



## European Metals position paper on the post-2030 ETS framework

### Key recommendations

#### Objective 1: Improving carbon leakage protection

- Keep indirect cost compensation beyond 2030
- Revise the timeline for the phase-out of free allocation for CBAM sectors and refrain from extending CBAM to new sectors until its effectiveness as a carbon leakage instrument is proven
- Introduce, as soon as possible, a separate fallback benchmark for the production of critical and strategic raw materials, potentially dedicated product benchmarks for alumina and aluminium recycling/cast-houses/downstream. Until then, the applicable fallback values should be the ones set for the 2021-2025 period.
- Avoid revisions to the process emissions benchmark that would disincentivise the recycling of complex waste containing copper and other critical raw materials
- Avoid new conditionalities on free allocation and preserve its role as a carbon leakage protection tool
- Introduce a legal basis enabling Member States to offset pass-through costs arising from ETS2 and maritime transport

#### Objective 2: Ensuring market stability and predictability

- Review the Linear Reduction Factor (LRF) to extend the supply of allowances towards 2050, in line with realistic industrial decarbonisation pathways
- Adapt the MSR to future market dynamics, by revising the current withdrawal and release thresholds, removing the invalidation clause, and enabling the release of invalidated allowances back into the market
- Mitigate price hikes and volatility by ending rebasing and lowering the trigger threshold under Article 29a
- Remove the 57% industry cap on auctioned EUAs to reduce the application of the CSCF
- Introduce additional abatement tools for direct ETS compliance, such as Article 6.4 credits and EU-certified carbon removals

#### Objective 3: Strengthening competitiveness and supporting the business case for decarbonisation

- Ensure Member States earmark at least 50% of ETS revenues for EIRs' competitiveness
- Adjust or lower the dynamic allocation threshold to better support industrial growth
- Design an ETS Investment Booster and an Industrial Decarbonisation Bank that jointly advance decarbonisation and competitiveness
- Support lead markets for low-carbon products



## Introduction

European Metals represents European producers of non-ferrous metals (NFM), such as aluminium, copper, lithium, nickel, zinc, silicon, as well as ferroalloys and other metals that are essential to the green and digital transitions.

Our sector plays a key role in advancing the decarbonisation of the EU economy and must be able to continue supporting Europe's transition effectively. Achieving this requires a realistic and well-functioning EU ETS that supports decarbonisation without undermining industrial competitiveness or affordability for EU consumers.

The European Union continues to set strong climate goals, which are accompanied by stringent and equally ambitious climate policies. Such policies increase both operational and administrative costs for European industry, undermining its competitiveness rather than supporting industrial growth.

This situation is exacerbated by the lack of reciprocity from our trading partners. Electro-intensive sectors such as the non-ferrous metals industry compete on the global stage at internationally set prices that do not reflect the additional costs European producers face and that cannot be passed on to customers without significant loss of market share and, therefore, competitiveness.

Beyond harming international competitiveness, these operational costs can also compromise climate objectives. On the one hand, they reduce investment in low-carbon technologies by diverting financial resources away from needed capital-intensive investments. On the other hand, they heighten the risk of carbon leakage. Since the carbon footprint of European non-ferrous metals production is significantly lower than the global average<sup>1</sup>, inappropriate safeguards against carbon leakage could lead to production relocating to regions outside Europe with higher emissions intensity, thereby increasing global emissions rather than reducing them.

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<sup>1</sup> See for example Wyns, T., & Khandekar, G. 2019. Metals for a Climate Neutral Europe – A 2050 Blueprint ([here](#)) or European Aluminium, 2024, Environmental profile report for the European Aluminium industry ([here](#)).



## 1. Objective 1: Improving carbon leakage protection

The risks of investment and carbon leakage in the EU will persist as long as other jurisdictions in all key competitor regions do not adopt climate policies that match the EU's level of ambition and are comparable when it comes to different CO<sub>2</sub> exposure. For highly electro-intensive price-taker industries, such as non-ferrous metals, that compete globally, this is a challenging reality that has been materialising for several years, leading to a significant net increase in global emissions and an erosion of the EU's industrial base. Therefore, the only way for the EU to secure the necessary materials for the transition, without driving up GHG emissions and while being independent of foreign supply chains, is to establish long-term, strong and proportionate carbon leakage protections<sup>2</sup>.

### 1.1. Keep indirect cost compensation beyond 2030

The current ETS State Aid Guidelines<sup>3</sup> provide an effective framework for mitigating carbon leakage risks caused by higher electricity prices stemming from CO<sub>2</sub> costs being passed through in the electricity bill. The Guidelines implemented the asks of the European Council Conclusions on the 2030 Climate and Energy Policy Framework, highlighting that 'in order to maintain international competitiveness, the most efficient installations in these sectors should not face undue carbon costs leading to carbon leakage'<sup>4</sup>.

As extensively discussed<sup>5</sup>, European electricity consumers still bear indirect carbon costs even when consuming fully decarbonised electricity, due to combination – unique to the world – of ETS costs and marginal pricing system.

In a report from 2023, the Joint Research Centre (JRC)<sup>6</sup> states that 'fossil fuel power plants, in particular gas, played an outsized role in setting EU wholesale power prices in 2022 and are projected to retain this influence in 2030'. The report also emphasizes that even as the share of fossil fuel generation declines in the total of EU electricity production, its share of the time as the price-setting technology remains virtually unchanged.

This is reaffirmed in the Draghi Report, which highlights that 'by 2030, even with the share of RES expected to increase from 46% to 67% in the EU's power generation mix, the hours during which fossil-fuel-based generation sets price are expected to remain largely the same as in 2022.[...] natural-gas was price-setter 63% of the time in 2022, despite being only 20% share in the electricity mix. [...] High gas prices may mean high electricity prices at least until the mid-2030s'<sup>7</sup>.

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<sup>2</sup> The conclusions from the European Council (2014) in relation to the 2030 Climate and Energy Policy Framework (here) already accurately stated that measures such as free allocation must continue 'to prevent the risk of carbon leakage due to climate policy, as long as no comparable efforts are undertaken in other major economies, with the objective of providing appropriate levels of support for sectors at risk of losing international competitiveness.'

<sup>3</sup> Guidelines on certain State aid measures in the context of the system for greenhouse gas emission allowance trading post-2021 ([here](#)) and its 2025 amendments ([here](#)).

<sup>4</sup> See [here](#).

<sup>5</sup> See for example Aljanabi, Z., Henry, A. and Pegrum, L. 2022. Assessment of European Carbon Border Adjustment Mechanism Regulation ([here](#)).

<sup>6</sup> Gasparella, A., Koolen, D. and Zucker, A., 2023. JRC, The Merit Order and Price-Setting Dynamics in European Electricity Markets.

<sup>7</sup> Draghi, M. 2024. The Future of European Competitiveness Part B: In-depth analysis and recommendations ([here](#)).



Given the above, indirect cost compensation remains essential for preserving the competitiveness of highly electro-intensive industries, particularly those that are i) exposed to global competition, ii) operate under global pricing mechanisms and where iii) electricity costs representing a very substantial percentage of the total production costs<sup>8</sup>. Therefore, ICC must remain in place until the EU electricity grid is fully decarbonised, among others.

