

Proposal for a new European Market Mobilisation Plan that works for the EU chemical industry

Summary

Effective market mobilisation measures supporting the low carbon and circular transition of the European chemical industry must address both the feedstock transition of chemical companies and the transition towards lower-emission production processes, consistent with the EU's climate neutrality objectives. An impactful European Market Mobilisation Plan should combine quick-to-implement targeted incentives with comprehensive medium- to long-term policies that provide support at scale and leverage the size of the European single market.

1. Short-term: Wherever immediate and targeted demand support can be implemented to support specific value chains, this should be done as soon as possible. This includes public funding for value chain partnerships, effective non-price criteria in public procurement, as well as fiscal and financial incentives.
2. Starting in the short term (e.g. Circular Economy Act), with further measures in the medium- and long-term: Targeted requirements for circular content in selected end markets can help create structural demand for circular feedstock (recycled-, bio- and CCU-derived). This works only if key conditions are met: technology neutrality is respected, economic viability and feedstock availability are verified, and a positive benefit for EU producers can be secured - including through effective and workable equivalency clauses.
3. Medium-term: Innovative "transition contribution" schemes that directly link end markets to the upstream chemical sector may be needed as a bridging measure, as long as Product Carbon Footprint (PCF) data are heterogeneous and cannot be used as an effective carbon-intensity measure throughout the chemical value chains. Such a mechanism is needed now to incentivise the transition to low-carbon chemical production.
4. Long-term mechanism, with pre-conditions to be created in the short- and medium-term: In parallel, work on digital and harmonised PCF availability across value chains should be accelerated to enable structural demand creation for low-carbon products in the long term.

Cefic calls on the Critical Chemical Alliance and the European Commission to advance policy initiatives simultaneously across all 3 pillars, prioritising incentives, to enable a climate transition that strengthens industrial competitiveness while reducing carbon emissions. A comprehensive European Market Mobilisation Plan that works for the EU chemical industry, bringing together structural demand creation, a new transition contribution scheme, and targeted, short-term measures is needed.

When assessing different policies, it will be essential to consult downstream industries and to carefully consider their potential impact on consumer price increases. Any new policy proposal should be subject to an Impact Assessment.

Introduction

Weak demand and the absence of market acceptance for a “green premium¹” continue to critically undermine the business case for investments in the low-carbon and circular transition of the chemical industry in Europe. While immediate measures, in particular on energy, carbon and feedstock costs, are essential to “stop the bleed” of [closures](#) and enable the survival of European industries, establishing a business case and enabling investments to happen again requires a broader approach.

Many planned investments toward the transition are now on hold due to the severe headwinds faced by the European industry in the last years, particularly energy-intensive industries like the chemical sector. According to a recent Cefic/Roland Berger study, [closures in the chemical sector increased sixfold](#) from 2022 to 2025, while investment levels decreased by 90% over the same period. Continued asset closures, lack of investments, and on-going carbon leakage risk undermining the EU’s ability to achieve its climate and competitiveness objectives simultaneously. Without new market drivers that support green consumption and investment in the EU, European chemical companies cannot justify the investments required for emission reduction and feedstock substitution, including investments to scale up low-carbon and circular products.

One of Europe’s strengths is its Single Market - representing over €12 trillion in annual private and government consumption. Therefore, smart policies that can mobilise the EU purchasing power to support sustainable EU consumption and production can help secure industrial competitiveness, jobs, and a resilient economic future. While the investments required in the upstream “hard to abate” sectors like the chemical industry are in the range of billions², the required price premium at the end of value chains is expected to be heavily diluted and relatively small in most cases, as recognised in Professor Draghi’s [report](#) on the future of European competitiveness. In addition, some recent studies, including Deloitte’s [Mobilizing Demand for Sustainable Investments](#), illustrate the point with numbers³. The authors conclude that significant increases in direct costs for producers connected to a switch to sustainable production methods would in most cases result in relatively small price impact on final products if passed on to end markets. The design of the appropriate set of measures targeting end markets and the consideration of social compensation mechanisms (e.g. via reduced VAT rates) matters, since even small price increases⁴ may hit lower income households and certain sectors disproportionately. Accordingly, a thorough impact assessment based on solid data is needed before such measures are enacted.

