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EU ETS Beyond 2030: Ensuring Effective Decarbonisation Without Compromising Industrial Competitiveness

Position Paper of Business & Science Poland

The Commission's proposals to revise the EU ETS mark a key stage in discussions on the transition of European industry, aviation, maritime transport and other covered sectors beyond 2030. Business & Science Poland (BSP) welcomes the proposed changes to the Market Stability Reserve (MSR), in particular the reduction of the share of surplus allowances transferred to the reserve from 24% to 12%, alongside the proposal to discontinue the automatic invalidation of allowances. These changes represent a concrete step towards improving liquidity and predictability in the EU emissions allowance (EUA) market. We also welcome the reform's stronger focus on investment and decarbonisation.

However, the effectiveness of the reform will depend on whether the new rules genuinely create the conditions for businesses to invest, maintain production in Europe and remain competitive with companies operating outside the EU. The system must not lead to a situation in which European companies face rising costs faster than they gain access to the infrastructure, low-carbon energy, technologies and support mechanisms necessary for their transition. The EU ETS beyond 2030 should therefore combine the achievement of climate objectives with safeguarding the competitiveness and investment capacity of European industry.

Key Priorities of Polish Industry

BSP brings together leading Polish companies from key sectors of the economy, including energy, fuels, chemicals and fertilisers, raw materials and non-ferrous metals, transport and aviation, agri-food processing, infrastructure, new technologies, as well as research and innovation. For companies operating in these sectors, the revision of the EU ETS will have a direct impact on operating costs, investment decisions, competitiveness and their ability to pursue decarbonisation in Europe. BSP sets out below its key recommendations regarding the design of the EU ETS beyond 2030 and the conditions for its continued operation from the perspective of European industry.

I. Trajectory for reducing the supply of allowances and the LRF: ambition must go hand in hand with predictability

Aligning the EU ETS with EU climate objectives must also ensure predictable costs and investment conditions. The Commission's proposal to lower the linear reduction factor (LRF) beyond 2030 confirms that the trajectory established under the Fit for 55 package would lead

to an excessively rapid reduction in the supply of allowances and would not provide a sufficient basis for the continued operation of the EU ETS in the 2040s. The adjustment proposed by the Commission should therefore not be regarded as additional flexibility for industry, but rather as a necessary adaptation of the system to the realities of residual emissions, investment needs and the continued operation of energy-intensive and hard-to-abate sectors.

This does not mean, however, that the proposed LRF levels are sufficient. In particular, an LRF of 3.7% in 2031–2035 would continue to place significant cost pressure on energy-intensive and hard-to-abate sectors, limiting their ability to finance decarbonisation investments in the EU.

In our view, a **further flattening of the LRF trajectory beyond 2030 is necessary**. One possible solution would be to reverse the trajectory proposed by the Commission, applying a lower LRF in the first half of the 2030s and increasing the pace of reductions only in the second half of the decade, for example, 1.7% in 2031-2035 and 3.7% from 2036 onwards.

Alternatively, consideration should be given to a more stable trajectory, with LRF values in the **range of approximately 2.2-2.5%**, avoiding abrupt changes in the rate at which the supply of allowances is reduced. The final trajectory should take into account the actual availability of technologies, infrastructure, low-carbon energy and financing, as well as the competitive position of European industry.

At the same time, we support ensuring the **greatest possible flexibility in achieving climate objectives**, including maintaining a mechanism for the use of high-quality international carbon credits. However, the availability of such credits should not automatically determine the LRF level.

II. Free allocation, CBAM and carbon leakage: protection must remain effective

Effective safeguards remain essential for the transition of energy-intensive and hard-to-abate sectors in Europe. The extension of free allocation of allowances and indirect cost compensation beyond the current period should be regarded as an important element of the Commission's proposal, as companies covered by the EU ETS will continue to face regulatory costs that their competitors outside the EU do not bear to the same extent.