The following example from the aluminium sector clearly illustrates the impact of indirect costs on competitiveness and the importance of ICC to preserve it<sup>9</sup>. The average CO<sub>2</sub> emission factor from the EU ETS State Aid Guidelines – representing the pass-through of indirect costs – was 0.63 tCO<sub>2</sub>/MWh for the period 2021–2025. Assuming an ETS price of 70 EUR/t and a consumption of ~14 MWh electricity for an aluminium smelter to produce one tonne of aluminium, indirect costs would amount to 617.4 EUR per tonne of aluminium. This corresponds to a substantial 27.6% of the global price for aluminium set at the LME (2600 \$/t = 2233 EUR/t<sup>3</sup>), a cost that aluminium producers in other countries do not face. It is therefore evident that no aluminium smelter can exist in Europe without indirect cost compensation. Moreover, the global aluminium price is cyclical, and the burden is even more severe in downturns e.g., when the aluminium price is lower (e.g. 2200 \$/t = 1890 EUR/t), indirect ETS costs alone represent a massive 32.7% of the sale price.

While extending free allocation can help address competitiveness concerns, it should be seen as only one element within a broader policy mix that tackles both direct and indirect carbon costs. In fact, even if free allocation for direct costs is prolonged for electro-intensive industries, high carbon prices would still continue to drive up indirect carbon costs. Therefore, further adjustments to the ETS – including the extension of ICC beyond 2030 – are necessary to prevent excessively high carbon prices and costs, many of which are outlined in this paper.

On a separate but related note, it is worth noticing that replacing the indirect cost compensation scheme with the inclusion indirect emissions in CBAM will under no circumstances be an effective carbon leakage protection. The 2040 framework should remain consistent with the existing 2030 framework and must continue the compensation system to provide investors with certainty regarding costs to facilitate further investments in decarbonisation.

#### **Our proposal:**

- ✓ To maintain carbon leakage protection, indirect cost compensation must persist beyond 2030, until the EU electricity grid is fully decarbonised and the EU electricity price reaches a level playing field with global competitors.
- ✓ The current 25% share setting a maximum threshold for the revenues used for indirect compensation must be removed. Member States that have energy-intensive industries eligible for indirect cost compensation should provide at least 25% of the total revenues from the ETS for indirect cost compensation.

<sup>8</sup> See for example Wyns, T., & Khandekar, G. 2019. Metals for a Climate Neutral Europe – A 2050 Blueprint. Institute for European Studies ([here](#)).

<sup>9</sup> For more information, please see European Aluminium's response on the call for evidence on the technical update of ETS guidelines, September 2025 ([here](#)).



## 1.2. **Revise the timeline for the phase out of free allocation for CBAM sectors and refrain from extending CBAM to new sectors until its effectiveness as a carbon leakage instrument is proven**

The CBAM Regulation is still immature: several implementing and delegated acts still need to be published and numerous loopholes and possibilities to circumvent remain. Moreover, the mechanism does not reflect the situation faced by European installations under the ETS and the EC itself has recognized its significant shortcomings, leading to the exemption of 90% of declarants. Considering this, its effectiveness as a carbon leakage measure and as a tool to successfully incentivise global GHG emission reductions must be fully tested and ensured before irreversibly reducing existing carbon leakage measures. European Metals has always been skeptical about the effectiveness of the CBAM as a carbon leakage measure, and these concerns are compounded by the rushed timeline for the introduction of this mechanism.

Therefore, the effectiveness of CBAM in replacing free allocation as a carbon leakage protection measure is highly uncertain. This view is shared by other stakeholders, such as Mario Draghi in his report on the EU competitiveness<sup>10</sup>. There, he suggests evaluating the possibility of postponing the reduction of free allocation if CBAM's implementation is ineffective, thereby echoing the sentiment of uncertainty and caution expressed by European Metals thus far.

Against this backdrop, the phase out of free allocation for CBAM sectors should be slower, while the effectiveness of CBAM is closely monitored and reviewed. For these same concerns, the EC shall refrain from expanding the CBAM scope horizontally to new sectors and products. Further, a review mechanism should be set up to provide a clear governance structure with the assurance to all European installations under the CBAM that immediate compensation for possible shortfall in product pricing takes place if importers' costs are not equal to European producers. The 'emergency brake', included in the Commission's legislative package from December 2025, could represent – if improved – a positive example of such a mechanism, allowing for the exemption of the affected sectors and the reinstatement of free allocation if CBAM fails to maintain a level playing field for European producers, or if it imposes an unsustainable cost burden on European industries<sup>11</sup>.

Similarly, the absence of a long-term export solution continues to be one of the most critical gaps in the framework designed to protect the European industry from carbon leakage. The Temporary Decarbonisation Fund, proposed by the Commission in December 2025, is intended to serve as an interim mechanism to compensate the EU industry for carbon leakage already occurring vis-à-vis export markets. Yet, as currently designed, the Fund falls short of doing so and targeted adjustments are therefore necessary so that it provides the necessary level playing field for European industry in a timely and meaningful way<sup>12</sup>. It is equally important to avoid carrying over some of its shortcomings into the design of the upcoming long-term export

<sup>10</sup> Draghi, M., 2024. The Future of European Competitiveness Part B: In-depth analysis and recommendations ([here](#)).

<sup>11</sup> For more information, please see European Metals position paper on the proposal amending CBAM as regards downstream scope expansion and anti-circumvention measures from March 2026 ([here](#)).

<sup>12</sup> For more information, please see European Metals position paper on the Temporary Decarbonisation Fund from March 2026 ([here](#)).



solution, to ensure it is robust, adequate, proportionate and, to the greatest extent possible, reflects the businesses realities across different sectors.

The circumstances highlighted above, together with other factors such as the economic impact of CBAM/ETS, rampant inflation, trade disruptions, geopolitical uncertainty, and their combined impact on Europe's industrial output, require a very careful re-assessment of the effectiveness of such untested concepts for Europe's economic growth, as well as their adverse impact on EU trade relations. The economic challenges faced by downstream sectors that use our metals in Europe and employ millions of people (e.g., the automotive sector, wind turbine manufacturers, etc.) also call into question the wisdom of introducing significant new regulatory costs – by phasing out free allocation – for the European industry. For example, the European association for technology industries recently described CBAM as a 'disaster' and warned that it would increase production costs of downstream manufacturers by as much as 48%<sup>13</sup>.

Ultimately, CBAM was created with the objective of preventing carbon leakage and it must be designed in a manner that effectively delivers on that goal. Should it fall short, a thorough reassessment of its purpose and performance will be required to determine whether it remains the most appropriate policy instrument for the future.

#### **Our proposal:**

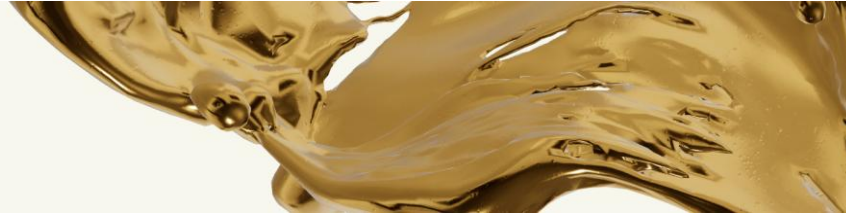
- ✓ Rethink the timeline for free allocation phase-out for CBAM sectors, for example by implementing a more gradual phase-out (i.e. no jump in phase-out speed in 2029 and 2030), and extending it until 2038 so that the extra time allows for more data collection and a better and more robust implementation of the CBAM Regulation.
- ✓ If during the ongoing implementation and review of CBAM it is demonstrated that it is in fact undermining competitiveness and decarbonisation efforts of European CBAM sectors, swift and decisive action must be taken to revert to existing carbon leakage protection measures (i.e. maintain existing free allocation levels).
- ✓ Establish a robust, long-term export solution that is adequate, proportionate, and, to the greatest extent possible, reflects the business realities across different sectors.
- ✓ No extension to other sectors as long as the effectiveness of the mechanism is not proven.

