POSITION PAPER

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# Cefic priorities on market pull measures for low-carbon and circular products

**Summary.** The Clean Industrial Deal highlights the importance of boosting demand for sustainable products. It underlines the role of demand incentives to justify investments and increase the competitiveness of clean production in the EU. While welcoming these messages, Cefic believes that market pull measures need to go beyond the proposed initiatives to deliver meaningful impact for our sector. Instruments such as labelling and public procurement can play a supportive role, but on their own they are insufficient given the diversity of value chains our sector supplies, each with different purchasing drivers. We need measures at scale that do not add disproportionate burden, and where all actors in the value chain benefit. Ideally, such measures cover as many finished products as possible and are implemented as harmonised across the EU as feasible. New incentives are highly important for low-carbon production and circular production alike: Demand creation is an important pillar to make the business case in circularity and low-carbon projects in the EU "investable".

Therefore, we believe that additional market pull measures are needed. Before deciding on policy implementation, careful Impact Assessments covering cost-benefit ratio (following the Better Regulation Guidelines) and the principles outlined by Cefic are critical. Concretely, we recommend considering the following policies - including in the Chemicals Industry Action Plan:

1. **Financial incentives** for low carbon and circular products throughout the value chain:
   - ⇒ Reduced VAT rates targeting private consumers.
   - ⇒ Offtake tax breaks targeting business customers.
   - ⇒ Further assessment of EPR eco-modulations.
2. **Product Carbon Footprint (PCF) requirements:**
   - ⇒ We recommend an increasing use, where appropriate after an impact assessment, in end markets.
3. **Methodologies and (digital) information availability** for PCF / carbon intensity:
   - ⇒ Clean Industrial Deal initiative on measuring carbon intensity: Start a dedicated effort for the chemical sector.
   - ⇒ Not a market pull measures on its own, but a key enabler for other incentives.
4. **Value chain partnerships:**
   - ⇒ Establish publicly facilitated partnership to bridge demand and supply side in selected value chains.
   - ⇒ Implement public support tools and accelerate the uptake of sustainable chemical solutions.
5. **Flexibility for novel schemes:**
   - ⇒ Ensure that Chemicals Industry Action Plan has sufficient flexibility for the development of novel support schemes. Cefic is exploring different mechanisms. This includes policies creating a direct link between end markets and the chemical industry rather than relying on incentives "trickling through" value chains, or tradable certificates as an alternative compliance mechanism for PCF requirements.

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## Circular & low carbon: Definition and why support is needed

Our key messages on market pull measures define circular and low-carbon products that should be incentivised by market pull measures, while also setting out guiding principles for the effective development, design, and implementation of such measures within the framework of a European Industrial Deal:

- **low-carbon products** are defined by their product carbon footprint based on ISO 14067:2018. Cefic is currently assessing various aspects and details connected to the implementation of this methodology for different product categories, including, more specifically for chemicals, in the form of the Together for Sustainability Product Carbon Footprint Guideline for the Chemical Industry (as long as it is compatible with international standards, and
- **circular products**, in the context of this position paper, refers to products using circular feedstock, such as waste[1], biobased and $CO_2$-based raw materials. Other elements addressing circularity aspects of products, as presented in the Cefic Circular Economy Study, are not covered here.

While demand incentives for both types of products are needed, cost structure, market development and policy framework for either are very different. Therefore, the design and implementation of all measures should be well-adjusted to the targeted product features. Furthermore, and considering the current challenges to international rule of law, policies should be developed in a way respecting the EU's international legal obligations, or in agreement with partners if changes to such obligations are required.

Currently, **circular content targets**, e.g. for recycled content, are implemented or are being evaluated in different EU-level legislations (e.g. PPWR, SUPD, ELVR proposal, ESPR), as elaborated in Cefic's position paper on circular carbon. What is lacking so far are positive incentives to compensate for parts of the green premium, the carrots to the sticks. Moreover, pull policies supporting companies providing products with a share of circular content going beyond legislative requirements are missing. Taxes are on the agenda of various national governments, yet considerations often go in a purely punitive direction (penalising existing production rather than supporting industry), thereby creating negative effects on demand, supply and competitiveness.