- **CBAM should complement, rather than replace, EU ETS protective measures**

CBAM should complement existing measures to protect industrial competitiveness. Together with free allocation and indirect cost compensation, it addresses different types of risks. CBAM partially offsets the cost advantage of imports on the EU market, but it does not protect EU exports, does not cover all downstream products or indirect carbon costs embedded in electricity prices, and remains vulnerable to circumvention. It therefore does not ensure a fully level playing field between EU producers and their competitors outside the EU.

In our view, the phase-out of free allocation for the production of goods covered by CBAM should be discontinued, and the CBAM factor should be maintained at 100%, meaning that free allocation would not be further reduced as a result of a product falling within the scope of CBAM. Alternatively, the phase-out of free allocation should be suspended at least until the end of 2030, particularly for fertiliser products. Any further reduction in protection for sectors exposed to the risk of production relocation outside the EU should be linked to the demonstrated effectiveness of CBAM in practice, including its impact on the competitiveness of EU producers, value chains, exports and global emissions.

The stability and predictability of CBAM as an instrument linked to the EU ETS are also of particular importance. Changes to its scope or application should not be introduced arbitrarily or weaken the protection of sectors facing high costs under the system. This is particularly relevant for energy-intensive industries of strategic importance to EU value chains, food security, raw materials security, industrial security and the automotive sector. It should be noted that European producers bear EU ETS costs embedded in the prices of energy, steel and aluminium, while imported components, battery cells and finished vehicles are not subject to equivalent CBAM costs.

- **Free allocation should retain its primary protective function**

The Commission's proposal to make full free allocation conditional on the submission of a decarbonisation investment plan, investment expenditure equivalent to the full value of the allocation, and the achievement of a "significant" reduction in emissions would fundamentally change its function. An instrument designed to protect against carbon leakage would thus be transformed into a quasi-investment voucher. Requiring investment expenditure equivalent to 100% of the economic value of free allocation would, in practice, make full protection against carbon leakage conditional on the implementation of investments.

In our view, the **new conditionality for basic free allocation should be abandoned**. However, if the link between part of the allocation and the implementation of decarbonisation investments is maintained during the negotiations, **conditionality should apply exclusively to additional allowances allocated above the basic level of free allocation**. Such an approach could take the form of an additional investment incentive mechanism, under which eligible decarbonisation investments would be rewarded with additional free allowances, without reducing the basic allocation intended to protect against carbon leakage.

Companies should not lose the protection provided by free allocation due to barriers beyond their direct control, such as a lack of access to adequate infrastructure, low-carbon energy, technologies, financing or grid connection capacity. This is particularly important for hard-to-abate sectors and installations where a significant share of emissions consists of process emissions that cannot currently be eliminated. A uniform requirement to achieve a "significant" reduction in emissions could, in the case of such installations, effectively require

the deployment of carbon capture and storage (CCS) or a reduction in production within the EU.

- **Compensation for indirect emission costs should be maintained beyond 2030**

Maintaining effective indirect cost compensation beyond 2030 is of critical importance. These costs arise from the impact of the EU ETS on electricity prices and are particularly significant for energy-intensive sectors competing in global markets while facing high energy, emission and decarbonisation investment costs. CBAM does not address this problem, as it does not compensate for CO_2 costs passed on to industrial consumers through electricity prices.

As long as EU ETS costs continue to affect electricity prices, indirect cost compensation should remain available to sectors exposed to carbon leakage. Access to such compensation should not be made conditional on additional investment requirements relating to factors beyond the control of industrial electricity consumers. This applies in particular to sectors such as fertilisers, chemicals, non-ferrous metals and other energy-intensive industries, where electricity costs represent a significant share of production costs.

Protection against the relocation of production and emissions outside the EU must remain effective for as long as EU companies face higher regulatory costs than their competitors outside the Union. Free allocation, indirect cost compensation, benchmarks and CBAM should be designed as complementary instruments rather than substitutes for one another.

