CONSULTATION RESPONSE

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ETS State Aid Guidelines review, a game changer for the chemical sector

The swift inclusion of the chemical sector in the list of sectors that can receive compensation for the indirect cost of the EU ETS is essential to its low-carbon transition while restoring its competitiveness and slowing down carbon leakage.

The 2020 review excluded certain chemical subsectors from receiving compensation for indirect carbon costs. However, Cefic believes that several biases in the methodology had not been considered in the impact assessment, and the climate policy framework has dramatically changed[1], triggering a surge in CO_2 price which alters the conclusions of the 2020 impact assessment and requires an urgent revision of the guidelines.

The Chemical industry's Action Plan and the launch of this consultation open the possibility for additional chemicals to be added as beneficiaries of ETS-related state aid, which is an encouraging development signalling progress in the right direction. Recent evolutions in economic and trade parameters show that the chemical industry is more than ever exposed to international competition, which should also be taken into account in the impact assessment revision. This may require more detailed analysis, for which Cefic stand at the EU Commission's disposal, but should not delay the extension of the list of eligible sectors. In general compensation for indirect carbon costs should be a pan-European mechanism, ensuring all companies receive adequate reimbursement of the EU ETS cost included in electricity prices regardless of location. An EU-wide approach should also avoid distortions both within and across sectors.

[1] Fit for 55 package, European climate law, 2040 target, etc.

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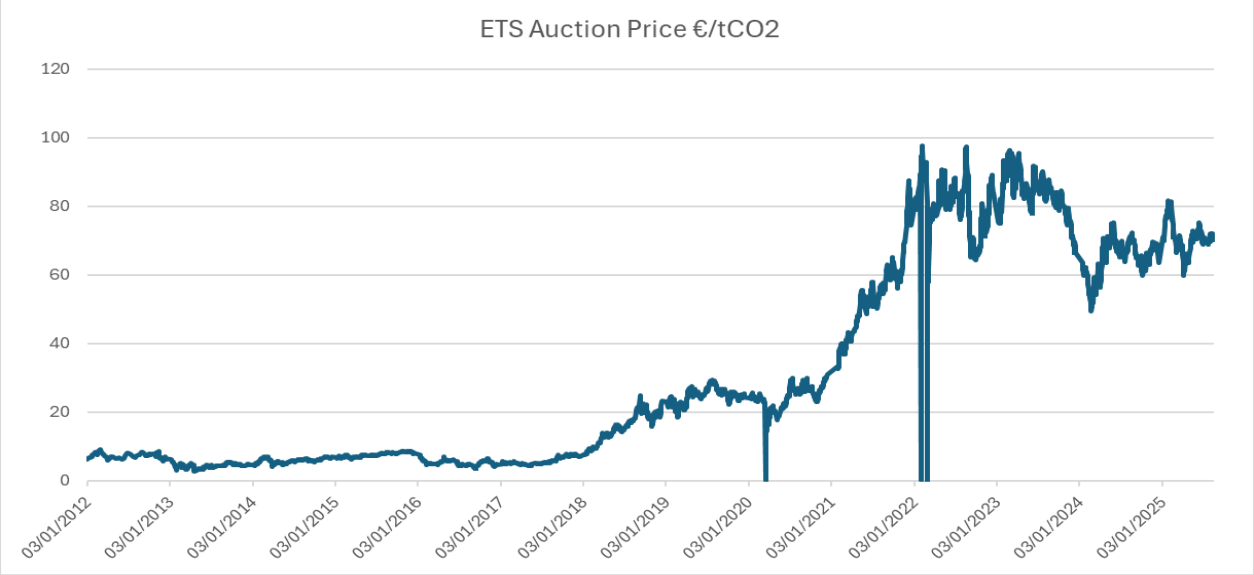
Cefic calls for a quick revision of the 2020 guidelines and explains below why extending the compensation of indirect carbon cost granted by these guidelines to the chemical sector is both crucial and legitimate, analysing the current challenges and proposing potential solutions.

An outlook to increased carbon price and GVA

The Impact Assessment of 2020 evaluated how the sectors at risk of carbon leakage move based on selected carbon price sensitivities (low 15€/tCO2, medium 25€/tCO2, and high 35€/tCO2). These parameters no longer reflect today's reality because the price of carbon reached peaks of about 100 €/tCO2 between 2022 and 2023, and kept an average of around 71€/tCO2 during 2025 so far [2]. From the graph below, it is possible to understand why this trend is likely to continue in the medium and long term.