Cefic therefore proposes a European Market Mobilisation Plan built on three mutually reinforcing pillars:

- (1) [Structural demand creation](#): circular content requirements in selected end markets.
- (2) [A new transition contribution scheme for low-carbon solutions](#): A new instrument that allows for investments in the transition of the upstream EU chemical industry by linking them financially with end market demand.

¹ The “green premium” challenge has been described in the [Draghi Report](#), the [Clean Industrial Deal](#), and the [Chemicals Industry Action Plan](#).

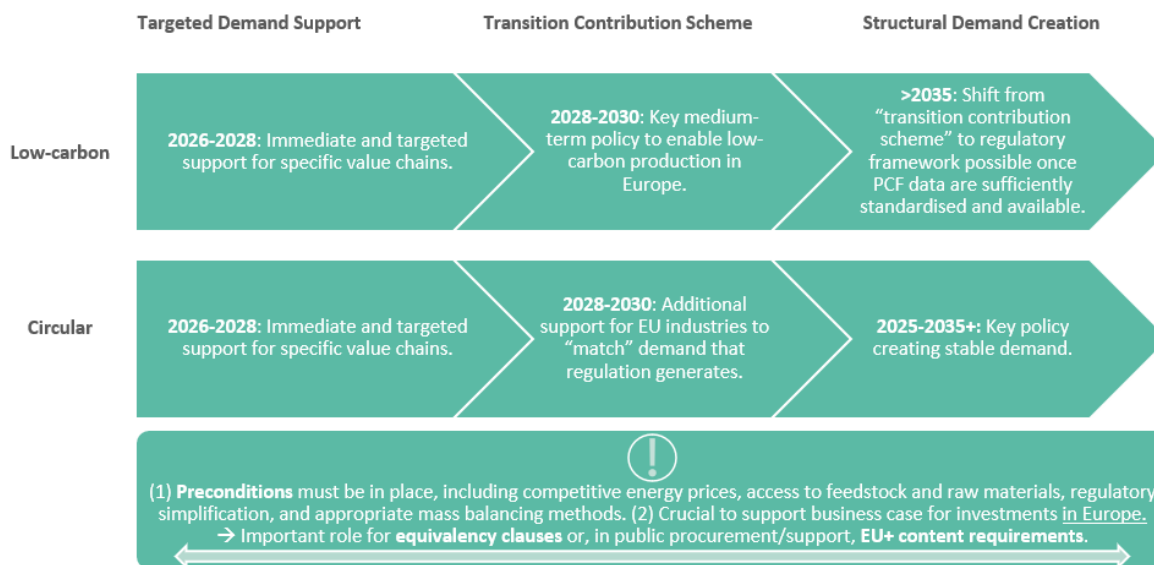
² [Carbon Managers report](#): Reaching the EU chemical industry’s climate and circularity objectives by 2050 implies a Net Present Cost of €2.18 trillion - 18 billion of CAPEX over the whole period and about €1,863 billion of OPEX.

³ E.g. 2ct price increase for consumers for a water bottle with full cost pass through for sustainable chemical production, or 0.7% for a house.

⁴ According to the before-mentioned Deloitte study and the Draghi report.

- (3) Targeted, short-term demand support: Immediate incentives embedded in specific legislation (financial incentives, such as eco-modulated EPRs (where appropriate) and VAT reductions, publicly supported value chain partnerships and Green Public Procurement).

We call upon the Critical Chemical Alliance and the European Commission to advance policy initiatives simultaneously across all three pillars, while prioritising incentives, to enable a climate transition that strengthens industrial competitiveness while addressing emissions across all relevant scopes. Demand creation policies can only complement, but never replace, measures targeting cost competitiveness: energy prices, access to feedstock and raw materials, regulatory simplification.



