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Europe needs a climate policy that cuts emissions, not industry!

By: **Markus Kamieth**
President, European Chemical Industry Council (Cefic)

Europe is approaching a defining moment in its efforts to deliver both climate ambition and industrial competitiveness. In a few days, the European Commission will publish its review of the EU Emissions Trading System (ETS), the carbon market framework at the centre of Europe's decarbonisation strategy. The stakes go well beyond climate policy. The outcome will determine whether Europe can cut emissions while maintaining the industries needed to deliver the transition, restore competitiveness and reduce dependencies strategically – objectives at the heart of the Clean Industrial Deal.

Europe's chemical industry has demonstrated its commitment to decarbonisation. From 1990 until 2022, the industry has cut emissions by more than 60 per cent while increasing production by more than 43 per cent. The chemical industry has been an early mover of decarbonisation for decades based on countless process innovations. But the next phase of decarbonisation will be far more challenging to achieve. It will require large-scale investment in new technologies, infrastructure and energy systems, many of which are not yet available at scale or under competitive conditions.

And it comes at a particularly difficult time: the European chemical industry is facing its deepest crisis since the start of the century. Since 2023, our industry has lost around 10 per cent of its European production capacity and more than 100,000 direct and indirect jobs are already gone or at risk. Plant closures, restructurings, and insolvencies are accelerating. Investment decisions that would once have favoured Europe are increasingly being made elsewhere. The reasons are well known: high energy and carbon costs, fierce global competition, and a regulatory burden that, despite a welcome simplification drive, continues to grow.

Europe's objective cannot be to reach lower emissions through industrial decline. Global emissions would not fall overall, but Europe would lose investment, jobs, innovation capacity and strategic value chains while becoming increasingly dependent on imports for essential products and value chains.

Instead, the goal must be industrial transformation. We remain confident that Europe can achieve it, but only if the right conditions are in place. The reform of the ETS is not the only element required to restore Europe's competitiveness, but it is a critical step. Key parameters – from the cap trajectory and free allocation to the benchmarks that determine carbon cost exposure – must reflect industrial realities, global competition and the availability of enabling conditions.

This principle must also guide the ETS benchmarks update for 2026-2030 and its upcoming correction. As currently drafted, the results are largely excessive, unrealistic, and do not reflect the seriousness of the situation facing our industry. The benchmark updates would lead to substantial immediate cost increases for European producers relative to international competition without any incentivising effect on green transformation.

The hard truth today is that the conditions needed for industrial transformation are still largely missing. Low-carbon electricity is often unavailable at internationally competitive prices. Carbon transport and storage networks are still under development. Infrastructure projects are delayed by lengthy permitting. And markets and customers rarely reward lower-carbon products, making it difficult for producers to establish a viable business case for the massive investments required. There simply is not enough demand for low- or zero-carbon products in Europe.

Put simply, the industrial transformation depends on enabling conditions that, in many cases, are not yet in place.

These realities matter for the EU ETS revision. The ETS was designed to make emissions reductions economically attractive by putting a price on carbon. That logic works where low-carbon technologies, infrastructure, finance, permitting, and customer demand are in place. It cannot work where a company's plant has no access to the grid, where it cannot deploy carbon capture and storage at scale, or where it has no viable markets for the resulting products. In such situations, the reality for most chemical sites today is that the ETS adds unavoidable costs rather than an incentive to invest.

That is why Europe's chemical industry is sending a clear warning. The underlying assumption of the ETS – that ever-higher carbon prices will always unlock emissions reductions – does not hold in sectors where the conditions for investment are still missing. That is particularly true for the chemical industry today. Regulation must not run ahead of reality: the pace of ETS tightening must match the pace at which enabling conditions become available.

Yet the debate around ETS reform increasingly risks placing additional obligations on industry without ensuring the conditions required to meet them are in place. This becomes especially important in discussions around free allocation and conditionality. Free allocation was never intended as a subsidy. It is a safeguard designed to prevent production and investment from shifting to regions with weaker climate policies. Thus, preventing the risk of carbon leakage.

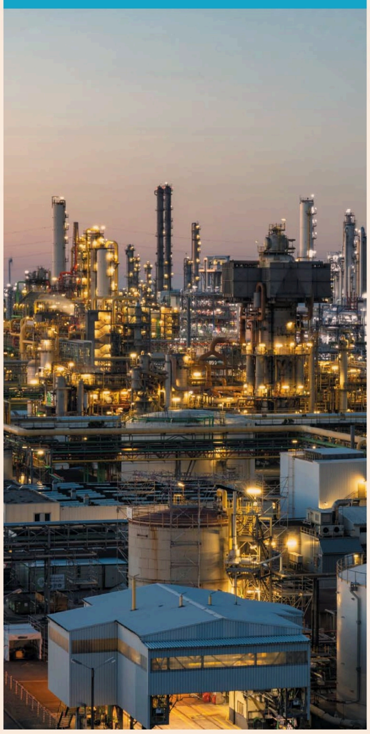
If affordable energy, infrastructure or market demand are missing, withdrawing carbon-leakage protection would not strengthen Europe's industrial transformation. Quite the opposite: it would increase the risk of production capacity and investment leaving Europe before emissions do.

The ETS is a powerful instrument, but its next phase must reflect current industrial realities.

A successful ETS revision should avoid imposing unavoidable carbon costs, strengthen carbon-leakage protection, set a workable cap trajectory, and apply realistic benchmark methodologies. It should accelerate the deployment of low-carbon energy and carbon infrastructure, stimulate demand for low-carbon products, and ensure that a greater share of ETS revenues finance industrial transformation.

Europe must align the pace of ETS tightening with the pace at which the conditions for industrial transformation become available. Only then can Europe deliver both industrial transformation and climate neutrality – the central promise of the Clean Industrial Deal.

"The message from Europe's chemical industry is clear and urgent: the ETS framework must get the fundamentals right, well before 2030. Otherwise, we risk cutting industry before emissions. Europe's objective cannot be to reach lower emissions through industrial decline."



Read the European chemical industry's position on the EU Emissions Trading System (ETS):

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