the EU production exceeds EU demand, the EU market balances via exports. Today, free allowances enable efficient EU producers to compete in export markets where many producers face zero CO2 emission costs. However, as the CBAM is designed as an import-only mechanism, the phase-out of free allocation without an export solution would undermine this equilibrium by increasing the costs for EU producers while the price in those exports markets is unlikely to change. Hence, even efficient EU producers would lose their ability to access those export markets, which would make EU production unsustainable. To rebalance the situation, EU production should be reduced; however, cutting export-oriented production will also reduce domestic production due to the interdependence of refinery products, resulting in increased imports from outside the EU.

Therefore, an import-only CBAM without free allocation would drive carbon leakage rather than preventing it. Should the effectiveness of CBAM be demonstrated and free allocation be phased out, **in absence of free allocation, an export adjustment will be necessary to restore the EU competitiveness in export markets, effectively addressing the carbon leakage risk.**

Provide a level playing field between EU and non-EU suppliers on GHG emission costs

It is indispensable that any CBAM secures a level playing field between EU and non-EU industries, leading to the equalisation of CO2 emission costs.

CBAM should require importers to use verified emissions, like EU installations under the EU ETS rules according to the Monitoring & Reporting Regulation (MRR). However, default intensity values of products per country need to be provided when needed. These should be set at sufficiently conservative levels to ensure they incentivize third country suppliers to report verified emissions and to safeguard the environmental integrity of CBAM.

CBAM should also ensure that any exemption or reduction of the number of CBAM certificates is granted on strictly comparable carbon pricing measures, taking into account any possible exemptions, discounts or other financial recycles or compensations that may be applied in third countries.

As the free allocation received by EU suppliers will be taken into account in the number of CBAM certificates to be surrendered, it is crucial to ensure that the procedure concerning the correction for the remaining free allocation is handled by EU authorities reflecting the Free Allocation Rules considering the complexity of such rules for third-country operators.

Address the risks of circumvention and resource shuffling

It is essential to duly consider the inherent risks of CBAM, such as circumvention, resource shuffling (whereby only the cleanest industrial plants would export their products to the EU, while the most polluting plants would keep producing for other markets) and transshipment.

Carbon leakage risk associated with indirect emissions costs should be addressed through an EU-wide harmonised system of indirect cost compensation for all trade exposed sectors, rather than being included in CBAM (as indirect costs are not directly related to indirect emissions)

While there exists a direct relationship between direct emissions and the ETS-related costs, as a result of which direct embedded emission intensity represents an accurate metric to drive CBAM compliance costs,

there is no direct relationship between indirect emissions and the ETS-related indirect costs: hence, indirect embedded emission intensity does not represent an accurate metric to derive CBAM compliance costs.

In light of the above, the carbon leakage risk associated with EU ETS costs embedded in electricity prices would be better managed internally within the EU, through an enhancement to the existing instrument of ETS indirect cost compensation. FuelsEurope recommends to implement a long-term EU-wide harmonised system of financial compensation for indirect emission costs to remedy the current distortions to the internal market due to national compensation schemes while providing adequate mitigation to carbon leakage risk due to indirect ETS costs. Should such harmonised system not be implemented, indirect emissions should be included in CBAM, to ensure a degree of protection from the carbon leakage risk associated with indirect costs. In such a case, indirect cost compensation remains essential to bridge the gap between emissions and incurred costs for EU producers, compensating the indirect costs not covered by the CBAM while guaranteeing the avoidance of double protection.

A fair methodology for the refining sector shall be developed

We emphasise the importance that the EU refining sector (one of the most trade-intensive and carbon leakage-exposed sectors) is thoroughly impact assessed by the European Commission and consulted when considering further extending the scope of the CBAM, as the relevant benchmark in the EU ETS does not relate to individual products, but to the refinery configuration and its overall output.

FuelsEurope supports the development of a methodology to determine, at the product level, the carbon emitted during the manufacture of refining products that ensures a high level of fairness when comparing the carbon intensity of products made in EU and in non-EU regions. This methodology should be unambiguous, verifiable, administratively manageable and effective including for commingled and intermediary products. Given the complexity of refining outputs and trade exposure, its implementation should be gradual, tested, and subject to periodic review and adjustment based on real-world performance and administrative feasibility. We stand ready to contribute with our expertise to the development of such methodology. Careful consideration is also needed with regard to the management of carbon leakage risk for downstream sectors. This may be addressed either through the inclusion of such sectors in the CBAM scope, or by appropriately adjusting the refining CBAM methodology.

In conclusion, FuelsEurope wants to stress that, in particular in a time when restoring the competitiveness of the EU economy is a priority, and European industries are contending with intense international competition, CBAM should not deteriorate the global competitiveness of the EU industry but should effectively address carbon leakage risk i.e. avoid EU products substitution by higher GHG intense products, both in the EU domestic market as well as in international markets. In this context, the CBAM design should be adjusted, notably before an extension of its scope to further products is considered.

FuelsEurope stands ready to collaborate with policymakers and stakeholders to define an efficient CBAM design.

FuelsEurope, the voice of the European fuel manufacturing industry. FuelsEurope represents, within the EU institutions, the interest of 40 companies manufacturing and distributing conventional and renewable fuels and products for mobility, energy & feedstocks for industrial value chains in the EU.

Contact : Jean-Pierre Debruxelles
T +32 472 62 77 95
F +32 2 566 91 10
Jean-pierre.debruxelles@fuelseurope.eu
www.fuelseurope.eu