III. Benchmarks should reflect the real technological capabilities of sectors

Key shortcomings of the current methodology

The current fallback benchmark methodology raises concerns about the scale of reductions, the representativeness of the reference group and the suitability of common benchmarks for diverse industrial processes.

Regulation (EU) 2026/1412 applied a maximum annual reduction rate of 2.5%, calculated over the period from 2008 to the midpoint year of the allocation period, namely 2028. This resulted in a 50% reduction in benchmark values compared with those applied in 2013–2020, bringing them to approximately 31.2 EUA/TJ for heat and 28.1 EUA/TJ for fuel. The tightening of parameters that directly affect the level of free allocation may lead to higher operating costs and further undermine the competitiveness of EU industrial producers, which operate as price-takers and cannot freely offset rising EU ETS costs by increasing the prices of their products.

The representativeness of the reference group is an issue for both product benchmarks and fallback benchmarks, as their values are determined on the basis of the performance of the 10% most efficient installations. If this group does not represent a significant share of the

production volume or activity level covered by a given benchmark, individual installations with atypical characteristics may disproportionately influence its value, even though they are not representative of the bulk of production.

In the case of fallback benchmarks, this risk is further exacerbated by the considerable diversity of industrial processes. The group of most efficient installations may include facilities using biomass or operating processes with lower temperatures and lower emission intensities. Such emission levels may be unattainable for many energy-intensive industrial processes due to technological, infrastructure or product quality constraints.

Greater transparency is needed in selecting installations and data used to set benchmarks, including the criteria for including or excluding installations from the reference group.

Directions for reform

The Commission's proposed adjustment of the heat and fuel benchmarks does not address all the problems associated with determining the level of free allocation. Product benchmarks, fallback benchmarks and potential sector-specific benchmarks should take into account actual differences between industrial processes, including operating temperatures, the nature of feedstocks and raw materials, product quality requirements, the share of process emissions, the availability of alternative fuels, infrastructure and technologies, as well as the actual potential for emissions reductions.

The reference group should therefore comprise not only the 10% most efficient installations but **should also represent at least 10% of the EU production volume of the relevant product or**, where production volume is not an appropriate measure, **at least 10% of the corresponding activity level**.

Sector-specific heat and fuel benchmarks may provide an appropriate solution where general benchmarks do not reflect the actual technological capabilities of a given sector. Their introduction should depend on the availability of representative sector-specific data, while their **methodology, scope and values should in each case be developed in close consultation with the industry concerned**.

This approach should not be applied automatically to all sectors. In industries characterised by significant diversity in raw materials, technologies and production processes, where it is not possible to establish a representative sector-specific benchmark, the option of applying fallback heat and fuel benchmarks should be retained. This applies in particular to the non-ferrous metals sector.

- *Specific characteristics of the non-ferrous metals sector and sector-specific benchmarks*

The application of product benchmarks or potential sector-specific fallback benchmarks faces structural limitations in the non-ferrous metals sector. This is primarily due to the wide variety of products and significant differences between individual metals and production

processes. Defining benchmarks for individual non-ferrous metals or NACE codes would raise the issue of an insufficient number of installations available to establish a representative benchmark. Production may rely on both primary raw materials (ores) and secondary raw materials (recycled materials), with substantially different emission intensities across these processes. A sector-specific fallback benchmark would not adequately reflect these differences and would systematically favour or disadvantage certain forms of production.

In the case of the non-ferrous metals sector, the existing application of fallback heat and fuel benchmarks should therefore be maintained. Introducing sector-specific fallback benchmarks, particularly where representative data are limited, could lead to excessive complexity, fail to adequately reflect differences between production processes and create unintended barriers to the use of secondary raw materials and the development of a circular economy.

- *Scope of exclusions*

Further clarification is needed regarding the **scope of exclusions from the proposed adjustment of the heat and fuel benchmarks for activities covered by NACE codes 0610, 0620, 19.20 and 4950**. Refineries remain on the carbon leakage list and are of strategic importance for security of supply and the functioning of the EU economy.