### **1.3. Establish dedicated product benchmarks for alumina and secondary aluminium**

Separate ETS product benchmarks must be designed for alumina refining and aluminium recycling, as both processes of the value chain currently fall under the non-sector specific ETS heat & fuel consumption benchmarks. Introducing these two new ETS product benchmarks is urgently needed; otherwise, the EU's objective to increase the resilience of the Union's supply chains of critical and strategic raw materials and accelerate the shift towards a more circular and low-carbon industry will be undermined.

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<sup>13</sup> CBAM: a disaster for the competitiveness of Europe's technology industries – Orgalim ([here](#)).



Alumina, produced from bauxite refining, which is a critical raw material, is the main precursor for primary aluminium, and Europe remains dependent on its imports. Continuing with the generic fallback approach will lead to a sharp reduction (50%) in free allocation for alumina producers, imposing a severe penalty that will cause further curtailments and plant closures, without any techno-economic possibility to further ‘incentivise sectoral decarbonisation’.

Under the revised ETS Directive, fallback benchmarks are expected to drop considerably (by 50%) because they are based on installations that use biomass across a wider (and altogether different) range of processes. These smaller, lower-temperature installations record lower emissions levels that are unattainable by alumina refineries or recycling plants. This will force a steep reduction in free allocation, raising costs and increasing the risk of more plant closures amid already high energy and emissions costs.

To date, only 4 out of the 6 alumina refineries in Europe continue to operate, while primary aluminium production has steadily declined, exacerbated by an energy crisis that cut nearly 50% of its remaining production capacity. Increased production costs will drive greater import dependency for alumina, a globally priced commodity that is classified by the European Union as both a Strategic and Critical raw material, according to Annexes I & II of the CRM Regulation 2024/152<sup>14</sup>. Extra regulatory costs unique to European industry cannot be passed on to consumers, undermining the status of bauxite and alumina as critical raw materials and threatening the EU’s target (enshrined in law) to strengthen its critical raw materials supply chain and produce at least 40% of its annual consumption of alumina/aluminium<sup>15</sup>.

A similar challenge is faced by aluminium recycling, which is expected to see its free allocation slashed by 50% under the fallback approach. The fallback benchmarks do not take into consideration the different challenges industries face in terms of the capability for switching fuel. Instead, the assessment on the improvement of emissions reductions should only take into account installations using natural gas, leaving out of the calculation those using other energy sources, such as biomass.

For aluminium recycling installations, biomass is not currently or consistently available across the energy system, and availability depends on several factors, including national/regional population densities and the relative sizes of agriculture, forestry, marine and waste-based sectors. These external constraints conflict with the EU ETS mandate to support circularity and the objectives of the Critical Raw Materials Act.

The guiding principle of the EU ETS should be to incentivise participating installations to improve their CO<sub>2</sub> performance to a level reflecting the best-in-class performance in their sector, based on the best available technologies. Comparing alumina producers and aluminium recyclers to

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<sup>14</sup> See also recital 8: ‘An exceptional clarification should be made for the aluminium value chain, mentioning bauxite, its most important ore, and alumina, its intermediate processing form, in addition to aluminium’ ([here](#)).

<sup>15</sup> With Europe’s consumption of primary aluminium set to reach roughly 6mt by 2030, domestic production should deliver at least 2,4mt, in turn leading to a minimum domestic alumina output of 4,8mt. This essentially mandates that existing idled capacity is reopened in full and any planned expansion is operational by then. Subsequently, the ETS framework must be interpreted (and/or revised where necessary) towards eliminating unscientific and unjustified barriers and artificial cost increases, to permit a realistic and competitive sectoral decarbonisation trajectory.



installations in other sectors with incomparable production processes leads to undue carbon costs and cannot, by definition, incentivise further emission reductions. Introducing new product benchmarks for alumina and aluminium recycling would ensure that producers of these materials are assessed against the best performers in their sector, with comparable production processes.

In the meantime, a solution is also needed to avoid the expected 50% reduction in free allocation for alumina and aluminium recycling in the delegated act that will determine benchmark values for the second sub-period of Phase 4.

#### **Our proposal:**

- ✓ The Commission must work with the industry to establish new product benchmarks for alumina refining and potentially also for aluminium recycling/cast house/downstream, replacing the current fallback approach. The current 2021–2025 fallback values should remain unchanged until a new approach is established, or another solution should be designed to avoid such an unfair reduction of allowances.

#### **1.4. Introduce a separate fallback benchmark for the production of critical and strategic raw materials**

Fallback benchmarks as currently outlined do not reflect the technical feasibility of reducing emissions for non-ferrous metals producers.

Most benchmarks are product-specific. This means that sub-installations under a given benchmark all manufacture approximately the same product. The total number of installations covered by individual product benchmarks ranges from ~4 to 239.

Instead, where sub-installations produce products that do not fit any product benchmark, they are assigned to the fallback benchmarks, namely heat and fuel. The fallback benchmarks cover ~9000 installations in the EU ETS<sup>16</sup> – which represents around three quarters of all stationary installations<sup>17</sup>. This diverse pool of installations, producing very heterogeneous outputs across a wide range of processes but operating under the same fallback benchmark, means that the installations setting the benchmarks (the best 10% performers) often have significantly different characteristics compared to the rest.

In this case, district heating installations and installations using biomass tend to set the fallback benchmarks, which may result in a steep reduction in free allocation for all installations assigned to these benchmarks. As noted above, biomass availability is uneven across Europe, and technical limitations restrict its use in non-ferrous metal sectors. Similarly, alternative abatement options – such as hydrogen, decarbonised electricity, or biomethane – may not be technically feasible or cost-efficient at present.

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<sup>16</sup> Approximately 6,097 under the heat benchmark and 2,636 under the fuel benchmark.

<sup>17</sup> As of 2024, the sectoral scope of the EU ETS covers GHG emissions from ~12,000 installations, see Report from the Commission to the EP and the Council on the functioning of the European carbon market in 2024 ([here](#)).



Unrealistic benchmark reduction rates that weaken carbon leakage protection will compound industrial competitiveness problems and risk further deindustrialization in Europe. An in-depth review of the benchmark calculation methodology is urgently needed to develop a post-2030 framework that is more representative of the technological realities of each sector.

**Our proposal:**

- ✓ Introduce a separate heat and fuel benchmarks for the production of critical and strategic raw materials, ensuring these installations are distinguished from the larger pool of installations across different sectors currently covered under the heat and fuel benchmarks.

**1.5. Avoid revisions of the process emissions benchmark that would disincentivise recycling of complex waste containing copper and other critical raw materials**

The recycling of non-ferrous metals can significantly reduce CO<sub>2</sub> emissions on a life-cycle basis compared to primary production. For example, copper produced from high-quality recycled materials can save up to 85% of the energy needed for copper produced from mined material.

However, when recycling complex waste (such as e-waste) that contains copper and other non-ferrous and precious metals, the presence of non-metallic components such as plastics and other organic materials that cannot be fully separated during the pre-processing stage results in unavoidable process emissions during the smelting and refining stage. This means that the recycling of complex e-waste leads to higher direct CO<sub>2</sub> emissions for the smelting and refining stage of the recycling process, even if CO<sub>2</sub> emissions would, in most cases, be lower on a life-cycle basis compared to production from mined resources. Similar challenges arise with unavoidable carbon-bearing residues in CRM rich waste streams, such as battery black mass.

