Transformation conditions currently still inadequate for chemical industry

NO FURTHER TIGHTENING OF BENCHMARKS

The EU ETS directive foresees an update of all benchmarks in EU ETS 1 for the second allocation period (2026 to 2030) of the current trading phase. In our view, these updates are not appropriate given the economic and transformation challenges for European industry.

According to directive 2003/87/EC article 10 a (c) for the period from 2026 to 2030, the benchmark values shall be determined in the same manner as set out in points (a) and (b) of article 10 a on the basis of information submitted pursuant to Article 11 for the years 2021 and 2022 and on the basis of applying the annual reduction rate in respect of each year between 2008 and 2028.

Energy-intensive companies are currently facing extinction on global markets among other factors due to rising CO_2 prices in Europe alone. The cost disadvantage can no longer be offset. We need swift, effective measures that will have a CO_2 cost damping impact in short term. At the same time, the fundamentals for climate-neutral transformation are lacking: climate-friendly electricity and hydrogen are in short supply in most European regions and not available at internationally competitive prices. Industrial CO_2 capture, storage, and utilization are not yet permitted by law. The investment and operational costs for low-carbon technologies and accompanying infrastructure are not competitive. Our companies are fundamentally willing and able to convert their production to climate neutrality, if the above-mentioned hurdles are being removed.

- **As long as the fundamental conditions for transformation are not met, no further tightening of all benchmarks (heat, fuel, product and process benchmark) in EU ETS is essential for our competitiveness.**

Importance of the Heat Benchmark for the Chemical Industry:

Within the EU-ETS directive and its *Free Allocation Rules* the heat benchmark is of utmost importance for the chemical industry. The current heat benchmark for the period 2021-2025 is 47,3 t CO_2/TJ, which has been reduced by 24 % versus the benchmark for the 3trd trading period (2013-2020 / 62,3 t CO_2/TJ).

As far as we understand, the benchmarks will be determined by data collected by the Commission. We therefore like to stress that necessity of the heat benchmark to reflect (a) representative heat production processes, (b) the availability of resources, (c) limited infrastructure and (d) the competitiveness of heat production and of subsequent heat users within the value chain. Updating the heat-benchmark further without taking into account the resource availability would lead to further cost exposure to the industry and their competitiveness without offering realistic scalable option rooms. Therefore, the update should be based on using natural gas as generally available energy input resource for heat

production. This means that within the 10%-best heat producers, biomass and RDF-driven installations and exothermal heat shall not be taken into account. These energy carriers and processes deliver inadequate reference values as those technologies cannot scale on a broader level.
On the technical side, without access to low carbon fuels, it is impossible to achieve the benchmark. The heat benchmark of the third trading period (62.3 EUA/TJ heat) assumed a natural gas-fired boiler with an efficiency rate of 90% (emission factor natural gas: 56 t CO_2/TJ; heat benchmark: 56/0.9 = 62.3 EUA/TJ heat). Natural gas is the most CO_2-friendly fossil fuel (e.g. compared with coal, fuel oil …). Its emission factor cannot be further influenced because it is determined by the composition of natural gas.

Furthermore, we want to address that CBAM will never be relevant for process heat, given process heat cannot be transported over long distances. In conclusion, CBAM will never protect the competitiveness of the whole value chain of the chemical industry.

As the chemical industry at large scale has no sufficient access to fuels with lower CO_2 factors as well as competitive electricity-based technologies for high-temperature heat generation at competitive costs and limited infrastructure, we ask the Commission to at least not further tighten the heat benchmark to secure international competitiveness until the abovementioned situation has materially changed.

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- **Identification no. in the EU Transparency Register: 15423437054-40**
- **The VCI is registered with registration no. R000476 in the Lobbying Register for the Representation of Special Interests vis-à-vis the German Bundestag and the Federal Government.**

The VCI and its sector associations represent the interests of around 2,300 companies from the chemical-pharmaceutical industry and areas related to chemistry vis-à-vis politicians,

public authorities, other industries, science and media. In 2023, the VCI member companies realised sales of ca. 245 billion euros and employed over 560,000 staff.