In our view, this exclusion should be removed and the activities concerned should be covered by the adjustment mechanism. Excluding these activities from the additional mechanism may be inconsistent with the objective of strengthening protection against the loss of competitiveness. If the exclusion cannot be removed entirely, **it should be limited to the relevant sub-installations or the corresponding share of the activity level, rather than automatically applying to entire integrated installations.**

Such an approach would enhance proportionality and legal certainty, reduce the risk of inconsistent treatment of operators across Member States and prevent situations in which the level of free allocation depends on the organisational structure of an installation rather than on the activities actually carried out.

IV. Financing the transition: EU ETS revenues should be channelled back to the sectors covered by the system

The Commission's July proposal confirms that the EU ETS should not only impose costs but also finance the transition of covered sectors. Since industry bears a significant share of EU ETS costs and accounts for a substantial proportion of emissions covered by the system, a greater share of EU ETS revenues should be channelled back, on a stable and predictable basis, to the sectors bearing these costs and undertaking decarbonisation investments.

At the same time, we oppose the allocation of part of EU ETS revenues to the EU budget through the system of own resources. These funds should remain dedicated to financing the transition of sectors bearing EU ETS costs and should, to the greatest extent possible, be channelled back to the sectors from which they originate.

- **EU ETS revenues should support the sectors bearing the costs of the system**

Auction revenues should primarily be directed towards investments in installations and EU ETS sectors, particularly energy-intensive and hard-to-abate sectors, supporting the implementation of the Electrification Action Plan presented by the European Commission on 17 July 2026. Support should be provided in a **technology-neutral manner and cover projects delivering measurable emission reductions,** including infrastructure modernisation, improvements in energy efficiency, electrification, the deployment of energy storage facilities, emissions reductions at source and the deployment of low-carbon technologies.

Financing should cover not only capital expenditure (CAPEX) but also operating expenditure (OPEX), as in many sectors the barrier to the transition lies not only in the cost of constructing or modernising installations, but also in the subsequent operating costs of emissions-reducing solutions.

The allocation of national ETS revenues to the decarbonisation of installations covered by the system should take the form of a **mandatory support mechanism for sectors bearing EU ETS costs**, rather than merely a statement of policy intent. Member States should establish a **dedicated national fund or an equivalent ring-fenced financing mechanism**, funded by a share of revenues from allowance auctions and earmarked for the decarbonisation of installations covered by the EU ETS. This mechanism should ensure transparent, predictable, non-discriminatory and technology-neutral access to financing for both CAPEX and OPEX.

This mechanism should not be limited to stationary installations. It should also cover the aviation sector, ensuring that part of the revenues generated by EU ETS Aviation is allocated to projects aimed at reducing emissions from aviation. This applies in particular to investments and measures supporting the decarbonisation of air carriers' operations and the deployment of technologies and fuels enabling sustained emission reductions.

Financing should also cover the infrastructure necessary to enable industrial installations to undertake decarbonisation investments. Member States should designate entities responsible for developing CO_2 transport and storage infrastructure and ensure transparent conditions for accessing it. EU ETS revenues should be available to finance both the capital expenditure associated with constructing this infrastructure and the costs necessary to ensure its operation.

- **Financial instruments should ensure rapid and predictable access to support**

The Industrial Decarbonisation Bank, ETS Investment Booster, Innovation Fund and Modernisation Fund could significantly strengthen financing for industrial decarbonisation. Their effectiveness will, however, depend on how they are implemented. These instruments should be administratively simple, fast, predictable, technology-neutral and accessible to large-scale industrial projects across different Member States.

Ensuring geographically balanced access to financing is particularly important. The support system should not favour projects exclusively from Member States with better access to capital, greater fiscal capacity or more developed infrastructure. The Industrial Decarbonisation Bank should therefore include a **mechanism guaranteeing an appropriate share of funding for individual Member States**. The allocation of funds should take into account the share of industry in the economy, the scale of decarbonisation needs and the fiscal capacity of each Member State.

