Position

BDI-Position concerning the proposal of the European Commission to revise the EU ETS1

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With regard to and based upon our common position of 24 June 2026, we hereby respond to the European Commission's 17 July 2026 proposal on the EU ETS1.

1. **We welcome that the ETS1, as a market-based instrument, remains the central tool for achieving climate neutrality beyond 2030**. However, the changes to the system proposed by the Commission on 17 July are not compatible with the realities of industrial decarbonisation, including a lack of widely available CO2 and hydrogen infrastructure, sufficient renewable electricity at competitive prices, the absence of markets for decarbonised products, as reflected in insufficient willingness to pay for such products, as well as international competition from producers operating in and exporting from jurisdictions with far less ambitious climate policy. While framework conditions might go beyond the ETS directive, they are the single most important issue that must be addressed if the ETS wants to continue setting the pace for decarbonisation. Any obligation to decarbonise is only feasible if the necessary technical and commercial conditions are in place. Otherwise, emissions and jobs will be shifted outside the EU, further weakening the European industrial base while adversely affecting the global climate. At the same time, any investment already made or planned in response to a rising carbon price must not be devaluated.

2. **Free allocation remains the necessary response to the immediate risk of carbon leakage and must continue to serve this purpose effectively**. Introducing additional conditionalities as proposed by the European Commission on 17 July would undermine the logic and effectiveness of this instrument and should therefore be rejected. Free allocation is designed to compensate, at least partly, for carbon costs that competitors outside the EU do not face; it is not freely available liquidity for companies and therefore cannot be treated as an investment budget. Against this background, the basic economic principle of "one aim, one instrument" must be maintained. If overall investment conditions were favourable, businesses would already have sufficient incentives to invest in decarbonisation under the current ETS-framework. Firms naturally seek to minimise ETS compliance costs wherever possible. The proposed conditionality therefore does not resolve the root causes of insufficient investment: unavailable infrastructure, non-competitive energy costs and a systematic lack of markets for low carbon products, as well as insufficient OPEX support for higher cost decarbonised processes.

3. **The CBAM is not yet a proven and reliable instrument.** Free and unconditional allocation for CBAM sectors must continue until the instrument's effectiveness has been proven in practice. Considering the persistent challenges surrounding CBAM implementation and the

continued absence of effective solutions for exports, circumvention risks and downstream carbon leakage in particular, the CBAM-related phase-out of free allocation should be slowed down more significantly than currently foreseen. For non-CBAM sectors free allocation should be maintained. A clear, durable and simple CBAM Export Solution would be an essential building block in the instrument landscape, closing a fundamental design gap. A respective instrument would especially need to be coherent with recent EU ambitions to expand trade agreements with global partners. These markets can only be utilized to their full extent if European industry can offer competitive prices to global partners.

4. **Product as well as fallback benchmarks must be achievable for all regulated entities**. Benchmarks therefore need to be defined and updated in a realistic and transparent manner so that early investments in low-carbon technologies are not discouraged and existing installations are not exposed to disproportionate cost increases before viable alternatives, infrastructure and markets are available. Currently the methodology lacks transparency on the underlying data and assumptions as well as the treatment of statistical outliers. An approach merely based on the number of installations is insufficient, and the consideration of output volumes should be assessed as a potential additional dimension for benchmark setting. The calculation of the improvement rate must be reflective of the actual availability and technical viability of alternative energy source, i.e. the availability of biomass; climatic variabilities and other relevant conditions across the EU. It should be recognised that similar or even identical installations operate differently in drier and hotter southern and in colder and more humid northern regions. Consequently, the current approach must be replaced by a methodology that is much more reflective of the different realities for ETS installations.

5. In line with this, the revision must further **ensure that the increase in actual CO2 costs for industrial installations remains economically manageable** during the stepwise transition towards climate neutrality. The decisive issue for companies is not only the CO2 price, but the resulting CO2 cost burden after free allocation, benchmark updates and CBAM-related reductions are taken into account. Changing the ratio between free allocation and auctioning is deemed necessary to accommodate an improved benchmark methodology and to make carbon leakage protection more effective. The cross-sectoral correction factor (CSCF) must not thwart improvements in benchmarks and the CBAM-related phase-out of free allocation.

6. **International credits are an important system component**. While the ETS is now deemed as an important demand-side measure for the market-development, the European Commission should not waste

time and actively support the development of the supply side. The European Commission should in a timely manner resolve the excess of open questions and increase predictability. In doing so, it should recognize the quality standards established under Article 6 without introducing additional EU-specific requirements. Furthermore, international credits should be considered as part of a coherent economic and trade policy of the EU and therefore benefit European technology providers and reliable global partners while giving distinct regard to the needs of sustainable development and incentivising the implementation of effective carbon pricing outside the EU.

7. **Carbon removals are a further important system component, particularly in view of making the ETS future-proof and by providing needed liquidity**. As already recognised by the European Commission, there may be a significant difference between earmarked ETS revenues and the actual cost of capturing and permanently storing an equivalent amount of CO_2. The relevant rules should be designed in a technology-open manner, while the Commission should accelerate the assessment and inclusion of additional removal pathways beyond DACCS and BioCCS. The system should also remain open to innovative solutions that have a similar degree of permanence and integrity. To avoid system integrity issues similar to those experienced with CDM credits, the Commission should resolve outstanding questions timely.

