

Position Paper

Plastics Europe's Position on the EU ETS Review

Plastics Europe calls for an EU ETS revision that preserves Europe's industrial competitiveness while maintaining the system's role in reducing emissions. The reform must provide effective carbon leakage protection, maintain free allocation where no proven equivalent alternative exists, and align the phase-out of allowances with the real availability of enabling conditions for industrial decarbonisation, including affordable industry low-carbon hydrogen, decarbonised electricity, energy-grid capacity, CO₂ infrastructure, lead markets and customer willingness to pay. Without these conditions, higher ETS costs risk accelerating declining industrial activity, reduced investment and offshoring rather than delivering additional climate benefits. Plastics Europe therefore calls for the following measures to be included in the ETS revision:

- Maintain free allocation without further tightening of benchmarks or additional conditionalities;
- Realistic calculation of benchmarks that take into account actual industrial realities;
- Feasible cap trajectory aligned with enabling conditions for a decarbonisation pathway;
- Keep free allocation until a proven CBAM becomes a workable solution for plastics;
- Channel a major part of ETS revenues back to covered sectors;
- Recognise the role of non-permanent carbon storage to enable bio and CCU based plastics;
- Include municipal waste incineration under the scope of the ETS.

The Commission's proposal for the ETS review, published on July 17, 2026, is a step in the right direction to contain the net cost of Europe's GHG trading system for industry while at the same time maintaining its pivotal role in controlling emissions. However, it is not sufficient.

Since its inception, the EU ETS has reduced emissions in the power sector by creating economic incentives for decarbonisation. Its impact has been much weaker in trade-exposed and hard-to-abate sectors, where rising competitiveness pressure and more demanding reduction targets reveal the limits of the current architecture. An industry losing market share¹ and investment cannot decarbonise at scale; higher ETS costs, without adequate safeguards and enabling conditions, risk shifting production and emissions outside Europe. The Commission's EU ETS review proposal addresses some concerns, but further improvements are needed to align the system with industrial realities while safeguarding its effectiveness in reducing greenhouse gas emissions.

¹ According to Plastics Europe yearly publication on industry data, [Plastics the Fast Facts 2025](#), European production of plastics as a share of global production has fallen to 12% in 2024, down from 22% in 2006. European plastics production has declined by 12.4% since 2018 and remains at its lowest levels in two decades.

Effective protection against carbon leakage

Since the establishment of the EU ETS, free allocation has been used to support the transition of energy-intensive industries to carbon pricing while mitigating the risk of carbon leakage in sectors exposed to international competition. We welcome that the Commission is taking steps to maintain and – compared to previous plans – strengthen this instrument. However, the current proposal is not enough. To maintain production in Europe, Plastics Europe asks for the following:

- **Realistic calculation of benchmarks:** Benchmarks need to address the significant variety of processes and circumstances, e.g., different technologies for the same product or varying degrees of electrification. They should also consider to what extent the further roll-out of certain low-carbon technologies is restricted by, e.g., resource limitations². This is particularly true for the fallback benchmarks for heat and fuel. Plastics Europe is very concerned about the recently proposed drastic cut to those fallback benchmarks for the period 2026-2030. Those calculations were dominated by few plants that are not representative as they have access to certain resources that are not available to the bulk of installations³. Even the latest improvement that was published as a separate proposal foresees a reduction of those fallback benchmarks by more than one third; these benchmarks do not reflect what is realistically feasible for many operators that rely on free allocation to remain competitive with global competition.
- **Free allocation beyond 2030 is crucial for the plastics industry:** CBAM remains unproven for the chemical value chains and cannot currently provide equivalent protection for our sector⁴. Realistic and widely representative assumptions and models as well as transparency will be crucial for fallback benchmarks, and other benchmarks should not be further tightened.
- **Realistic cap trajectory aligned with enabling conditions:** The ETS cap trajectory must remain aligned with the pace at which enabling conditions for industrial decarbonisation become available. For many energy-intensive industries, affordable low-carbon energy, CO₂ transport and storage infrastructure, hydrogen networks and other critical technologies remain outside operators' control and are progressing too slowly to support the current trajectory. This creates a widening gap between regulatory requirements and feasible investment pathways, increasing the risk of carbon leakage. Plastics Europe recognises that the Commission's proposal would ease the linear reduction factor to 3.7% from 2031 to 2035 and 1.7% from 2036, but this is unlikely to be sufficient to prevent significant offshoring of

² Examples include the use of biomass or waste heat from neighbouring processes. Both have a significant potential to reduce direct emissions, but their use is subject to local availability of these resources.

³ As above

⁴ See also our [Position Paper on CBAM](#).

industrial activity. In addition, the role of international credits and carbon removals should be clarified urgently to reduce investment uncertainty.