The smelting and refining step is needed to allow copper and other valuable metals from end-of-life products to be turned into high-quality refined metal that can be used again. It is the most efficient way to return these metals to productive use. For recycling of complex CRM-containing waste to continue in the EU, it is essential that these operations are not exposed to excessive carbon costs for the related process emissions. If free allocation for these operations is significantly reduced after 2030 the recycling of these complex waste streams would be disincentivized, leading to an increase in exports or, in the worst case, landfilling of these valuable materials – thus conflicting with the EU's objectives to increase the recycling and domestic production of critical and strategic raw materials.

**Our proposal:**

- ✓ Ensure that the ETS does not disincentivise the recycling of complex waste containing critical raw materials. This could be achieved by preserving the present status quo of the 91% benchmark for process emissions. As a fallback, it could also be achieved by excluding the carbon present in the end-of-life CRM containing waste in the counting of process emissions under the ETS, given that they had already been accounted for during production.



## 1.6. Avoid new conditionalities on free allocation and preserve its role as a carbon leakage protection tool

Preserving free allocation is crucial to sustaining European-based production and preventing carbon leakage. It provides companies with financial stability and capital to support decarbonisation investments; without it, many firms will face greater difficulties in securing funding for their green transition.

Therefore, any new conditionality on the free allocation of EU ETS allowances must be avoided. The product benchmarks already reflect the best-in-class performance that can be achieved by the industrial processes they cover. For many industrial processes covered by the EU ETS, it is not yet technically feasible to reduce emissions below current levels. Making free allocation conditional on investments in decarbonisation would penalise producers operating in these sectors, as they would not be able to access free allocation since it is technically impossible for them to invest in decarbonisation due to a lack of the required technologies. It would also further weaken the global competitiveness of EU industries and conflict with existing EU policies designed to bolster their industrial performance and protect them from carbon leakage.

The current conditionalities (e.g., climate neutrality plans, energy efficiency recommendations) are already not well-suited to support the growth of the European industry. Removing these conditionalities would eliminate unnecessary administrative burdens and compliance costs for entities under scope while preserving a level playing field. It would also better protect against carbon leakage, which remains the primary objective of free allocation, by ensuring European domestic producers are not disadvantaged against global competitors who operate without similar obligations.

### Our proposal:

- ✓ Refrain from adding further conditionalities on free allocation and remove the ones currently in place to help preserve a level playing field and provide better safeguards against carbon leakage.

## 1.7. Introduce a legal basis enabling Member States to offset pass-through costs from ETS2 and maritime transport

### 1.7.1. Measures offsetting pass through costs from ETS2

The new emissions trading system covering CO<sub>2</sub> emissions from fuel combustion in buildings, road transport, and additional sectors (i.e. industrial activities not covered by Annex I of the ETS Directive<sup>18</sup>) is planned to enter into force in 2028. The regulated entities – i.e., fuel suppliers – will be required to monitor and report their emissions and surrender equivalent allowances, based on the carbon intensity and quantity of the fuels sold. Considering that all allowances under ETS2 will be auctioned, the extra costs borne by fuel suppliers will be passed on to end-consumers.

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<sup>18</sup> Installations with total rated thermal output lower than 20MW.



This additional pass-through cost will translate into increase of fuel prices. Forecasts suggest that an ETS2 carbon price of EUR 95 per tonne between 2027 and 2029 will result in a surcharge of 22 cents per litre for petrol and 26 cents per litre for diesel, which is equivalent to 14% and 17% of the average prices in the past five years, respectively<sup>19</sup>. On top of this, estimates suggest that ETS2 carbon prices will surge to around EUR 150 per tonne by 2030<sup>20</sup>. Considering the scope of ETS2, citizens and small installations will experience widespread price increases, affecting everything from fuel stations to heating bills.

For companies under the scope of ETS2 that are exposed to international competition and that cannot pass on the additional costs through product prices without losing a significant market share, this added burden will increase the already worrying rate of carbon leakage. This includes many installations in the non-ferrous metals sector, including small aluminium recyclers. Such an outcome would undermine not only the objective of ETS2 but also the EU's overall climate objectives.

With this in mind, we argue that the ETS Directive should include a clear legal basis allowing Member States to grant measures to offset the pass-through costs, in order to reduce the financial burden for affected companies, alleviate carbon leakage risk and ultimately contribute to climate protection.

#### **Our proposal:**

- ✓ Amend Article 30j(1), sub-paragraph 2, to provide a legal basis for Member States to grant measures offsetting the ETS2 pass-through costs.
- ✓ Example: ~~Any Member States should adopt financial measures by Member States in favour of companies in sectors and subsectors which are exposed to a genuine risk of carbon leakage, due to significant indirect costs that are incurred from greenhouse gas emission costs passed on in fuel prices due to the unilateral extension, shall be~~ **provided that such measures are** in accordance with State aid rules, and ~~shall~~ **do** not cause undue distortions of competition in the internal market.

### **1.7.2. Measures offsetting pass through costs from ETS applied to maritime transport**

The ETS has been extended to maritime transport emissions since 1 January 2024. Shipping companies must surrender their first ETS allowances by 30 September 2025 for emissions reported in 2024. The share of emissions that must be covered by allowances gradually increases each year, reaching 100% in 2027 (for the year 2026).

The United Nations Conference on Trade and Development (UNCTAD) in its 2024 review of maritime transport recognised that the inclusion of the sector in the EU ETS “has led the EU

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<sup>19</sup> BloombergNEF's (BNEF's) EU ETS II Market Outlook ([here](#)).

<sup>20</sup> Ibid.



operators to introduce surcharges to cover the additional CO<sub>2</sub> costs charged to shippers<sup>21</sup>. In addition, the Commission noted that the ETS-related costs represent, on average, an increase of 3.7% in overall shipping costs in 2024 and that ETS costs and surcharges have been fully passed on to shippers<sup>22</sup>. This share is expected to be higher once the share of emissions under scope reaches 100%.

Most of the raw materials processed by EU smelters are sourced from third countries and are almost exclusively transported using large bulk carriers and container ships over long distances. EU non-ferrous metals producers will be significantly impacted as they rely on maritime transport to access raw materials and are price-takers, which means they cannot pass through additional shipping costs to their customers.

To ensure continued protection against carbon leakage, the ETS Directive should allow Member States to compensate EU producers for the increase in shipping costs that is attributable to the EU carbon price.

#### **Our proposal:**

- ✓ Amend Article 3gg to provide a legal basis for Member States to grant measures offsetting the ETS2 pass-through costs.
- ✓ Example: 4. (new) *Based on the findings of the Commission report referred to in par. 3, Member States can adopt financial measures in favour of companies in sectors and subsectors which are exposed to a genuine risk of carbon leakage, if significant indirect costs are incurred from greenhouse gas emission costs passed on in shipping costs provided that such measures are in accordance with State aid rules, and do not cause undue distortions of competition in the internal market.*

## **2. Objective 2: Ensuring market stability and predictability**

### **2.1. Review the Linear Reduction Factor (LRF) to extend the supply of allowances towards 2050**

The Linear Reduction Factor (LRF) is the ETS's tool to determine the pace of the reduction of the emissions cap. Following the target set in the last revision of the ETS of reducing emissions by 62% by 2030, the LRF was increased. At its current pace, the supply of EUAs will reach 0 in ≈2039 (see footnote 20).