Figure 1- ETS Auction price evolution - Cefic calculation based on EU ETS Auctions data August 2025.[3]



In addition, there has been a sharp increase in electricity prices compared to the chemical sector's Gross Value Added (GVA). For organic chemicals (NACE 20.14) between 2017 and 2023 GVA grew only

[2] Figure 1 – ETS auction price evolution since 2012.
[3] Graph line reaching zero in 2020 because the 17 March 2020 data indicated is 0.

by 13% compared to a raise of 169% for the electricity price.[4] Likewise, by looking at the trade intensity of the same NACE, the value in 2017 was 59%, whereas in 2023 it is 75% .[5] These factors contribute to expose the chemical industry at higher risk of carbon leakage due to ETS indirect cost.

Back in 2022, the Commission was already considering to amend the compensation scheme expanding the list of eligible sectors due to the sudden increase of electricity and rise of carbon price. Already at that time, the energy-intensive sectors, like the chemicals one, were considered to a higher risk of carbon leakage. Today is still the case, due the upward evolution of ETS price allowances.

Urgent action is needed to make sure that investments and production remain in the EU. A recent Cefic Advancy Study[6] demonstrates how the overall competitiveness of the chemicals sector is at risk with chemical companies increasingly closing. Just between 2023-2024 plant closures representing over 11 million tons of capacity have been announced.[7]

- **The high level the carbon price urgently needs to be accounted for in the upcoming review to strengthen carbon leakage protection for the chemical sector in the EU.**

CO2 emission factor[8] and high electricity prices

Whilst the electricity generation mix differs across Member States, its marginal price setting in the EU is based on the most expensive source to balance the grid, often natural gas. Fossil fuels will continue to have a significant role in setting the marginal electricity price and influence any possible reduction of this in the future. Even those EU countries with the highest share of renewables and low-carbon in their electricity generation (i.e. Sweden, Luxemburg, Finland, France), will still be subjected to high carbon costs because of this price setting mechanism.

[4] Cefic internal analysis based on Eurostat data at EU27 level.
[5] Ibid.
[6] Cefic Advancy Study, the Competitiveness of the European Chemical Industry, January 2025.
[7] Ibid.
[8] CO2 emission factor as defined in the ETS State Aid Guidelines 2021 refers to the weighted average of the CO2 intensity of electricity produced from fossil fuels in different geographic areas.

In 2023, EU data reports that the 31.4% of the EU electricity production derived from fossil fuels. [9] And although the natural gas is not necessarily the main source in the electricity generation mix, as rightfully noted in the "Draghi " report, it nevertheless defines the price during a much larger share of hours.[10] Similarly the European Commission, recognised the role of fossil fuels into the power mix for at least the next two decades, until the necessary investments and the required technology will be sufficiently deployed [11].

- **CO2 emission factor and high electricity prices will continue to significantly influence industry operations now and in the future. These variables will keep exposing the chemical sector at the higher risk of carbon leakage and should be properly addressed.**

Sectors eligibility criteria

Based on the price sensitivity indicated above, back in 2020, the Commission recognised already that some chemical subsectors were almost at or above the threshold of 0.2 of the Indirect Carbon Leakage Indicator (ICLI).[12] Additionally, the procedure allowed a qualitative assessment to be carried out once the threshold of 0.151 for the ICLI was reached, or with an emission intensity equal to 1.5 or above. However, due to this qualitative evaluation[13], some chemicals were excluded. This list of excluded NACE includes:

- Manufacture of industrial gases (partially) (NACE 20.11) with ICLI of 0.917
- Manufacture of synthetic rubber in primary forms (NACE 20.17) with ICLI of 0.337
- Manufacture of man-made fibres (NACE 20.60) with ICLI of 0.282
- Manufacture of plastics in primary forms (NACE 20.16) with ICLI of 0.246

[9] For detailed share in electricity production refer Shedding light on energy in Europe – 2025 edition - Interactive publications - Eurostat

[10] The Future of European Competitiveness – Part B, . The report follows by stating "High gas prices therefore mean high electricity prices at least until the mid-2030s, when fossil fuel generators will be increasingly displaced in the power mix" p.9

[11] COM/2024/63 final "Securing our future Europe's 2040 climate target and path to climate neutrality by 2050 building a sustainable, just and prosperous society

[12] One of the key parameter to be included in the eligible sector is being considered at risk of carbon leakage with an indirect carbon leakage indicator above or equal to 0.2. This parameter is obtained multiplying the trade intensity for the emission intensity related to each NACE code.

