

# Strengthening the global competitiveness of Europe's circularity and bioeconomy sector in the EU ETS

Cepi's position paper on the 2026 EU ETS review

Cepi represents the European pulp and paper industry and gathers, through its 19 member countries, almost 850 pulp, paper and board mills of which some 140 biorefineries across Europe, directly employing about 175,000 people to reach €95 billion turnover in Europe in 2024. Currently, it is estimated that the pulp and paper industry invests over €5 billion annually, primarily in clean energy solutions.

We provide an ever-increasing range of solutions for our customers, other industries, and society at large, in order to meet their needs both today and tomorrow. Our renewable and recyclable wood-based fibre solutions are made in Europe – from sustainably grown forests predominantly European – and recycled in Europe. Building on our position as global leaders in recycling, and tapping into the full potential in extending the life-span of our fresh fibre, we are set to increase recycling even further to boost the circular economy.

We welcome the opportunity to contribute further to the 2026 review of the EU Emissions Trading System (ETS). The European pulp and paper industry fully supports the EU objective to reach climate neutrality by 2050. As active participants in the ETS since its inception, we have already reduced our greenhouse gas emissions by over 50% compared to 2005 levels. **To stay on this path and remain globally competitive, Europe must improve the conditions for doing business – creating a stable environment that positions Europe as a leading global destination for investment.**

**Addressing carbon leakage protection, long-term investment certainty, and innovation support in the upcoming EU ETS review is essential to creating a more effective framework that strengthens the competitiveness of our sector.** Below, Cepi outlines key areas that require the Commission's attention in preparing a legally binding proposal:

**1) Preserving full, risk-free free allocation means preserving global competitiveness of Europe's circularity and bioeconomy sector.** Already in 2008, well before ETS allowance prices reached today's levels, the Commission argued that free allocation on the basis of benchmarks "seems to be a very powerful tool to offset carbon leakage and adverse effects on energy intensive industries."<sup>1</sup> Free allocation enables industries such as the pulp and paper sector to reduce emissions, remain competitive in global markets, and maintain production within Europe. Even when new carbon markets emerge across other global regions, European energy-intensive sectors continue to face higher carbon costs. Therefore, maintaining full, risk-free free allocation beyond 2030 is essential. This approach should include:

- a. Removing the conditionality of free allocation.** Further erosion of carbon leakage protection measures must be prevented. The 2023 EU ETS Directive makes 20% of free allocation

<sup>1</sup> European Commission (2008) *Impact assessment. Document accompanying the Package of Implementation measures for the EU's objectives on climate change and renewable energy for 2020.*

conditional, which risks undermining the effectiveness of carbon leakage protection. Even if installations qualify for a given level of free allocation based on their product benchmark, they may still face increased exposure to carbon costs, already higher than in many other regions, if they lose access to the conditional 20%, heightening the risk of carbon leakage. The absence of a harmonised methodology for energy audits, combined with inconsistencies in assessing climate neutrality plans, risks creating an uneven playing field for installations in different regions.

- b. Freezing updates to benchmark values.** In the pulp and paper industry, carbon emissions stem almost entirely from the combustion of energy sources. As a result, further emission reductions depend not on process efficiency alone, but on access to affordable fossil-free energy, the pace of technological deployment, and the timely development of enabling infrastructure, particularly the reinforcement and expansion of the electricity grid. Frequent benchmark updates risk penalising sectors for factors beyond their control, undermining investment certainty and ultimately their competitiveness.
- c. Ending penalties on decarbonisation efforts involving sustainable biomass.** The 95% biomass threshold must be increased to previous 100% so that installations which are currently nearly emission-free can still receive free allowances to finance their decarbonisation investments. The new threshold distorts competitive balance within the sector. Being excluded from the ETS means losing access to free allowances, which puts companies at a disadvantage in an already highly competitive industry. By excluding companies with a high share of sustainable biomass in their emissions accounting, the EU opens the door to unintended consequences as there may be an incentive to retain or even increase the use of fossil fuels.

As a part of the carbon leakage protection measures, indirect cost compensation will remain necessary after 2030 to protect against carbon leakage. Countries should use the higher limit of 25% for ETS revenue allocation to ensure adequate compensation supporting operational costs and protect industry competitiveness.