However, considering the current enabling conditions and the absence of the necessary innovative breakthrough technologies to decarbonise processes which are technically already at

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<sup>21</sup> RMT 2024 – Chapter III. Freight rates, maritime transport costs and their impact on consumer prices and economic activity (unctad.org – [here](#)).

<sup>22</sup> COM (2025) 110 Final, Report from the Commission: Monitoring of the implementation of Directive 2003/87/EC in relation to maritime transport, Brussels, 18.3.2025.



their limit, the current emissions reduction trajectory will result in several installations ceasing their operations by 2039.

This would in turn undermine both European strategic autonomy and climate efforts, as it would cause the displacement of European production with imports of critical materials from third countries, that are typically more carbon intensive<sup>23</sup>.

To ensure decarbonisation in the EU does not happen through deindustrialisation and does not result in increased global GHG emissions, the LRF must be reviewed and adjusted so that the supply of EUA would reach zero in 2050 rather than 2040. The adjustment should also ensure that both the LRF and the budget of available EUAs evolve gradually, avoiding a scenario in which a high LRF is applied in the initial period and followed by a low LRF once the EUA budget has already become constrained, thereby leading to prohibitively high EUA prices.

Looking ahead, and to better reflect real-world developments, the cap-setting methodology should also be reformed so that the LRF is reassessed and adjusted more frequently (based on a shorter and more regular evaluation cycles).

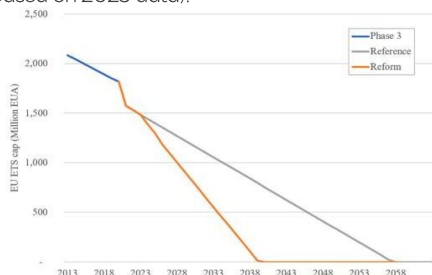
**Our proposal:**

- ✓ Lower the LRF from 2030 on so that the supply of EUAs will reach 0 in 2050 instead of 2039.
- ✓ Ensure a more frequent assessment (and, where needed, adjustment) of the cap so that it is more aligned with latest expectations on technological readiness and implementation in the different ETS sectors.

## 2.2. Adapt the MSR to future market dynamics

The Market Stability Reserve (MSR) was created to address the oversupply of EUAs and make the ETS more resilient to supply-demand imbalances, thereby enabling a more orderly market. However, the MSR is not equally set up for ensuring stability when the market is getting increasingly tight, and as such is not a market stabilisation mechanism. The current MSR framework will be in place until 2030, when the ETS cap is predicted to be almost half of the current figures<sup>24</sup>. Even when considering the total number of allowances in circulation (TNAC) in

<sup>23</sup> As an example, for the aluminium industry, the carbon footprint of Europe's primary production process is much lower than the global average, with only 6.6 kg of CO<sub>2</sub> emissions compared to the global average of 14.8 kg CO<sub>2</sub> per kg of aluminium produced (based on 2023 data).



24 Fig. A.6. Emissions cap trajectories (adjusted to LHMES-EU's sectoral scope).

Source: Pahle, M., Quemin, S., Osorio, S., Günther, C. and Pietzcker, R., 2025. The emerging endgame: The EU ETS on the road towards climate neutrality. Resource and Energy Economics, 81, p.101476.



2024<sup>25</sup>, i.e. 1 148 049 585 allowances for, the figures are getting increasingly closer to the lower bound of the TNAC (833 million), at which point the MSR is triggered.

It should also be noted that the MSR presents a significant structural flaw: it does not differentiate between different types of oversupplies. The MSR is blind to the exact reasons that lead to more allowances in the market vis-à-vis verified emissions and actual abatement that has taken place. Indeed, one of the characteristics of the ETS is to reward the ‘best-in-class’. When companies set up abatement technologies to decarbonise their processes but still receive allowances to incentivise emission reductions, these ‘extra’ allowances are bundled together with all others in the calculation of the TNAC. The consequence is that several of these allowances from the ‘good oversupply’ are rerouted to the MSR and often invalidated – as there is no differentiation between ‘good’ oversupply and ‘bad’ oversupply<sup>26</sup>.

Considering the EUAs supply trend and the structural shortcomings of the MSR, we believe this mechanism is no longer fit for purpose and should therefore be amended. The revision should include proper consideration of, as set out in Article 3 of MSR Decision<sup>27</sup>, ‘relevant effects [of the reserve] on competitiveness, in particular in the industrial sector’. To achieve this, the mechanism should be adapted to be able to respond to future market dynamics (lower liquidity, higher and more volatile prices, etc.) and evolve into a more flexible stability instrument.

To design a fit-for-purpose MSR, the upcoming revision shall:

- a) Revisit the current withdrawal rate of 24% of the TNAC:** The MSR withdrawal rate is set at 24% of the TNAC when the TNAC is above 1 096 million. While this rate has been introduced based on the market dynamics thus far (as noted above, to address oversupply), the progressive tightening of the cap and the increasing number of allowances placed in the MSR mean that the withdrawal rate is becoming disproportionately stringent. It should therefore be reassessed and reduced (for example to 12%). This is particularly relevant in light of the Commission’s indication that no further allowances will be invalidated, as this changes the role and impact of continued high MSR intake rates.
- b) Increase the MSR’s lower release threshold from 400 to 700 million TNAC:** Under the current framework, when the TNAC falls below 400 million, the MSR releases 100 million allowances for auction, thereby increasing supply in the EUAs market. However, this mechanism has so far never been triggered, suggesting that the existing threshold might not be well aligned with prevailing market dynamics. In the post-2030 context, the MSR’s

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<sup>25</sup> Communication from the Commission on the Publication of the total number of allowances in circulations in 2024 for the purposes of the Market Stability Reserve under the EU Emissions Trading System ([here](#)).

<sup>26</sup> Marcu, A., Maratou, A., López Hernández, J. F. Nouallet, P., Caruana, N. (2025), Future of Emissions Trading in the EU: Role in EU Climate Policy”. December 12, slide 28: ‘A good surplus of EUAs is one that is generated from abatement efforts (endogenous developments) which clearly need to be rewarded. Eliminating such surplus through mechanisms such as MSR cancellation is unjustifiable and goes against the very principle of the EU ETS. A bad surplus of EUAs is one that stems from economic cycles and deindustrialization (exogenous developments). (...) The ‘good surplus’ resulting from mitigation is fundamental to the EU ETS concept. If there are no incentives to reduce then the whole philosophy of incentives to reduce as it is cheaper and easier for some to reduce more and sell to those for whom it is more expensive and cumbersome, falls apart.’

<sup>27</sup> See Article 3 of Decision (EU) 2015/1814 ([here](#)) amending Directive 2003/87/EC.



lower release threshold should be adjusted (e.g., raised to 700 million TNAC) to reflect future conditions of scarcity, whereby it will important not only to ensure a greater volume of allowances in circulation, but also to establish a credible mechanism for their release when needed.