We further observe a lack of **demand incentives for customer uptake of products with a demonstrated lower carbon footprint**, while reducing the GHG emissions of production is connected to increased CAPEX and OPEX costs. Considering the role that low-carbon products will have to play for the transition, a new approach will be needed to create demand and therefore justify investments in direct emission reduction (e.g. via CCS, electrification). This does not only apply to products based on conventional feedstock, but also to those produced using circular feedstocks, as feedstock substitution alone does not necessarily guarantee a lower carbon footprint.

Increasing availability of Product Carbon Footprint (PCF) information across value chains can enable the creation of powerful incentives for low-carbon products. Digitally available product footprints - connected with carbon footprint data are already evolving into a business reality in many areas. This needs to be accelerated - we see the need for creating reliable PCF data across value chains, as proposed in the Draghi Report: He does not only call for an EU harmonised definition of carbon footprints but also supports digitally available PCFs across the Single Market, emphasising the potential of the Digital Product Passport. This can enable the application of additional financial incentives or set Product Carbon Footprint

[1] Please also refer to our Position Paper on chemical recycling for more details on appropriate definitions.

requirements at the end markets both for final products or for parts, including chemicals, used in the final product.

The Clean Industrial Deal announces Commission initiatives on methodologies for measuring the carbon intensity of industrial products. Given the significance of such information to enable incentives for low-carbon chemicals, Cefic suggests starting a dedicated effort to create and promote standardised methodologies and support (digital) product carbon footprint availability specifically for the chemical sector. This initiative would enable other incentivising policies, although it would not be a market pull measure on its own. In this process, it is crucial to consider the unique aspects of the chemical industry, which produces over 70 000 different products used in most manufactured goods and supplies more than 15 industrial sectors. Enabling carbon intensity information to cascade down the value chain is therefore complex but important for helping customers meet their targets. Cefic recommends that the Commission builds on existing international work on chemical Product Carbon Footprints and uses this initiative as a foundation for global engagement to develop aligned product-level carbon intensity standards.

## Financial Incentives for low-carbon and circular products

### 1. Reduced VAT rates

Cefic calls for VAT reductions to be applied for products having a certain minimum share of circular content and/or meeting PCF requirements (each to be defined by product category). While the Clean Industrial Deal announces a "Green VAT initiative" for the end of 2026, its scope is limited to second-hand schemes. We believe that this initiative should instead be taken as an opportunity to reform the VAT Directive in a more comprehensive way, creating incentives for low-carbon and circular industrial production.

VAT reductions could serve as a direct, immediate, and sizable incentive visible to the consumer. While not sufficient on their own to bridge the cost difference with conventional products, they could form one part of a broader package of support measures. The VAT would apply to final products using circular-based and/or low-carbon chemicals as input in order to contribute to a level playing field: from the perspective of the final player in the value chain, the higher costs for the circular / low-carbon raw materials & intermediates can be partly compensated by a lower level of taxation for the consumer. The presence and size of the pull effect for chemical companies up the value chain depends on the product category, e.g. the chemical share of the final products carbon footprint and/or materials subject to circularity requirements.

This idea aligns to a series of previous recommendations and initiatives. We welcome the Czech note to the Council from June 2023 supporting reduced VAT rates for products with recycled content and it would be beneficial to foresee incentives to support the use of biomass derived products too. VAT reductions are further mentioned as a potential tool to "*provide positive economic incentives for the inclusion of recycled content*" in 2024's OECD working paper on recycled content requirements. Wopke Hoekstra raised the issue of Greening the VAT it in his opening speech for the parliamentary hearings of the designated Commissioners. We see an opportunity to build on the alignment of the EU VAT Directive with Green Deal objectives, a process initiated by the 2022 VAT reform. This reform allowed Member States to apply reduced or zero VAT rates to a limited number of goods and services related to renewable energy and efficient heating systems.