8. The Commission rightly emphasizes the principle that **those paying the carbon price should benefit from the revenues** the system generates. While the proposal introduces clearer priority areas for national ETS revenues, it should be ensured that 100% of those revenues remain ringfenced for energy and climate purposes, with any revenues not used for indirect carbon cost compensation or the defined priority areas, allocated to the list of secondary purposes on a mandatory basis. Furthermore, the proposed reference to the ETS revenues in the Multiannual Financial Framework would transfer 30% of Member States' auction revenues to the EU budget as Own Resources, further reducing the share of ETS revenues available to obliged parties. Clearer spending priorities are welcome but should not come at the expense of the existing level of revenue earmarking or the principle that ETS revenues should support those bearing the system's costs.

9. While the Commission proposes adjustments to the MSR to preserve market liquidity as the cap tightens, the MSR responds to the total

number of allowances in circulation, not to the price. While we welcome the continuation of a quantity-based approach within the MSR, we recommend **a revision of Article 29a as the only price-based safe-guard in ETS1**. Since its inclusion in the Directive, Article 29a has never been activated and is unlikely to be activated in the future, given its narrowly defined scope. This bears a risk that excessive carbon-price volatility disproportionally affects electricity prices, potentially slowing the energy transition. Recent energy crises have shown that disruptions in fossil fuel supply can lead to disproportionate increases and volatility in electricity prices; similarly, excessively high carbon prices could create additional price shocks with adverse impacts on consumers and industrial competitiveness. Reducing the activation factor in Article 29a (e.g., from 2.4 to 1.5) would provide a more effective safeguard against excessive price spikes while not disproportionately depriving ETS1 of its price discovery capability.

10. **Strengthening the international competitiveness of European aviation** should guide all EU aviation policy. The proposal acknowledges that EU climate legislation creates competitive distortion and hub leakage risk, yet it increases the cost burden on the sector through extending the geographical scope (5,000 km). This may trigger retaliatory measures by non-European countries, which might be directed but not limited to the aviation industry and its supply chains, potentially causing significant damage to European industrial competitiveness. The scope extension is therefore rejected. Decarbonizing international aviation requires globally harmonized solutions to create a level playing field between EU- and non-EU airlines. The EU should therefore continue to support CORSIA as the appropriate framework for decarbonizing international aviation. Also, the scope of the ETS1 should be the same for all aviation segments, including business aviation. A dedicated mechanism bridging the cost differences between conventional jet fuel and SAF, such as a SAF Levy or SAF Rebalancing Charge, should be introduced alongside the SAF Allowance scheme. A book-and-claim system for all fuel users that enables the flexible allocation of SAF's environmental benefits while ensuring full traceability and avoiding double counting should complement this.

11. **SAF Allowances should be extended in quantity and continue to support non-European SAF production and HEFA fuels**. Stronger incentives should be provided for RFNBOs and advanced biofuels with special support for SAF produced within the EU and/or using European feedstock. The volume of SAF Allowances should be increased in line with growing SAF demand. The Commission's

proposal to support long-term SAF offtake agreements should be extended to 10 years to ensure adequate planning stability and facilitate SAF production and uptake. A seamless transition to the new regulatory framework must safeguard a level playing field within Europe. The introduction of **SMAP Allowances** for the maritime sector strengthens the international competitiveness of European shippers and promotes the uptake of renewable fuels. Support should extend to non-European production, while maintaining incentives for producers located in the EU and/or relying on European feedstocks. ETS revenues from aviation and the maritime sector must be reinvested and directed towards offtake support for SAF and SMAP. A binding minimum allocation of Member State ETS revenues to aviation and the maritime sector would help to effectively mitigate the cost burden for airlines and shippers.

12. **The extension of the ETS to waste incineration requires a workable framework**. The inclusion of the incineration of non-hazardous waste is welcome in principle, as it establishes a single European framework and creates the conditions for a level playing field. Its effectiveness, however, depends on the specific system features and implementation. Operators of waste treatment installations have no influence on the volume or composition of the waste they receive; a carbon price can only steer behaviour where the costs ultimately reach waste producers, in line with the polluter-pays principle. The proposed opt-out undermines the level playing field the revision is meant to create and should in principle be removed; a time-limited derogation would be justified only for Member States still relying heavily on landfilling, as moving waste up the waste hierarchy remains the priority for these MS. Furthermore, effective measures to incentivise the reduction of landfilling must take effect parallel to the inclusion of waste incineration in the ETS, otherwise waste will be diverted to treatment routes with adverse climate impact. Monitoring rules must be revised before 2031 and adapted to the heterogeneity of waste streams.

The ETS can remain the central instrument for achieving climate neutrality only if its pace is aligned with the economic and technical realities of industrial transformation. Effective carbon leakage protection, revenue-recycling, realistic benchmarks, well-functioning implementation of international credits and carbon removals, and, overall, predictability are essential to ensure both environmental integrity and industrial competitiveness. Most importantly, the success of industrial decarbonisation depends on the availability of the necessary enabling conditions, including infrastructure, competitive energy prices, and markets for low carbon products, supported by effective demand-side measures that create a reliable business case for climate-neutral production. We therefore call on the European Commission and the German Government to ensure that the ETS revision supports both climate ambition and a strong industrial base in Europe. Lastly the Commission should provide an extensive assessment on how the review impacts other sectors' contributions to climate protection and, in any case, shall not postpone the ETS2 any further.