- **No conditionality on free allocation:** Plastics Europe is very concerned about plans to extend conditionality to all free allocation under the EU ETS. While we support the objective of accelerating industrial decarbonisation, we believe the proposed mechanism will increase investment risk while failing to address the main barriers to investment.
 - **The proposal does not address the key barriers to industrial decarbonisation.** In many sectors, investment decisions are constrained by high energy and natural gas costs, limited demand and willingness to pay for low-carbon products, insufficient enabling infrastructure, and lengthy permitting processes. Making free allocation conditional does not solve these challenges.
 - **The proposal increases investment risk.** Companies may commit significant capital to decarbonisation projects but still risk losing part of their free allocation if expected emissions reductions are not achieved. In many cases, this may be due to factors outside the operator's control, such as delays in permitting, lack of access to affordable low-carbon electricity, insufficient CCS infrastructure, or other missing enabling conditions. This uncertainty weakens the business case for investment and may discourage rather than accelerate decarbonisation.
 - **The proposal creates uncertainty around future competitiveness.** Free allocation has historically provided predictability and protection against carbon leakage. Under the proposed approach, access to this protection becomes dependent on factors that are not always within the control of the operator, creating additional uncertainty around future project returns and investment decisions.
 - **The proposal risks unequal treatment and reduced technology neutrality.** Approval of decarbonisation plans and verification of results will inevitably involve interpretation and judgement. This creates a risk of inconsistent implementation across Member States and technologies, undermining confidence and investment certainty.

As a result, the proposal weakens the carbon leakage protection function of free allocation at a time when an effective alternative mechanism is not yet in place. Free allocation should remain focused on its primary role of protecting against carbon leakage during the transition. To speed up decarbonisation, the measures recommended in the following section are much better suited.

In addition to free allocation, Indirect Cost Compensation (ICC) is crucial for an energy-intensive sector like the production of certain polymers. This mechanism should be maintained post 2030, using carefully designed benchmarks.

Creating the enabling conditions

The experience of the past 20 years has shown that the ETS alone is not always sufficient to drive the necessary investments in radically new technological solutions. The following changes are therefore required to create enabling conditions for widespread decarbonisation and ensure the long-term success of emissions trading:

- **Channel ETS revenues back to covered sectors:** Currently, only a tiny fraction of the funds raised from the auctioning of EUAs is used to finance the decarbonisation of the affected sectors⁵. On the other hand, for many installations the current set-up of the ETS leads to net payments for emissions not covered by free allocation, thus reducing the funds available for investments in low-carbon technologies. Channelling back the major part of the money raised through the ETS to incentivise the decarbonisation of covered sectors is crucial for making low-carbon technologies feasible. Therefore, Plastics Europe welcomes the proposed rules that would increase the minimum percentage of ETS auction revenues to be spent on emission reductions in covered sectors but urges even stronger provisions to ensure that a significant part of the funds is used to decarbonise hard-to-abate ETS sectors. In addition, swift and clear implementation is crucial to provide industry with a robust ground for further investment planning and avoid unnecessary delays.
- **Recognition of non-permanent carbon storage in certain products:** The EU ETS currently only recognises the permanent storage of carbon. The climate benefits of non-permanent storage in, e.g., bio- or CCU-based products are not recognised and will lead to a potential double-counting of emissions. The recognition of non-permanent storage is therefore necessary not only for reasons of fairness, but also to enable innovative technologies such as the production of plastics from bio- and CCU (carbon capture and utilisation)-based feedstocks. The Commission proposal would prepare the ground for this; now, the work on the details has to start promptly to allow a rapid development and roll-out of these technologies.
- **Additional measures to support decarbonisation:** Experience shows that while the ETS has been successful in scaling up certain low-carbon technologies, it has in general not been sufficient to drive those breakthrough technologies mentioned above. Therefore, Plastics Europe calls for increased efforts to provide the necessary infrastructure⁶, but also to establish the much-needed lead markets that will in turn create the willingness to pay for low-carbon products; these markets should be underpinned by EU-wide policies that follow the specific recommendations of the EU Critical Chemicals Alliance.

⁵ See, e.g., https://climate.ec.europa.eu/eu-action/carbon-markets/eu-emissions-trading-system-eu-ets/how-do-member-states-use-ets-revenues_en

⁶ Examples include the production, transmission, transport and distribution of low-carbon electricity and green hydrogen, but also installations for the collection, transport and subsequent sequestration or utilization of captured CO₂.

- **Full integration of municipal waste incineration:** For the time being, installations for municipal waste incineration are only required to monitor emissions but not to surrender EUAs. This leads to unfair competition between, e.g., incineration and recycling. Therefore, Plastics Europe welcomes in principle the planned deletion of the scope-exemption of waste incineration installations to level the playing field between different end-of-life technologies and remove incentives for incineration of waste. However, the proposal still has significant room for improvement:
 - There is no need for a phase-in period over four years; this will only weaken the political signal and delay the necessary adjustments in the way wastes are managed.
 - There is limited justification for the foreseen exceptions. The only acceptable criterion should be a national carbon pricing mechanism that subjects CO₂ emissions to costs similar to those in the ETS. The ETS is, and should remain, an instrument to control greenhouse gas emissions, so neither national waste-management performance nor the co-production of certain outputs should determine whether an installation is integrated into the ETS.

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