The design on these incentives needs to address inherent challenges of this approach: (1) The dependence on voluntary national transposition. The implementation of the 2022 reform is heterogeneous by product category. In order to create a relevant pull effect, mechanisms to encourage Union-wide implementation should hence be explored. (2) Administrative costs for public and private actors to ensure compliance to a

more complicated tax regime. As for EPR modulations (see below), share of circular (chemical) content that qualifies for the reduced rate would need to be defined by product group and be higher than sectoral legal requirements, the same applies to PCF requirements. The use of digital product information and innovative digital implementation technologies to mitigate administrative costs should be explored. We further recommend the Commission to works on clear and sufficiently simple implementation guidelines for member states.

## 2. Offtake tax breaks

We also recommend complementing VAT reductions - targeting the Business-to-Consumer market - with Business-to-Business incentives for customers of EU chemical producers who choose low-carbon and circular chemical products over conventional alternatives with lower production costs. Industrial policy schemes that were employed in other jurisdictions, such as the US IRA, illustrate the effectiveness of tax breaks as a measure that is quickly implementable for stimulating economic growth. To prevent distortions in intra-EU competition and safeguard the integrity of the Single Market, this should be done as consistently as possible across the EU. An alternative approach with similar outcome could be conditional offtake subsidies. These would support the purchase of low-carbon and circular products from EU industries by partially compensating the cost difference compared to cheaper and less sustainable alternatives – for example via the new Industrial Decarbonisation Bank.

Drawing inspiration from the incentive schemes outlined in the Automotive Industrial Action Plan, we believe a coordinated approach at the European level is needed. We propose the Commission not only develops a toolbox for effective, targeted and sustainable incentives, but also ways to both support member state incentives and to establish new EU-level support mechanisms. The toolbox should provide practical measures to incentivise consumer/customer behaviour towards low-carbon and circular products, supporting an effective development of low-carbon and circular markets.

## 3. EPR Eco-modulations

We request a further assessment of eco-modulations reducing Extended Producer Responsibility (EPR) fees for products containing a sector-specific minimum share of circular input exceeding sectoral obligations This could take the form of a bonus system to reward above-compliance performance. The assessment should consider how eco-modulations can be aligned with the overall objective to improve the efficiency of waste management and optimise/maximise recycling. This approach better reflects the positive environmental contribution of such products and supports circularity, despite adding complexity to the system. Some Member States have already implemented comparable policies (e.g. France, Spain, Netherlands, partly Germany) and further examples from third countries exist (Québec, California, Chile). EPR schemes need a certain level of harmonisation at the EU level to enable upscaling of recycling, but allowing also local specificities adapted to the national waste related legislation, market conditions, and infrastructure. Therefore, we support a streamlined European approach to enable widespread modulations. As the pull effect will remain small considering the limited size of EPR, this policy can only complement other approaches. The logic of eco-modulations is not to set additional mandatory product requirements, which are defined by existing national or EU legislation and/or developed in different EU product legislations, but to provide positive incentives for using (a share of) circular content without legal obligation. Furthermore, the challenge of reduced financing for recycling companies by modulating fees needs to be considered in the implementation, e.g. by introducing other support mechanisms, changing the amount of base fees or also introducing negative modulations. Experiences and learnings from different

jurisdictions already implementing eco-modulations should be incorporated to find ways to minimise bureaucratic burden and costs and reduce negative impacts on the recycling ecosystem. We consider the upcoming EU Single Market Strategy as a valuable opportunity to increase harmonisation of such financial incentives.

All aforementioned financial incentives can be adjusted based on the stage of the transition, with an reduced need when economies of scale in low-carbon and circular production technologies have been reached and respective products have become more widespread.

## Value chain partnerships

The Commission could establish goal-orientated programmes to encourage the creation of value chain partnerships aimed at delivering sustainable chemicals. This could be achieved, for example, via dedicated public-private partnerships responsible for administering these partnerships. The involved players along the value chain would then seek support from authorities to help make their project financially viable. This includes linking the programmes to different sources of funding from EU and Member State programmes. The purpose is bringing together a number of programmes to provide greater impact and drive increased private investment. Inspiration can come from the idea of "fund of funds" Draghi proposed for the raw materials policy. Such an approach helps both by creating synergy effects, increasing market transparency, encouraging voluntary initiatives and bringing together fragmented funding opportunities.

