

Cefic Views on Market Pull Measures: Part I – Key Messages and Principles

Summary

Cefic's recently published [competitiveness report](#) analyses why the sector is at a breaking point, "going through a period of unprecedented crisis": costs are high, demand is low and massive investments are required now. Both supply and demand side measures are needed considering the magnitude of the challenge.

Last year's [Antwerp Declaration](#) highlights 10 interconnected actions to address this challenge, among others, a call for market pull measures: "Boost demand for net zero, low carbon and circular products". This is because products 'fit for the Green Deal' generally come at higher costs and markets are often not ready to absorb the difference.

Effective demand-side measures for the chemical industry sector should be designed around the following principles and conditions:

- Pull measures need to create incentives at scale, as quickly as possible, and avoid disproportionate burden.
- These measures have to be underpinned by clear and harmonised definitions and standard methodologies, criteria must be consistent and enforceable.
- If new market opportunities are created, EU producers should be able to get a fair share. If criteria for market pull measures are not well-chosen, EU producers will struggle to grasp the new opportunities.
- Measures must be adjusted to the complexity of an industry serving diverse value chains, each with its own purchasing drivers. This means there is not one single measure that works for all value chains.
- Positive, incentivising measures have a higher chance of success than negative, punitive measures.
- Europe needs to be competitive to 'go green'. It is crucial to recognise that market pull measures can only work if policymakers also address the urgent challenges on the supply side.

Introduction

Market Pull Measures as part of a broader Industrial Deal.

Market pull / demand creation measures are an important part of a European Industrial Deal, in line with Draghi's recommendation "*stimulate demand for green products*". The [conclusions](#) from the recent Antwerp Dialogue on market pull measures confirm: the challenge is urgent. While it is necessary to conduct massive investments to reach the goals of the Green Deal, most markets currently seem not willing to absorb a green premium on their own – a market failure connected to externalities. However, if market pull measures are implemented without a framework on the cost side that allows EU industry to be competitive, they may become a pull for non-EU producers that can deliver at lower costs. This challenge is reinforced by industry support mechanisms elsewhere (e.g., tax credits, subsidies). Market pull measures should be part of a comprehensive framework for Europe's competitiveness on the global scene: Incentives on the market side can work only if production-side support has been implemented (e.g. competitive energy prices, regulatory simplification, funding, access to feedstock and raw materials); if so, the demand side contributes to the return on investment.

Special Focus on chemicals and energy-Intensive Industries

While the chemical sector remains a key player in innovation and sustainability, the business case to transition to low-carbon and circular products is currently weak or lacking for EU chemical companies.. As "industry of industries", the sector is part of almost all key industrial value chain, and is vital for Europe's climate-neutrality and circularity ambitions. If the chemical industry does not reduce the carbon footprint of its products, this will also affect the climate goals of others downstream. At the same time, fulfilling emission reduction goals by substituting away from the EU chemical industry would have grave negative effects on welfare and resilience.

Mario Draghi's analysis of demand creation policies is the following: "*[Energy Intensive Industry] input share in total production value [of downstream industries] is relatively small (diluting the required price premium), but output volumes high enough to allow for a scaling up of low-carbon production*". Market pull measures can be the missing link. Considering the complex nature of the chemical industry and the sectors it supports, the green premium will vary along the different stages of the value chain. The extent of the green cost premium is generally higher for switching to circular feedstock compared to reducing the carbon footprint through energy transition and varies related to e.g. feedstock quality & availability, product category, and the extent of pull policies for base materials.

Guiding principles

The Draghi report, the Chemical Transition Pathway, the Political Guidelines and the Competitiveness Compass all refer to market pull or related policies. Market pull measures come with both benefits and risks. While pull measures can play an important role for chemicals, they must be designed with careful consideration to the complexity of the sector and the multiple value chains it serves. There is a risk that unadjusted designs trigger costly side effects (administrative burden, market distortions...) or have very limited effect on the pull side. To mitigate this risk, we propose the following key principles:

- **Effectiveness and Efficiency:** Ensuring that measures have sufficient economic attractiveness to justify investments. This requires that money flows created reach the chemical industry in sufficient strength. The goal is to promote market development and getting to scale as quickly as possible while minimising additional regulatory burden. Pragmatic definitions and harmonised criteria are

needed, e.g. on end-of-waste for chemical recycling, including the definition of calculation rules incorporating the mass balance chain of custody, or on product carbon footprint. In addition, pull effects should materialise throughout the entire value chain by setting the right incentives for all involved actors.