Policy recommendations

1. Structural demand creation

For circular content

Circular products - defined as products using recycled-, bio- or CO₂-derived raw materials - can be incentivised through legislation via minimum content requirements in end markets. One key example is the Packaging and Packaging Waste Regulation (PPWR), which sets recycled content requirements for specific applications. Such requirements should remain technology-neutral, recognising both mechanical and chemical recycling routes, as well as different sustainable carbon feedstock pathways. This depends on the existence of robust traceability and accounting methodologies. Under the right conditions, this type of regulatory pull can play a powerful role in enabling investments in the feedstock transition, relying on market mechanisms to address hurdles throughout value chains. We therefore support the extension of circular carbon content requirements in end markets to selected additional product categories and additional carbon sources (next to recycling including biomass and CCU), e.g. via the Ecodesign for Sustainable Products Regulation (ESPR), following a thorough impact assessment, and where enabling conditions, such as appropriate feedstock available, mass balancing methods and end of waste definitions, are in place⁵ - in line with [Cefic's Position Paper on Circular Carbon](#).

⁵ The mass balancing method must allow chemical recycling to contribute to recycled content targets and general enabling conditions such as competitive energy prices need to be in place.

To ensure that such measures create an effective demand pull, policymakers must define criteria that allow EU producers to secure a fair share of emerging circular market opportunities. For recycled content in particular, “open-for-all” circular carbon requirements risk primarily attracting imports rather than strengthening the European circular economy and raw material resilience. This is because many third countries can produce at much lower cost, as well as, in some cases, lower environmental, social and quality standards. In addition, it is technically difficult to verify recycled content claims for imported materials. At a time when increased circularity is required to support climate objectives, address waste challenges, and strengthen strategic resilience by reducing reliance on imported fossil feedstocks, boosting European circularity while remaining open to trade requires a delicate balance.

EU-made requirements and equivalency clauses

In public procurement and when public money (e.g. subsidies, funding, purchase incentives) is involved, EU-made recycled content quotas (open to selected trade partners) can be an effective solution. In most private markets, where strict EU preference criteria are generally difficult to apply, equivalency clauses can offer a workable alternative. These should require imported materials to meet equivalent standards and production conditions, ensuring a level playing field while avoiding disproportionate administrative burden. Effective enforcement and verifiability are essential. This may require third countries to have agreements with the EU ensuring appropriate conditions for establishing and demonstrating equivalency before imported recyclates can count towards quotas, as proposed in the draft Single Use Plastics Directive (SUPD) Implementing Act on recycled plastics content. There is further need to increase controls at customs borders and ensure traceability of recycled imports to prevent fraudulent recycling claims at the point of importation, double-counting, or even greenwashing.

For low-carbon products

Product Carbon Footprint-based policies can play an important role to enable efficient structural CO₂ reduction across society. We therefore reiterate our [call](#) to accelerate efforts to create and promote standardised methodologies and support (digital) PCF availability in chemical value chains enabling structural demand creation for low-carbon products in the long-term. This would include the value chain specific evaluation of PCF requirements 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). Digital Product Passports can play an important role. Harmonised PCF methodologies must be compatible with, but more detailed than international standards such as ISO⁶, and ensure digital PCF availability across chemical value chains up to consumer products, including for imported products. It is crucial to consider the unique aspects of the chemical industry in these endeavors, as it produces over 70 000 different products⁷ used in most manufactured goods and supplies more than 15 industrial sectors⁸. Allowing carbon intensity information to cascade down the value chain is therefore complex but important for helping customers meet their targets. However, the time required to achieve broad and reliable data availability should not be underestimated. Furthermore, PCF-based policies may overly incentivise cheaper reduction levers while not adequately supporting hard to abate processes. Therefore, “classical” regulatory pull instruments for low-carbon products can be an important policy tool in the long run – but they are not available in the short term, creating the need for a “bridging” mechanism.