Furthermore, we recommend using supportive policy tools to help members of the partnerships to deliver the necessary low-carbon and circular product dependent on the concrete needs of participating companies (e.g. CfDs, reverse / double auctions, demand aggregation).

## Product carbon footprint requirements

Product Carbon Footprint requirements in end markets for final products or components of final products can provide incentives for chemical players up the value chain by stimulating final producers to buy low-carbon chemicals to fulfil sectoral requirements. As a market pull tool for the chemical sector, the focus should lie on sectors where (1) the chemical content constitutes a substantial share of the final products' carbon footprint and (2) sufficiently simple harmonised standard methodologies are available. Currently, PCF requirements are implemented in the Batteries Regulation and they are also one of the requirements that may be defined for product categories in scope of the Ecodesign for Sustainable Products Regulation (ESPR).

Where appropriate after an impact assessment, we recommend the increasing use of product carbon footprint requirements in end markets. Such requirements need to be evaluated per value chain for final products or materials/chemicals in the final products (not on intermediates: e.g. plastics in cars, not plastics or polymers brought on the market) based on the aforementioned conditions and in line with future ETS and carbon leakage protection developments. This should be done in a way that it enhances a gradual transition to a low-carbon and circular economy.

As a key enabling factor, we call upon the Commission to prioritise supporting the development of harmonised and digitally available product carbon footprint information. Once a global alignment on product level carbon intensity standards has been reached, such a system can replace any European PCF targets.

## Novel schemes

Most of the measures listed above can offer short term support for the chemical industry. In addition, other, more comprehensive and innovative measures need to be considered to enable structural improvement and make the business case for investments in emission reduction and circularity in the EU "investable".

We ask the Commission to keep sufficient flexibility in the Chemicals Industry Package for new mechanisms incentivising low-carbon and circular products and production. We are currently evaluating the feasibility of such novel options together with Cefic members. This assessment includes an alternative compliance mechanism for carbon intensity / PCF requirements where companies exceeding the requirements are granted tradable certificates which they can sell to other companies to enable bringing products otherwise not meeting the requirement on the market. We are further evaluating mechanisms creating a direct flow of financial support from end markets using chemical content to transformation projects of the chemical industry rather than relying on incentives to "trickle through" entire value chains. Options considered include:

- fees linked to the carbon footprint or carbon source used in a final product which are directly transferred to industry to enable investments in the low-carbon and circular transformation (e.g. "climate contribution"),
- or comparable system with tradable certificates.

The goal would be to develop a mechanism that applies to all products placed on the EU market, establishing the "missing link" between increased costs for chemical producers and final markets. At the same time, it should create incentives for final producers to use low-carbon/circular materials, enabling them to reduce or eliminate the need to pay fees / buy certificates by choosing such inputs. Directly, fully, and fairly channelling any revenues back to companies along the value chain is key to support the business case for investments in Europe, avoid a negative impact on competitiveness and ensure a just transition. Furthermore, special attention will need to be paid to the applicability and enforceability of any (novel) schemes to imports.

## Public Procurement

As elaborated in Cefic's views on the public procurement revision, well-targeted non-price criteria can play a role to create a pull effect for parts of the chemical industry by incentivising or mandating e.g. the use of circular and low-carbon chemicals by companies being awarded the procurement contracts. However, considering the rather indirect and complex link between chemical producers and procuring authorities, public procurement on its own will not be able to support climate-friendly transformation of the chemical industry on a broad scale considering the dominant share of private demand.

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About Cefic

Cefic, the European Chemical Industry Council, is the forum of large, medium and small chemical companies across Europe, accounting for 1.2 million jobs and 13% of world chemicals production.
On behalf of its members, Cefic's experts share industry insights and trends, and offer views and input to the EU agenda. Cefic also provides members with services, like guidance and trainings on regulatory and technical matters, while also contributing to the advancement of scientific knowledge.