**2) Ensuring predictability, stability, and long-term policy horizon means ensuring favourable conditions for investments with long cycles.** Deploying decarbonisation innovations, such as carbon capture installations, and technologies like electrification requires long-term investment in equipment that is expected to remain operational well beyond 2040. Therefore, the 2026 EU ETS review must ensure predictability, stability, and a long-term policy outlook to provide clarity on future operational costs and revenues, while also creating favourable conditions for investments with long cycles.

- a. Creating a stable revenue stream for the carbon removal investments.** The pulp and paper sector's potential to capture biogenic carbon today is estimated at almost 100 Mt/y<sup>2</sup>. As the Commission explores the integration of technology-based permanent negative emissions into the ETS, it must ensure that the new framework delivers a stable and predictable revenue stream to support long-term investments in technological solutions such as carbon capture, utilisation, and storage, extending well beyond 2040.

The European Scientific Advisory Board on Climate Change (ESABCC) finds that “removals are urgently needed to achieve the EU’s climate objectives” and they will “allow the EU to

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<sup>2</sup> Industrial Carbon Management Forum’s Working Group on Carbon Capture & Utilisation (2025) *Report on enabling conditions for industrial deployment of CCU*.

achieve net-negative GHG emissions after 2050.”<sup>3</sup> Therefore, the Commission must ensure that related policy initiatives are aligned, so that the purchasing programme developed under the Carbon Removals Certification Framework is consistent with the proposals of the 2026 EU ETS review and remains operational through to 2050.

- b. Removing the Market Stability Reserve (MSR).** Since becoming operational in 2019, the Market Stability Reserve has been absorbing allowances from the market. However, the Commission realises that “a shrinking cap may impact the functioning of the carbon market, in particular with lower liquidity (possibility to quickly buy allowances) making the market more liable to price spikes.”<sup>4</sup> Therefore, the Commission should carefully evaluate whether the MSR’s purpose will remain relevant in the post-2030 carbon market, taking into account evolving liquidity needs and the potential integration of negative emissions into the system.

In addition, according to the Joint Research Centre, gas-run power plants set electricity prices 55% of the time in 2022, and their price-setting role is expected to remain similarly significant by 2030<sup>5</sup> and beyond. Consequently, as called for by the European Parliament in March 2025<sup>6</sup>, the current design of the MSR must be reassessed to prevent further increases in energy prices, particularly through its impact on allowance costs.

- 3) Supporting innovation and breakthrough technologies means supporting the decarbonisation of energy-intensive production processes.** The Innovation Fund can better support the heat decarbonisation projects. Approximately 70% of our energy consumption is dedicated to generating heat on different temperature levels (100-550°C) to dry paper. Given the geographical and product diversity within our sector, funding should be open to all innovation in decarbonisation pathways, not limited to the electrification solutions.

- a. Supporting process innovation, including marginal improvements.** The current approach, which only recognises improvements below the benchmark, overlooks the significant decarbonisation efforts needed from industries operating above it. This is especially relevant for the pulp and paper sector, where many installations are well above the benchmark and face a substantial gap. Allowing funding for marginal improvements, even when installations exceed the benchmark, would incentivise steady, meaningful progress toward decarbonisation.
- b. Expanding access to smaller industrial installations and projects through auctions.** In preparation for the 2025 pilot auction, which will be a blueprint for the Industrial Decarbonisation Bank, the Commission should consider lowering the eligibility threshold, such as to €5 million, to enable medium-sized and smaller industrial players to participate. Many of our members operate smaller units, for example, around 5 MW thermal capacity. It is also important to ensure that the scoring mechanism fairly balances scale and sectoral differences, fostering equitable access across diverse industrial contexts.

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<sup>3</sup> ESABCC (2025) *Scaling up carbon dioxide removals – Recommendations for navigating opportunities and risks in the EU*.

<sup>4</sup> European Commission (2025) *Open public consultation concerning the review of ETS1*.

<sup>5</sup> Joint Research Centre (2023) *The Merit Order and Price Setting in European Electricity Markets*.

<sup>6</sup> European Parliament (2025) *Motion for a resolution on energy-intensive industries*.