**c) Remove the invalidation clause:** Greater flexibility of the MSR could be achieved by (1) preventing the invalidation of EUAs that are placed in the reserve and (2) enabling the re-use of such volume that would otherwise be invalidated, whenever market conditions require so (see point d below). With regards to the invalidation clause, we overall welcome the Commission's proposal of 1 April to remove the invalidation mechanism in Article 5 of Decision (EU) 2015/1814<sup>28</sup>. However, several caveats apply:

- **In the short-term:** This measure has been presented as increasing the firepower of the MSR and supporting market stability in the short to medium-term (ahead of 2030). We do not consider this objective to be achieved. The removal of the invalidation clause does not increase the volume of EUAs actively available for trading; rather, it merely retains allowances in the reserve without making them accessible to the market. As a result, it has no meaningful impact on current market conditions and delays any effects into the 2030s – far too late to address current challenges.
- In this context, alternative or complementary measures in the short-term must be deployed to prevent any detrimental impacts on industry. For example, a reduction of the current withdrawal rate ahead of the next scheduled MSR adjustment this autumn would represent a more effective short-term intervention capable of influencing market conditions immediately.
- **In the medium and long-term:** The removal of the invalidation clause for the period up to 2030 is a necessary correction that should be carried forward into the post-2030 framework as a structural feature of the MSR design. However, only preventing further invalidation of EUAs has an insufficient impact unless other elements of the MSR are also adapted. This includes mechanisms to allow systematic and timely release of EUAs currently held in the reserve back into the market – when market conditions require (see point d below).

**d) Enable the release of invalidated allowances back into the market:** So far, the MSR has primarily focused on withdrawing allowances from the market to address oversupply. To respond effectively to future scarcity, the mechanism must operate in the opposite direction as well, i.e., enabling the release of EUAs when market conditions tighten. Such additional supply could help with:

- Preventing excessive price increases (e.g., as foreseen in ETS2);
- Avoiding triggering the Cross-Sectoral Correction Factor (CSCF) by using the allowances to cover for much needed free allocation;
- Providing allowances to the New Entrants Reserve in case of new activity and growth;

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<sup>28</sup> COM(2026) 153 final ([here](#)).



- Addressing the risk that the ETS cap declines faster than the actual emissions, therefore recognising that, in such a situation, it will not be politically viable for national governments to forcibly shut down ETS installations due to the unavailability of allowances.

**Our proposal:**

- ✓ Revisit the current withdrawal rate of 24% of the TNAC and possibly reduce it to 12%.
- ✓ Increase the MSR's lower release threshold from 400 to 700 million TNAC.
- ✓ Remove the invalidation clause post-2030.
- ✓ Enable the release of invalidated allowances back into the market.

## 2.3. Mitigate price hikes and volatility by ending rebasing and lowering the trigger threshold under Article 29a

### 2.3.1. End the practice of rebasing

Rebasing is the two times one-off cancellation of allowances<sup>29</sup>, a practice adopted to immediately lower the availability of allowances in the market. This practice should be avoided as it leads to market disruptions. Rebasing artificially raises both direct and indirect costs for industry and households and reduces the number of available allowances (while the ETS cap stays the same), thereby increasing the probability for the Cross-Sectoral Correction Factor to be triggered.

Essentially, rebasing only drives up carbon costs and leads to price spikes, increased market volatility, and a tighter supply, at a time when the industry is asked to invest in breakthrough low-carbon technologies and is facing high operational costs and carbon prices that are predicted to increase substantially<sup>30</sup>.

**Our proposal:**

- ✓ Stop the practice of rebasing in order to prevent further market disruptions and price increases.

### 2.3.2. Lower the trigger threshold of the price containment mechanism under Article 29a

Article 29a of the ETS Directive sets out the conditions for releasing allowances from the MSR in the event of excessive price fluctuations. Yet, the rules to trigger this provision are close to impossible to meet – as a result, this price containment mechanism has never been triggered since its inception.

<sup>29</sup> See for example Article 9, paragraph 3 of the ETS Directive.

<sup>30</sup> See Pahle, M., Sitarz, J., Osorio, S., & Görlach, B. 2022. The EU-ETS price through 2030 and beyond: A closer look at drivers, models, and assumptions. Input material and takeaways from a workshop in Brussels. Kopernikus-Projekt Ariadne (here) and Agora Energiewende. 2024. EU climate policy between economic opportunities and fiscal risks. Assessing the macroeconomic impacts of Europe's transition to climate neutrality (here).



According to Article 29a, the price containment mechanism is triggered if the ‘average allowance price for the six preceding calendar months is more than 2,4 times the average allowance price for the preceding two-year reference period’.

As an example, assuming EUR 80/tonne as the average price level for the 2-year reference period, EUA prices would need to reach EUR 192/tonne and remain at that level for six consecutive months for this provision to be triggered. This clearly illustrates the inflexible nature of this instrument and highlights the need for it to be amended, in order to set up a mechanism capable of coping with excessive price fluctuations<sup>31,32</sup>. In particular, the trigger threshold (2.4 times) is too high, and the assessment periods (6 months and 2 years) are excessively long for the mechanism to respond in a timely market to market stress.

#### **Our proposal:**

- ✓ Amend Article 29a so that the price containment mechanism is triggered at lower price increases.

## **2.4. Remove the 57% industry cap on auctioned EUAs to reduce the application of the CSCF**

The Cross-Sectoral Correction Factor (CSCF) is a mechanism built into the ETS free allocation system to ensure that the total number of free allowances granted to industry do not exceed the ‘industry cap’, i.e. the 57% limit set by Article 10(1), sub-paragraph 1<sup>33</sup>.

In other words, the ETS mandates that 57% of allowances are auctioned and 43% allocated for free. From a climate protection perspective, such a restriction has no effect i.e., it makes no difference whether the certificates are auctioned or freely allocated as what matters is the total ETS cap. Yet, from the carbon leakage protection perspective, this distinction has significant implications. When the sum of all free allocation exceeds this cap, the CSCF is activated to correct the imbalance by reducing the number of free allowances in all installations in a uniform manner (with a few exceptions<sup>34</sup>).

With the steady reduction in the total number of certificates, the CSCF is likely to be triggered more often, undermining free allocation as a carbon leakage measure. To prevent this, the industry cap should be removed.

#### **Our proposal:**

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<sup>31</sup> For example, for the calendar year 2021, allowance prices escalated from EUR 33 to EUR 80, and even these conditions were not severe enough to trigger the price containment mechanism.

<sup>32</sup> One example would be that of the Washington Cap-and-Invest Program and California and Quebec’s Price Containment Reserve (APCR) mechanism, which have set up floor and ceiling prices, in parallel with a more realistic Price Containment Reserve (APCR), using a two-tier system to trigger the release of more allowances to the market in order to cope stabilize price volatility.

<sup>33</sup> ‘From 2021 onwards, and without prejudice to a possible reduction pursuant to Article 10a(5a), the share of allowances to be auctioned shall be 57 %.’

<sup>34</sup> See ETS Directive, Article 10a(5).



- ✓ Delete Article 10(1), sub-paragraph 1, thus removing the mandate for 57 % of allowances to be auctioned and effectively reducing the application of a CSCF to a minimum.

## 2.5. Introduce additional abatement tools under the EU ETS (Article 6.4 credits and EU-certified carbon removals)

Emission reduction pathways vary across sectors and no single solution, be it electrification or hydrogen, can transversally address all challenges. Indeed, to reach net zero by 2050, the EU will need to design flexible compliance instruments under the ETS to address residual emissions from certain sectors<sup>35</sup>. It is worth noting that the EU ETS is the only ETS in the world with no compliance flexibility, not even Carbon Dioxide Removals, while at the same time being by far the most ambitious ETS globally.