- **Key rules governing new instruments should be set out in the Directive**

However, the proposal leaves a substantial part of the key rules governing the Industrial Decarbonisation Bank and ETS Investment Booster to be determined through future delegated acts. Given their strategic importance, the fundamental rules on governance, project eligibility, beneficiary selection, geographical allocation of funds and financing of CAPEX and OPEX should be laid down directly in the Directive. This is particularly important for Member States with more limited fiscal capacity and weaker access to capital. Delegated acts should be limited to technical and procedural matters.

V. Aviation: SAF and CORSIA require particular caution

- **CORSIA as the reference framework for international aviation**

The legislative process should ensure that changes to the EU ETS framework for aviation are consistent with CORSIA, do not result in double burdens on air carriers, and support the effective decarbonisation of aviation through accessible and adequately financed technological solutions. **CORSIA should remain the sole global market-based mechanism**. We oppose the extension of the EU ETS to flights departing from the European Economic Area (EEA) to airports in third countries located within 5,000 km of Frankfurt Airport. Such an extension would impose additional costs on European air carriers without adequately improving competitive conditions vis-à-vis airlines operating from hubs outside the EU, particularly in the Middle East and Türkiye. These carriers operate a significant share of their services on routes outside the scope of the EU ETS, which could further exacerbate cost asymmetries between EU and non-EU airlines.

The stop-the-clock mechanism must also be extended before the end of 2026. Otherwise, the obligation to apply the EU ETS in its full scope to flights between the EEA and third countries would automatically be reinstated, creating significant regulatory uncertainty.

The proposal should also clearly specify how costs incurred under CORSIA are to be deducted from EU ETS obligations. The mechanism should be transparent, uniform and prevent double charging for the same emissions.

- **SAF requires substantial support, not merely additional obligations**

Support for sustainable aviation fuels (SAF) should be significantly strengthened and financed through revenues generated by EU ETS aviation. A share of national revenues allocated to the decarbonisation of EU ETS sectors, corresponding to aviation's percentage share of EU ETS auction revenues, should be earmarked for the decarbonisation of the aviation sector. Support should be directed towards projects contributing to the decarbonisation of air carriers, including the use of SAF, the development of e-fuels, fleet modernisation, aircraft retrofitting, electric and hydrogen technologies, route optimisation and reductions in fuel consumption during ground operations.

In our view, the number of additional allowances allocated to support aviation should be increased to 500 million and made available as early as 2027. Financing should cover two complementary areas: direct support for air carriers and operational infrastructure, and support for SAF producers and the European value chain.

The SAF support system should be designed in a neutral manner and be accessible to air carriers operating from different hubs. Access to support should not be conditional on the place of SAF production or the origin of the feedstocks used, provided that the fuel meets equivalent sustainability requirements and is subject to reliable verification. Airlines cannot control where SAF is produced. Incentives to develop SAF production in Europe should be directed towards fuel producers rather than implemented by restricting air carriers' access to support mechanisms.

The proposal should also establish a **fully operational book-and-claim system**, with a clear implementation timetable, harmonised certification rules and safeguards against double counting of emissions reduction benefits.

- **Non-CO_2 climate effects and contrails require reliable standards**

EU ETS compliance obligations should not yet cover aviation’s non-CO_2 climate effects. Any decision in this regard should be preceded by the establishment of a common, scientifically sound and verifiable methodology for monitoring and accounting for these effects.

We also do not support allocating part of the pool of allowances intended to support SAF to reward contrail avoidance until clear guidelines, common models and reliable standards for verifying the effects achieved have been established. Any support for providing operational data, such as flight trajectories and fuel consumption, should constitute a separate mechanism and should not reduce the pool allocated to SAF.

About BSP

Business & Science Poland (BSP) combines the experience of leading Polish enterprises with the European Union's agenda. We represent the knowledge and interests of Polish companies employing over 280,000 people in Poland, the EU, and worldwide. Our goal is to support the EU Single Market, taking into account the need for its responsible and effective transformation.