Securing competitive energy for industry

IFIEC: To avoid further de-industrialisation by carbon costs, carbon leakage protection requires swift and decisive reform of EU-ETS implementation measures

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Industry across Europe is facing mounting challenges to remain competitive due to persistently high energy costs. Following the Draghi report, the European Commission has accepted the challenge to improve industrial energy cost competitiveness. What has attracted less attention are increasing climate related costs for industry. Since competitors outside of Europe do not face similar costs, carbon leakage protection should guarantee EU industry a level playing field with the rest of the world. However, **the current economic situation — showing an accelerating pace of plant closures and investment leakage — shows that current carbon leakage protection is insuffient. Hence, urgent action is required to safeguard Europe's industrial base and prevent further de-industrialization**.

In addition to short-term measures to reduce energy costs, reinforcing carbon leakage protection is critical to maintain competitiveness and enable the transition in Europe. Although a comprehensive and in-depth review of climate policies and specifically the EU Emissions Trading System (ETS) is expected to be carried out in 2026, this is not an adequate remedy for preventing the demise of Europe's base industries.[1] Industry needs swift and concrete actions to stop increasing carbon costs and subsequent leakage and to avoid further de-industrialisation.

IFIEC Europe, the International Federation of Europe's Industrial Energy Consumers, therefore, calls upon the European Commission, the European Parliament as well as the European Council, to urgently agree on three interventions into the EU-ETS, which, whilst significantly improving carbon leakage protection, do not compromise climate ambitions:[2]

1. **Stop invalidating allowances from the market stability reserve (MSR) and use these allowances to strengthen carbon leakage protection.**
2. **Suspend benchmark reductions until flaws in the applied benchmark methodology have been corrected**
3. **Ensure sufficient free allowances by relaxing the existing restriction on the amount of free allocations**

This approach provides two critical benefits:

- Security: It provides enough free allowances to effectively safeguard against carbon leakage and contributing to the avoidance of plant closures.
- Climate Integrity: The overall EU ETS cap and climate ambition remain exactly the same.

It's a win-win: the climate ambitions are maintained while giving our industry the breathing space to survive and actually invest in the Clean Industrial Deal.

[1] Carrying out the review will take considerable time and focusses on ETS post 2030.

[2] they do not alter the ETS cap nor the Linear Reduction Factor, which drive the overall emissions reduction within the ETS industry.

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1. Stop invalidating allowances form the MSR

The current MSR invalidation mechanism goes far beyond the original purpose of the MSR with the intention of being a market stability mechanism, meaning tackling surplus as well as shortage at a later stage. It lacks the flexibility to respond to economic cycles and undermines industrial competitiveness by permanently removing certificates including those that are the result of real abatements. In 2025 alone, 270 million EUAs were invalidated – equivalent to the liquidation of €20 billion at an EUA price of €80 - due to reduced industrial activity in 2024. The current MSR is further tightening the market and driving up EUA prices during a fragile economic recovery.

The permanent invalidation of allowances in the MSR must stop immediately. These allowances should first be reallocated to avoid cuts in free allowance allocation (CSCF), which could negatively impact the supply-demand balance and subsequently drive up prices. Secondly these allowances could be used to protect first movers of CCS projects against the risk of system failure and subsequent unforeseen emissions. Thirdly allowances should also be available to better ensure free allocation for growth in production and fourthly a good surplus, because of abatement and shut down, should be realized in case price spikes and market shortage. All previously invalidated allowances should be redirected for the same purposes.

2. Suspend Benchmark reductions

As a carbon leakage measure, industrial emitters receive emission certificates free of charge up to a CO_2-efficiency benchmark (free allocations). This benchmark is in theory based on the 10% best performing installations within the EU thereby incentivising industry to further improve their performance. Benchmarks are updated every 5 years to reflect the progress industry is making. It is crucial the benchmarks are representative, and achievable for best performing installations to ensure adequate carbon leakage protection as reducing benchmark values directly results in increasing carbon costs. Unfortunately the methodology currently used is fundamentally flawed and leads to unachievable benchmarks as its minimum requirements go far beyond the average of 10%. Below, we detail some examples of shortcomings in the existing approach:

1. Extrapolating from 2007/2009 as reference leads in several cases to unrealistic reduction rates, as it ignores the fundamental characteristics of industrial decarbonization: a slowdown in reduction rates after initial efficiency gains. Benchmark values should reflect the current stage of industrial decarbonization, where most “low-hanging fruit” is gone, and remaining emissions are harder to abate. Extrapolating from a more recent period (e.g. 2016/2017) better aligns with current technological and economic realities.
2. During the last ETS review, the exchangeability concept was removed from certain product benchmarks without updating the reference point to reflect this. In these cases, the original reference point now includes indirect emissions, whereas the updated data point excludes them. This approach is mathematically incorrect, as an extrapolation now is based on two reference points with different scope and system boundaries.
3. Heat and fuel benchmarks are expected to decrease by 50% compared to 2007/2008 due to the use of biomass. Biomass is not equally available across Europe. In Belgium, and many other Member States, the chemical industry has limited access to biomass. Best performing installations with no access to biomass can’t reach the benchmark and will therefore be denied sufficient free allowances to protect against carbon leakage.
4. Benchmarks should be based on actual improvement achieved and not on a minimum requirement of performance improvement that is unrealistic under today’s circumstances.

Current calculations show that for some benchmarks even the most efficient installations cannot perform according to the benchmark anymore. The aforementioned illustrates the need for an in-depth review of the benchmark calculation methodology. However, this will take considerable time and will have an impact only

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after 2030. **To avoid reduced carbon leakage protection due to a flawed methodology, particularly in times of increasing de-industrialisation, there is no other option to avoid unrepairable damage, than to stop benchmark reductions[3] until benchmarks that reflect realistic industrial decarbonization have been determined.**

3. Ensure a sufficient free allowance budget

Currently the amount of free allocation is limited creating the risk that not sufficient free allocation is available to ensure adequate carbon leakage protection. It needs to be avoided that not enough free allocations are available as this results in a proportional reduction of free allowances for all participants[4]. This again results in increasing carbon costs and undermines the intended outcome of the stop on benchmark reductions. **A sufficient free allocation budget needs to be secured to guarantee the needed protection. This can be done by relaxing the 43% limit on free allocation**[5]. This 43% was historically based on the share of industrial emissions compared to the power sector in 2013. As the share of industrial emissions has increased compared to the power sector, relaxing of the 43% limit is justified.

[3] Any corrections required for specific benchmarks, resulting from past errors, should not be affected or undone by this proposal.

[4] The triggering of a cross-sectoral correction factor (CSCF) needs to be avoided.

[5] Only 43% of the EU ETS CAP can now be used for FA

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