[13] For the full list of the RAG rating criteria please see Combined retrospective evaluation and prospective impact assessment support study on Emission Trading System (ETS) State Aid Guidelines - Publications Office of the EU p.29

- Manufacture of dyes and pigments (NACE 20.12) with ICLI of 0.218
- Manufacture of other organic basic chemicals (NACE 20.14) with ICLI of 0.191
- Manufacture of fertilisers and nitrogen compounds (NACE 20.15) with ICLI of 0.175

At 35 €/tCO2, most of the sectors preselected via the quantitative assessment were either above or close to the threshold. This means that at current and future carbon and electricity prices it is reasonable to expect these sectors being well above the minimum threshold. In particular, organic chemicals was removed due to a minor statistical deviation from the recognised ICLI threshold (see above). The removal from the list of eligible sectors happened without any discussion with the sector representatives on data used and on the impact on the relative competitiveness of the sector vis-à-vis competing economies.

- Urgently review the list of eligible sectors and extend the list by default to sectors already qualifying via the quantitative assessment such as organic basic chemicals and polymers among others.
- Apply eligibility of NACE codes at 3 or 4-digits level instead of 8-digit sub-sector coding. This will reduce administrative burden and ensure consistency, avoiding incorrect classification.
- Systematic consultation of stakeholders should also take place when outcomes minimally differ from the required thresholds in order to ensure that the sectors can still provide input.

The removal of the fuel exchangeability for the definition of the efficiency benchmarks 2026-2030 will have implications for receiving the compensation under the ETS state aid scheme, and for obtaining free allowances. With this change, now benchmarks will consider direct emissions only. For indirect cost compensation, the exchangeable benchmark curve is used, but this will take into consideration benchmarks based only on direct emissions. Understanding how this adjustment will impact the eligibility criteria is critical for the transparency of the process, and avoid the risk of overcompensating certain sectors.

- Provide clarity on the implications of the removal of the fuel exchangeability before the review of the ETS state aid measures, giving the possibility to the concerned sectors to offer some input.

Difficulties of retrieving publicly available data on indirect emissions at sectoral level should be considered. On the EU official statistics websites, there is not such information at sectors and subsectors clearly available. This could lead to incorrect estimations. Transparency of the overall selection process for the eligible sectors should be improved. The lack of data and clarity on the implementation for the qualitative assessment criteria caused some concerns on the transparency of the procedures of the 2020 impact assessment.

In addition, ahead of the launch of the study for new eligible sectors announced in the call for evidence, the Commission should make clear the ways to engage with concerned stakeholders, rolling out the process in full openness.

- Having sufficient reliable data available to the public to improve the transparency of the overall eligibility for the compensation scheme and benchmarking process.
- The Commission should also clarify in advance the ways of engagement with the new eligible sectors for the definition of their electricity consumption efficiency benchmarks.

Other key elements

Cefic would like to stress that this review should also address some outstanding issues, namely:

- Support should also be provided by decoupling State Aid eligible sectors from installations under the ETS, guaranteeing that companies in selected ETS sectors but that are not, or no longer, under the ETS can still be eligible to receive compensation for indirect carbon costs in electricity.
- Energy efficiency measures should not be a requirement for obtaining the indirect electricity compensation, as provided for in point 55 of the guidelines. From the information above, it is clear how the exposure to high electricity costs drives industry to improve its energy efficiency.

- Compensation should move from an ex-post to an ex-ante method. The current system causes high uncertainty for the business as it is not known, at the time of production, whether costs will be compensated, for how much, and by when.
- Ensuring a long-term visibility on financial compensation opportunities helps the chemical industry to invest in low-carbon processes and products. The current and future reviews of the ETS State Aid should acknowledge that.
- As electrification of industrial processes accelerates, dependency on electricity is set to increase significantly. In this context, compensation for indirect carbon costs becomes an even more critical lever for industrial competitiveness—both now and in the future.
- The production of secondary energy carriers generated from electricity, notably such as process steam, should be included as an eligible product, as long as such secondary energy carrier is used for the production of other eligible products within the indirect cost compensation. This should be applied independently from the fact whether secondary energy is generated within the same company or provided externally by chemical or industrial park operators. This would support the transformation, particularly in the chemical industry, away from fossil-fuel-based steam supply to electricity-based steam supply.
- Electricity consumption efficiency benchmarks should be achievable and the reference technologies should be representative of production processes used in industry.

Final remarks

To conclude the revision of the ETS State Aid is a key priority for the chemical sector and should take place in a consistent and timely manner because the framework in which industry operates has changed dramatically compared to 2020.

More regular reviews of these guidelines should ensure that different sectors have sufficient time to present their input and bring their case forward for future eligibility.

- Review the scheme regularly, providing sufficient time for industry to prepare in presenting their exhaustive feedback.

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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.