Measures Supporting the EU Chemical Industry

Context and challenge
The European chemicals industry is facing an acute competitiveness challenge driven by persistently high energy costs and increasing global (and at times distorted) competition combined with European carbon costs. As an energy-intensive sector exposed to international trade, and currently not covered by the Carbon Border Adjustment Mechanism (CBAM), the sector is particularly vulnerable to carbon leakage risks in light of the gradual phase-out of free allocation under the EU ETS. At the same time, demand for sustainable chemical products remains insufficient to underpin a viable long-term business case for costly green investments.

While multiple EU instruments are in place or under development, the current policy mix does not yet adequately address the **urgency, scale, and specific exposure** of the chemical sector. Therefore for the time being targeted adjustments, particularly in the context of the upcoming ETS revision, while keeping the integrity of the ETS in place, could provide timely relief while enabling the sector to transition.

I. Short-term levers (ETS-centered)

1. **Reinforcing carbon leakage protection during the transition period**
   - Assess options to **mitigate the impact of the phase-out of ETS-allowances** (and with that free allowances) for sectors highly vulnerable to carbon leakage, such as the chemical industry. This could include:
     - A more **differentiated allocation approach**, better reflecting actual exposure to carbon leakage. This is a short-term till medium-term intervention, starting as soon as possible, providing relief where it is needed most. We should allow for a **redistribution of free allocation within the existing cap**, without undermining ETS integrity.
     - A reassessment of the **methodology** of the ETS-benchmarks, especially the **fallback benchmark**, which in many cases is currently not feasible to attain for chemical industry. This would prevent the sector from being benchmarked against unrealistic standards.

2. **Investment incentives within the ETS, for ETS-sectors, with ETS-revenues**
   - ETS-revenues should be better utilized to stimulate industrial decarbonisation, especially within sectors with a **high risk of carbon leakage**. ETS auction revenues should be channelled back more directly into **decarbonisation investments**, especially to support industries to decarbonise and become future proof. Special attention is needed for the decarbonisation investments in sectors at risk of carbon leakage.The "**Industrial Decarbonisation Bank**" should focus on capital-intensive decarbonisation projects that boost the **scale up- and commercialization** of clean products and strengthen **circular value chains**.
     [*Further elaboration in the attached "Note – Designing an Industrial Decarbonisation Bank"*]
   - Free allocation within the ETS should be directed more adequately towards installations that invest in decarbonisation. This would include an **ETS-conditionality scheme** that is more **outcome-based** and **investment-oriented**, lowering administrative burdens and increasing effectiveness, to prevent supporting a delayed

exit out of the EU.
[*Further elaboration in the attached "Technical note ETS – strengthening investment incentives"*]

3. **Interaction with Indirect Cost Compensation**
   - Reflect on the **timing and effectiveness of ICC support**, particularly given delayed disbursement (e.g. payments only materialising in later years).
   - Explore whether **additional flexibility** could provide more immediate relief.
   - **Extend** the possibility to give ICC support until after 2030.

II. structural levers (future-proofing the sector)

The Netherlands underlines the importance of the Critical Chemical Alliance in developing concrete and actionable measures to future-proof the chemical sector. The Netherlands furthermore calls for the swift translation of these measures into legislation and targeted policy instruments, in particular:

4. **Market creation for sustainable chemical products (lead markets)**
   - Accelerate development of **EU-level demand-side instruments** (e.g. green public procurement, product standards, quotas or incentives).
   - Ensure **swift legislative uptake** of ongoing work under the Critical Chemical Alliance (CCA) and **coordination with** upcoming legislation (e.g. Industrial Accelerator Act, BioTechAct II, Circular Economy Act, product legislation). In addition, legislative uptake should include potential amendments to already existing (product) legislation.
   - *[Further elaboration needed based on CCA WG4 recommendations]*

5. **Strategic approach to critical chemical value chains**
   - Implement the framework developed by the CCA to **identify and support strategic and critical molecules and production sites** at EU level.
   - Develop more **targeted industrial policy interventions** (investment support, resilience measures) aimed at these strategic and critical molecules and sites.
   - *[To be defined based on CCA WG1 outcomes]*

6. **Trade and level playing field instruments**
   - Strengthen tools to **address unfair competition and global overcapacity**, including faster and more effective trade defence instruments, prioritizing sectors where there is no coverage under the CBAM.
   - Improve **monitoring of import surges** in key chemical value chains.
   - *[Further specification needed – link to ongoing CCA WG2 work]*

Concluding remark
Addressing the competitiveness challenge of the European chemical industry requires a **combination of targeted (ETS) adjustments, while keeping the integrity of the ETS in place, and structural measures to enable long-term transformation**. The upcoming ETS revision provides a key opportunity to deliver relief, while parallel initiatives such as the Critical Chemical Alliance can help build a sustainable and competitive future for the sector.