- Proportionality and Practicality: Thorough impact assessments should be conducted for each bundle of policies to balance benefits and side effects. The complexity of chemical value chains implies that any policy should be assessed and adjusted on a value chain basis (*e.g. Green Public Procurement be relevant for chemicals that go in construction value chains, or pharmaceuticals, but may not incentivise large-scale abatement for base chemicals*). The targeted product features need to be realistic. Criteria supporting the implementation of such measures must be clear, consistent, internationally aligned and enforceable, highlighting the role of standardisation. It is critical to prevent circumvention (e.g., fake certificates, poor quality monitoring, reporting and verification).
- Coherence and Harmonisation: While different value chains may need different measures, policy coherence is essential. Definitions, principles, methodologies and certifications should be consistent for every product category. We support robust and 3rd party auditable certification schemes, preferably internationally accepted, to track compliance. Further, market pull measures should be established at the European level as much as possible to leverage demand across the Single Market. This can be best achieved by keeping measures as simple as feasible. Positive impact for the EU industry: Market pull measures should further ensure that companies producing in Europe can get a fair share of the new market opportunities, considering that, for the time being, it can be cheaper to transition to low-carbon and circular production in regions where energy- and feedstock costs are more favourable.

Policy scope

The range of possible policies is broad and not all measures are appropriate for the chemical sector. They can include

- (1) Regulatory measures, e.g. circular feedstock or carbon footprint requirements;
- (2) Financial incentives, e.g. VAT reductions, EPR modulations, demand side subsidies / tax breaks, incentives in public procurement; and
- (3) Soft tools, e.g. labelling and awareness raising.

Cefic is currently working on an analysis of which concrete policy options should be prioritised for the EU chemical industry.

We call for the selection, design, assessment and implementation of a technology-neutral bundle of measures to be guided by the described principles, in particular their complementarity with supply side measures and the required timing (it determines investment decisions). It is important to assess the potential quantitative effects for the chemical sector. Policy learnings from different Commission DGs, Member States and third countries can guide the process and support the evaluation of side effects, e.g. on trade relations, export competitiveness and geopolitical dynamics. In general, we consider positive, incentivising measures supporting industry preferable to negative, punitive measures penalising existing production given the current challenging regulatory load on the EU industry.

Products scope and definitions

The goal of market pull measures is to create demand for:

- **low-carbon products**, 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, and
- **circular products**, referring to products using waste, biobased and CO₂-based raw materials as feedstock.

Market pull measures for circular products are necessary to support the transformation of the industry given persistent cost differences between products manufactured using alternative and conventional feedstock. At the same time, limiting the scope of market pull measures exclusively to circular products will fail to deliver the full necessary support for the transition considering the need for costly investments in direct CO₂ emission reduction (both for conventional plants and plants running with circular feedstock).

Apart from circular and low-carbon criteria, further dimensions may be evaluated for specific policy measures to better reflect the societal benefits of producing in Europe, thereby creating local jobs (positive externalities), such as EU production (in line with international commitments), resilience or a set of qualitative criteria. A number of policy developments go in this direction e.g. European preference in public procurement ([Competitiveness compass](#)), or resilience criteria under the Net Zero Industry Act (NZIA). A careful and policy-specific evaluation should take place on whether e.g. produce/invest in EU policies or resilience criteria would be helpful to support the business case for the chemical industry to invest in Europe. In general, a European preference would not be needed if Europe was competitive.

Conclusions

We call on the EU institutions to urgently assess different types of policies as market pull options that would enable the chemical industry to lead on low-carbon and circular production, allowing it to contribute to EU climate neutrality. Based on the principles outlined above they should help align competitiveness with the necessary investments needed for the transition to low-carbon and circular products. Some of the measures could be expected to have a rather sizable effect on their own, while others (e.g. procurement reform) can help but are clearly not powerful enough to bridge the cost gap to less sustainable products on their own. Therefore, a combination of measures that considers different types of tools (regulation, financial incentives, soft measures) and their respective effects, as well as the heterogeneity of sectors and product features, should be evaluated.

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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.