⁶ 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).

⁷ <https://www.weforum.org/stories/2020/09/chemical-and-materials-industry-impact-stimulus-packages/>

⁸ <https://cefic.org/resources/powerpoint-2024-cefic-facts-and-figures/>

2. A transition contribution scheme

Rationale

The ETS imposes costs on industry but does not provide end-market incentives or financing mechanisms for producers, and regulatory pull instruments for low-carbon products are only available in the long term. In the medium term, less precise but faster-to-implement instruments are therefore needed to create the urgently required business case for investments in the transition of chemical plants and feedstock. Mobilising markets through new financial instruments that enable end markets to contribute to the transition of the upstream chemical industry can address this gap. While the initial rationale for a transitional instrument lies in the difficulties of implementing regulatory demand-pull measures that can support the transition to net-zero production processes in the short- to medium-term, such an instrument can also support the feedstock transition. Setting targets alone is insufficient to establish a robust business case for investment—an issue highlighted by the current decline of circular industries in Europe.

Design options

This instrument should consider three main design options and evaluate their effects on different parts of the chemical industry, downstream users, and consumers:

- (1) new “EPR-like” schemes, where end market (e.g. retail-level) “climate contributions” are distributed by a dedicated independent non-profit EU-level Responsible Organisation to eligible investments in low-carbon and circular production along the value chain, in order to reduce the financial gap to conventional production (OPEX & CAPEX),
- (2) a similar mechanism based on the obligation for retailers to acquire certificates from producers investing in the transition along the value chain, or
- (3) “excise-style” obligations that are passed on through value chains – from base material and intermediates through to end markets (e.g. retail-level) - are paid e.g. on a quarterly basis by the final obligated party, with exemptions for exports, and the revenues serve to finance Contracts for Difference that enable low-carbon and circular chemical production.

Eco-modulations ensuring fairness for producers and end-users of sustainable materials and creating demand for low-carbon and circular products are important for all of these three options, so that early and existing users of sustainable materials are rewarded, as elaborated further below.

Principles

We propose the following principles to guide the evaluation and design of such an instrument:

- **Effectiveness and efficiency in creating business cases at scale:** The instrument must mobilise sufficient money to support investments of different sizes into low-carbon and circular production across the entire European chemical industry, in line with political obligations to reach climate neutrality by 2050. One objective is supporting demand by bringing the production costs of low-carbon and circular products closer to the conventional ones. The Impact Assessment that needs to be conducted before potentially implementing such policies should quantify associated costs and benefits. The availability of enabling conditions beyond the control of chemical companies along the value chain (e.g. CO₂ storage, renewable energy

and feedstock access) will have to be taken into consideration. It should also be fair along the value chain, with effort and support shared.

- **Fair financing:** The instrument should cover a broad range of chemical end markets. While public money is important to facilitate the transition, it is too limited and unpredictable to provide a stable business case. This underlines the need for new market mobilising mechanisms that can leverage private demand. A disproportionate bureaucratic and compliance burden that undermines efficient industry support must be avoided.
- **Preventing circumvention and avoiding burdens for all players in the value chain:** Any obligations need to be placed at the end of value chains (retail level or equivalents), and, critically, apply equally for EU-produced and imported products, as otherwise circumvention is possible and costs may remain with downstream producers, negatively affecting their business case. The system should be transparent and verifiable.
- **Directly supporting EU industries:** A key goal of the mechanism must be to support the business case for the transition in Europe. Any new revenues must be directly channelled to industry to support investments in the reduction of direct, and possibly selected parts of indirect emissions, as well as feedstock substitution in Europe, while remaining WTO defensible. While the new mechanism should be placed at the EU-level, national examples from other policy areas can be helpful when assessing different design options. The implementation of (eco-modulated) EPR schemes in some EU member states, for instance, can provide an example of policies that distribute means collected in markets directly to companies.
- **Recognise existing users of sustainable products:** Downstream users who already now verifiably use sustainable materials should have this recognised. Therefore, any new fee or certificate obligation needs to be eco-modulated, so that early and existing users of sustainable materials are rewarded, and at the same time other products are offered proportionate incentives to transition. A practical approach that balances quick implementation with fairness could for example start with eco-modulating fees based on the use of a specific share of circular carbon, covering the feedstock dimension of the transition. PCF-based eco-modulations could then be introduced progressively by product category once sufficiently harmonised and reliable data are available. This also creates additional incentives for players along value chains to accelerate the work on PCF availability. The size and eligibility of any modulation need to balance appropriate fairness for users of sustainable materials while not undermining incentive creation for chemical producers: for example, a 100% eco-modulation based only on circular feedstock used would not encourage the reduction of direct emissions.

