

## Recalibrating the EU ETS before 2030 to safeguard the global competitiveness of Europe's circular bioeconomy

Cepi's call for a targeted reopening of the EU ETS Directive before 2030

Cepi brings together the pulp and paper industries of 19 Member States, representing almost 850 pulp, paper and board mills, including around 140 biorefineries across Europe. Our sector directly employs approximately 175,000 people and generated a turnover of €95 billion in 2024. The industry invests more than €5 billion annually, primarily in clean energy and decarbonisation solutions, and plays a central role in Europe's circular bioeconomy through renewable, recyclable, and locally sourced wood-based fibre products.

The European pulp and paper industry fully supports the EU objective of climate neutrality by 2050. As participants in the EU Emissions Trading System (ETS) since its inception, the sector has already reduced greenhouse gas emissions by more than 50% compared to 2005. To continue decarbonising while remaining competitive in a challenging global environment, Europe must avoid further deterioration of business conditions.

Without undermining the achievement or integrity of the EU's climate targets, **Cepi calls for a targeted reopening of the EU ETS Directive before 2030 to minimise the risk of carbon leakage and safeguard the competitiveness of Europe's circular bioeconomy.** Below, we outline the key areas where recalibration of the EU ETS is necessary. At a time of worsening economic conditions, we urgently ask policymakers to eliminate ETS design features that increase exposure to carbon costs, impose unnecessary administrative burdens, and penalise decarbonisation investments.

While staying within the agreed ETS cap, we advocate for policymakers to:

- 1) **Freeze the 2021-2025 benchmark values and apply them unchanged to the 2026-2030 period** to avoid benchmark tightening based on outdated assumptions and to preserve investment predictability.
- 2) **Stop the exclusion from the EU ETS based on the 95% threshold in Annex I** to avoid unjustified loss of carbon leakage protection for installations that have been frontrunners in investing in decarbonisation.
- 3) **Recalculate the free allocation share** to ensure sufficient free allocation and prevent non-targeted reductions across sectors.
- 4) **Remove the conditionalities of free allocation** to ensure risk-free effective carbon leakage protection and reduce unnecessary administrative burden.
- 5) **Increase the threshold to exclude small emitters from ETS1** to reduce administrative burden on smaller installations with minimal climate impact.
- 6) **Reduce the Market Stability Reserve intake rate** to avoid artificial tightening of the market and unwarranted increases in carbon costs.

There is a strong case for a targeted recalibration of the framework to safeguard Europe's competitiveness. The industry is effectively caught between the direct costs of the EU ETS and the indirect costs of electricity, demonstrating the need for robust carbon leakage protection as the electricity sector decarbonises. The decisions for the EU ETS for the 2026-2030 period were based on assumptions that neither reflected the reality at the time the EU ETS Directive review was agreed nor current market

conditions. In particular, the Commission's impact assessment<sup>1</sup> assumed a carbon price of €50/tCO<sub>2</sub> by 2030, whereas prices already reached the €75-85/tCO<sub>2</sub> levels in 2025.

**Since 2021, ETS1 carbon prices have consistently exceeded the €50/tCO<sub>2</sub> level assumed in the calibration of the ETS system<sup>2</sup>.** The introduction of the Market Stability Reserve in 2018 contributed to lifting ETS1 carbon prices. Subsequently, the tightening of ETS1, combined with the energy crisis triggered by Russia's war of aggression against Ukraine, pushed average carbon prices to around €80/tCO<sub>2</sub> in 2022-2023. Prices then declined to approximately €65/tCO<sub>2</sub> in 2024, while in 2025 they have so far fluctuated between €60 and €85/tCO<sub>2</sub>. According to the latest report by AFRY for Cepi<sup>3</sup>, the CO<sub>2</sub>-related cost disadvantage between Europe and six other global regions is expected to widen further. Modelling based on five representative paper grades indicates that this cost gap could double between 2025 and 2030.

**Despite some easing since the 2022 peak, energy prices in the EU remain structurally higher than pre-crisis levels, with significant implications for industrial competitiveness<sup>4</sup>.** In 2023, electricity prices across energy-intensive sectors were, on average, around twice their 2019 levels, while natural gas prices, although declining, remained well above historical norms. These increases have substantially raised the share of energy costs in total production costs, contributing to production curtailments, reduced output, and, in some cases, plant closures. EU producers face a persistent cost disadvantage compared to key international competitors in China and the United States, where energy costs are estimated to be at least 20% lower and overall production costs at least 10% lower.

**Evidence from the functioning of the EU wholesale electricity market indicates that the ongoing decarbonisation of the power system will not automatically result in lower electricity prices before 2030<sup>5</sup>.** Fossil-fuelled power plants, gas in particular, are expected to continue setting wholesale prices for the majority of hours, despite a steadily declining share in total electricity generation. While the share of renewable and nuclear generation is projected to increase significantly over the decade, their cost advantages will only gradually be reflected in market-clearing prices. As a result, elevated and volatile electricity prices are likely to persist in the medium term, underscoring the need for policy frameworks that mitigate sustained energy-cost pressures on industry during the 2026-2030 period.

Since virtually all fossil emissions of the pulp and paper industry stem from fuel combustion, access to affordable fossil-free energy is essential for further decarbonising the sector. **Achieving the EU's 2030 climate and energy objectives requires a rapid acceleration of the transition away from fossil fuels towards renewable energy sources.** While the current trend in gross available energy is moving in the right direction, the European Environment Agency<sup>6</sup> indicates that annual reductions must triple to remain on track. To meet the 2030 targets, the share of fossil fuels in the EU energy mix must decline significantly from around 70% in 2022 to approximately 57% by 2030, while carefully managing cost and competitiveness impacts during the transition.

**Investment predictability is essential to enable industrial decarbonisation under the EU ETS.** If a company invested more than €250 million in a single mill when entering the ETS Phase IV (2021-2030) to reach 98% fossil-free production, with a carbon price of around €70/tCO<sub>2</sub> the resulting savings could amount to about €10 million per year, implying a payback period of more than 25 years and clearly demonstrating the absence of windfall profits. The introduction of the 95% biomass threshold for exclusion from ETS1 penalises such early and deep decarbonisation efforts by excluding nearly emission-free installations and removing access to free allowances that are needed to finance further investments. This distorts the competitive balance within the sector and increases regulatory risk, undermining investment predictability.

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<sup>1</sup> European Commission (2021) *Impact assessment. Document accompanying the 2021 proposal for the EU ETS Directive*. SWD(2021) 603 final.

<sup>2</sup> European Commission (2025) *Trends in carbon intensity and the macroeconomic role of the EU Emissions Trading System*.

<sup>3</sup> AFRY (2025) *Global trade developments and carbon cost impacts on the pulp and paper sector*.

<sup>4</sup> European Commission (2025) *Study on energy prices and costs - evaluating impacts on households and industry's costs – 2024 edition*.

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

<sup>6</sup> European Environment Agency (2025) *Renewables, electrification and flexibility for a competitive EU energy system transformation by 2030*.