In this context, it is crucial to quantify the flexibility needs across all sectors contributing to EU climate targets. Robust and transparent data will allow for better-informed decisions during the 2030–2040 decade. This quantification should be conducted as early as possible and consider different demand scenarios and technological development pathways, with particular attention to which abatement technologies are expected to be available by 2030. Moreover, it should also clarify which CO<sub>2</sub> sources are expected to remain by 2040 ('residual emissions'), notably for sectors where clean alternatives either do not yet exist or remain prohibitively costly.

Based on this assessment, ETS flexibility mechanisms must be developed quickly to enable faster and more cost-effective emission reductions<sup>36</sup>, while also enhancing market liquidity. Such mechanisms would include, among others, the use of international carbon credits under Article 6.4 of the Paris Agreement as well as EU-certified carbon removals.

### 2.5.1. Allow the use of international carbon credits under Article 6.4 of the Paris Agreement

Allowing the use of international carbon credits under Article 6.4 of the Paris Agreement within the EU ETS would enable the EU to achieve its climate goals both cost-effectively and in a globally integrated manner. The role of Article 6.4 credits in providing Member States with flexibility to meet the European climate objectives has also been recently recognised by policymakers in the revised European Climate Law, which entered into force in early April<sup>37</sup>.

A comparable degree of flexibility should now be extended to installations covered by the EU ETS, particularly in light of growing concerns regarding industrial competitiveness and the heightened risk of carbon leakage.

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<sup>35</sup> The EU's Communication 'Towards an ambitious Industrial Carbon Management for the EU' (here) acknowledges as much, stating that industrial carbon management technologies must be part of the solution towards net-zero, to help continue reducing and managing carbon emissions in industrial processes, particularly where mitigation options are limited.

<sup>36</sup> See ETS Directive, Article 1: This Directive establishes a system for greenhouse gas emission allowance trading within the Union (hereinafter referred to as the EU ETS) in order to promote reductions of greenhouse gas emissions in a cost-effective and economically efficient manner.'

<sup>37</sup> Regulation (EU) 2026/667 of the European Parliament and of the Council of 11 March 2026 amending Regulation (EU) 2021/1119 as regards the setting of a Union intermediate climate target for 2040 (here).



In the context of the EU ETS, the use of international carbon credits would:

- Allow emissions to be reduced where it is most cost-effective while contributing to global greenhouse gas emission reductions<sup>38</sup>.
- Better acknowledge the “international dimension” of the EU ETS and related policies such as the European Climate Law<sup>39</sup>.
- Foster a more inclusive approach to combating climate change and directs investment to emission reduction projects in other jurisdictions, preferably projects where European technologies are provided and for projects with high sustainability standards.
- Drive genuine emission reductions in other countries – hence leading to global emission reductions – instead of introducing trade-distortive measures like CBAM, that strain international relations and hinder the possibility for global cooperation in tackling climate change.
- Lower compliance costs for installations, thereby:
  - Reducing carbon leakage risk and improving the competitiveness of European industries in a time when Europe’s climate regulation is far more ambitious than what our competitors face; and
  - Freeing capital needed to scale up production and invest in decarbonisation technologies.

To avoid some of the shortcomings experienced under the EU ETS in the past, a set of safeguards shall be established:

- Only high-quality carbon credits under Article 6.4 of the Paris Agreement should be allowed (beside ensuring high-integrity, this would also avoid oversupply).
- Additionality must be ensured i.e., ensuring emissions reductions – that are measurable and verifiable – would have not happened without the credits being generated.
- Each individual project must be carried out in compliance with EU MRV standards and in the context of a transparent and trustworthy cooperation between EU Member States and host countries.
- To avoid unnecessary regulatory complexity, the EU should build on existing monitoring and verification mechanisms wherever possible, while continuing working within the international framework of the Paris Agreement to ensure that these mechanisms remain robust, credible, and effective.
- Companies should be allowed to purchase credits directly for ETS compliance.
- Sector-specific limits could be considered, based on estimated unavoidable residual emissions and informed by the broader assessment of flexibility needs and decarbonisation trajectories across sectors outlined above.

### Our proposal:

<sup>38</sup> To be noted that according to the EU Climate Action Progress Report 2025 ([here](#)) EU’s GHG emissions represent 6. % of global emissions.

<sup>39</sup> See Marcu, A., Maratou, A., et al. 2025. Future of Emissions Trading in the EU: Price Signal & Competitiveness, March 2025, p. 10 ([here](#)).



- ✓ Integrate high-quality international carbon credits under Article 6.4 of the Paris Agreement into the EU ETS, allowing their direct use by ETS installations for compliance, while ensuring robust safeguards so that only credits delivering clear, additional and verifiable climate benefits are integrated into the system.

### 2.5.2. Incorporate EU-certified carbon removals within the scope of the ETS

Reaching a 90% emissions reduction by 2040 will depend on the widespread use of Carbon Capture and Storage (CCS) and Carbon Dioxide Removal (CDRs). According to the Commission's ICMS (see footnote 27), 250 MT of CO<sub>2</sub> captured annually will require storage by 2040<sup>40</sup>, while an additional 400 MT of natural and engineered CO<sub>2</sub> removals will be needed to achieve the 2050 target – with technical CDRs such as BECCS and DACCS needed at a rate of 75 MT per year.

On the one hand, the NZIA sets a goal for at least 50 MT of CO<sub>2</sub> storage per year by 2030<sup>41</sup>. This is a first important step, although Europe is currently far from achieving this goal and the regulatory framework for the future CO<sub>2</sub> market and related infrastructure is still lacking. On the other hand, although the operationalization of the Carbon Removals and Carbon Farming (CRCF) Regulation is underway, it remains unclear how negative emissions will be integrated into the EU ETS, a topic on which the European Commission must report by 31 July 2026<sup>42</sup>. This report should include a clear scope with strict criteria and safeguards to ensure that these removals do not replace essential emissions reductions. However, at the same time, all CDRs classified as permanent removals should be included when the EU's own MRV requirements are followed. This eligibility should be independent of the price of the different carbon removals.

Other jurisdictions have successfully introduced compliance offset credits in their domestic Emissions Trading Systems. Across the pond, the California ETS allows the use of offset credits, with particular quantitative (only for a given percentage of verified emissions) and qualitative limits (offset credits only allowed from projects carried out according to one of six compliance offset protocols). Although with limited usability, California's Competent Authorities see their Compliance Offset Program as 'an important cost-containment element within the broader Cap-and-Trade Program'<sup>43</sup>.

#### Our proposal:

- ✓ Enact legislation to make EU-certified carbon removals eligible as ETS compliance instruments by 2028. From then onwards, without any limitation, permanent CDRs should be tradable, bankable and used in ETS compliance for the hard-to-abate sectors. All

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<sup>40</sup> ICSM, see footnote 33.

<sup>41</sup> See Article 20 of Net Zero Industry Act Regulation ([here](#)).

<sup>42</sup> The European Scientific Advisory Board on Climate Change (ESABCC) explicitly recommends gradually integrating removals into the EU ETS noting that this would allow such projects to generate tradable credits under strict sustainability criteria and in a cost-effective way ([here](#))

<sup>43</sup> See [here](#).



permanently stored removal credits should be exchangeable with an EUA in EU ETS compliance if MRV is followed.

### **3. Objective 3: Strengthening competitiveness and supporting the business case for decarbonisation**

#### **3.1. Ensure Member States earmark at least 50% of ETS revenues for EII's competitiveness**

The current challenges faced by energy-intensive industries operating in the EU are severe. High electricity costs, unfair competition, and rising carbon prices are placing immense pressure on these sectors.