If well-designed, and particularly if administrative burdens are kept proportionate, such a transitional instrument can make a significant contribution to establishing a viable business case for investments in the transition of Europe's chemical industry. By providing a green premium linked to emissions performance or renewable feedstock use, it can help (partly) level out costs between sustainable and conventional products and thereby strengthen demand.

3. Targeted demand support measures in the short-term

Policies targeting individual projects or selected value chains will not, on their own, be sufficient to support the transition of the chemical sector, which - as the "industry of industries" - supplies most industrial value chains. Nevertheless, such policies represent a valuable "puzzle piece" of the overall

solution. All tools that can be implemented quickly under existing frameworks and provide tangible support for parts of chemical value chains should be utilised while more comprehensive medium- and long-term mechanisms are developed. Given that product characteristics, industry needs and market structures vary significantly by value chain, tailored measures are required to stimulate demand in specific sectors, as we highlighted in a previous [paper](#):

- I. **Mobilise public funding for value chain partnerships.** We recommend that the Commission establish a goal-oriented EU programme to support industry-led value chain partnerships that accelerate the scale-up of production and market uptake of circular and low-carbon chemical ingredients. The programme should foster collaboration between producers, downstream users and other relevant actors to supply and purchase sustainable chemical solutions, aligned around clearly defined and measurable outcomes. Funding should be allocated through targeted calls for interest, drawing on existing and new EU and Member State instruments, such as the Competitiveness Coordination Tool, CAP funding, the NRRP and the Just Transition Fund. By bringing together multiple actors of the value chain, these partnerships can reduce the remaining green premium, improve investment certainty, and address the practical barriers that currently limit deployment and market uptake in the selected value chains. The goal is to develop an integrated approach which allows public funding to be used more efficiently, maximising private investment and delivering better outcomes for EU citizens. Financial support should be flexible and reflect the differing needs of value chain actors, including instruments such as Contracts for Difference, low-interest loans and grants. Support should prioritise European production capacity and enable both the large-scale deployment of proven low-carbon and circular materials and the scale-up of innovative solutions. To be effective, the programme must be sufficiently ambitious to drive industrial change, while remaining technology-neutral and adaptable to the diversity of value chains and end-use applications.
- II. **Implement financial incentives** for low carbon and circular products throughout the value chain: (1) Reduced VAT rates targeting private consumers, (2) Offtake tax breaks targeting business customers. (3) EPR eco-modulations, where appropriate.
- III. **Introduce product group specific mandatory non-price criteria in EU-wide public procurement rules**, in particular PCF, share of circular content and European preference (open to Free Trade Agreement partners with procurement chapters).
- IV. Introduce tripartite agreements such as **Contract for Difference** for circular feedstock for chemical production.

Moreover, we reiterate [our call](#) to redirect ETS revenues to support industrial competitiveness and create market demand for low-carbon products. This should be part of a [more realistic, flexible, and industry-supportive ETS](#), going hand in hand with market mobilisation measures. Following a similar logic, we believe that the revenue of the EU plastics levy should be used to support investments in circularity, for example by enabling VAT reductions and/or EPR-ecomodulations incentivizing the use of circular content.

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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.