Now more than ever, dedicated and targeted measures are needed to strengthen competitiveness while enabling sustainable decarbonisation. This includes mechanisms to support the restart of idled capacity of particularly carbon-efficient installations in Europe, both in terms of energy consumption and direct emissions. Over the last years, installations in Europe have shut down due to high energy prices and CO<sub>2</sub> costs and, without dedicated and targeted measures, decarbonisation in Europe will keep happening through deindustrialisation, whereas Europe will increase its carbon footprint due to higher emissions from imported products.

In this context, we call on the Commission to encourage Member States to earmark at least 50% of ETS revenues to ensuring the competitiveness of energy-intensive industries. This could consist in sector-specific and straightforward support for strategic industries, emulating conducive and accessible policies and measures adopted in other jurisdictions (e.g. the 45x measure of the IRA in the USA or the 'Green aluminium production credit' in Australia).

Additionally, the Commission should reassess the conditionalities to access such support, such as those linked to demonstrating the existence of a funding gap and requiring 'decarbonisation investments'. European energy-intensive industry is on its last legs and it is counterintuitive to condition support to overcome the impact of EU-specific policy costs upon either (a) investing exclusively in non-market, loss-making projects ('funding gap') or (b) setting emission reduction prerequisites which are techno-economically unfeasible and/or further exacerbate the lack-of-competitiveness problem.

The European non-ferrous metals industry is a frontrunner in electrification and all-around sustainability performance at a global scale; tangibly supporting its competitiveness, including as regards operational costs (OPEX), is by far the most cost-effective approach to contribute to a real net reduction of global emissions, while setting a successful economic paradigm for other countries to follow.

Additionally, the use of instruments such as CCfDs – which not only reward first movers but also scale up technology until it is commercially viable – should be leveraged. Support instruments must cover both CAPEX and OPEX costs (as both are essential to developing a business case



for any decarbonisation investment). Support schemes must be implemented as soon as possible and run for a long, predictable period, e.g. 15 years. Any competition for support schemes should be within sectors, not between sectors, as all sectors need to decarbonise if Europe is to meet its climate goals, and each sector has different decarbonisation technology solutions and challenges.

**Our proposal:**

- ✓ Earmark at least 50 % of ETS revenues for the competitiveness of energy-intensive industries and re-assess conditionalities linked to accessing such support.
- ✓ Leverage existing instruments, such as CCfDs, to support CAPEX and OPEX and provide a predictable framework for any decarbonisation investment, while recognising the diverse and specific challenges faced by different economic sectors.

### 3.2. Adjust or lower the dynamic allocation threshold to support growth

The ETS includes a built-in mechanism (i.e. Activity Level Changes)<sup>44</sup> to adjust the level of free allocation granted to installations that have increased/reduced operations by >15% over the last two years, compared to the level initially used to determine free allocation. In other words, if the installation is above or below this threshold, its free allocation will be adjusted accordingly.

However, the 15% threshold is too high and often leads to overallocation (if production decreases <15%) and underallocation (if production increases <15%). The current approach does not incentivise growth, and, particularly in a post-2030 scenario characterised by illiquidity and scarcity of allowances, is not flexible and adaptive enough to reflect changes in production and allocate the right level of allowances.

**Our proposal:**

- ✓ Amend the dynamic allocation to fully match yearly production levels. If this is not feasible, lower the dynamic allocation threshold from 15% to 5%, with adjustments taking place every 2% thereafter in both directions.

### 3.3. Design an ETS Investment Booster and an Industrial Decarbonisation Bank that jointly advance decarbonisation and competitiveness

If designed well, the upcoming Industrial Decarbonisation Bank and ETS Investment Booster offer an important opportunity to provide industry with much-needed support to enhance its industrial competitiveness, particularly under today's challenging circumstances. Without safeguarding competitiveness, decarbonisation risks occurring only through de-industrialisation.

To achieve this, several key principles – some of which have already been highlighted in section 2.1. and are also relevant here – should guide the design of these funding instruments, namely:

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<sup>44</sup> See Article 10a(20) of the ETS Directive and Implementing Regulation (EU) 2019/1842.



- The provided support should be long-term, ideally spanning 10 to 15 years, to better reflect investment cycles and ensure investment certainty.
- Support should cover both CAPEX and OPEX, as many low-carbon and renewable technologies which are being deployed or will be deployed to decarbonise are associated with higher operational costs for the industry.
- Electrification will play a central role, yet it is not suitable for all industrial processes, meaning a mix of energy carriers and technologies may be required (and should be supported). Likewise, flexibility should be incentivised where feasible, but without penalising baseload industries for which demand-side flexibility is technically unviable. Imposing flexibility as a blanket condition risks excluding viable projects and delaying investments without delivering proportional system benefits.
- Funding should extend beyond first movers to enable broad-based decarbonisation across all installations, including ‘late comers’ that are currently unable to decarbonise due to the lack of sufficiently mature or commercially viable technologies. This could include, where feasible, the development of ‘sector-specific’ funding streams to ensure competition for financial support does not happen across fundamentally different sectors.
- A more predictable and transparent funding framework is needed, potentially inspired by the US Inflation Reduction Act, where support is granted based on clear criteria rather than discretionary project selection. This would help prioritise mature, scalable projects that can deliver emissions reductions within this decade, rather than over-emphasising first-of-a-kind or highly innovative projects with uncertain timelines.
- Frontloading should be avoided (e.g., RePowerEU), as it can create significant supply issues in later years (i.e., in those years from which allowances are brought forward). To preserve the integrity and predictability of the ETS, these funding instruments should rely, as much as possible, on existing reserves (or, alternatively, on volumes from the Market Stability Reserve that would otherwise be invalidated should the removal of the invalidation clause be confirmed by co-legislators).
- ETS and CBAM revenues must be prioritised for supporting the decarbonisation of industrial sectors covered under the two legislative frameworks, especially those at high risk of carbon leakage.

#### **Our proposal:**

- ✓ Ensure the upcoming ETS Investment Booster and IDB provide long-term and predictable support, covering both CAPEX and OPEX and extending beyond ‘first-mover’ or electrification-only technologies.
- ✓ Avoid frontloading funding through EUAs to prevent future market imbalances.
- ✓ Ensure that ETS and CBAM revenues are prioritised for the decarbonisation of industrial sectors covered by the ETS and CBAM.

### **3.4. Support lead markets for low-carbon products**



A carbon price signal and financial support for decarbonisation technologies alone are not sufficient to create a business case for decarbonisation projects – if there are no customers willing to pay for a green premium.

Measures to support lead markets for low-carbon products do fall directly under the scope of the ETS review, but they complement it by helping to create market premiums for low-carbon materials and reinforce the business case for industrial decarbonisation investments.

Lead market development should be primarily supported through targeted financial mechanisms (e.g. subsidies for companies to make the investments) that help bridge the cost gap for low-carbon products. Stronger demand signals for green and low-carbon materials will also be essential and can be fostered through policies that stimulate such demand, such as robust product labelling schemes and transparent carbon intensity labels based on cradle-to-gate emissions.

**Our proposal:**

- ✓ Create lead markets for low-carbon products and introduce policy that stimulate demand for such products, thereby strengthening the business case for industrial decarbonisation investments.

**Contact:**

**Adina Georgescu**, Director Energy & Climate Change, [georgescu@european-metals.eu](mailto:georgescu@european-metals.eu), phone: 0465.90.15.14

**Lucia Verardi**, Manager Energy & Climate Change, [verardi@european-metals.eu](mailto:verardi@european-metals.eu)