

# **FEDIL Position on the ETS review**

## **FEDIL Position**

12<sup>th</sup> of October 2026 – VFR

### **1. Introduction**

In this paper, FEDIL provides its key messages in response to the European Commission's 17 July 2026 proposal to review the EU Emissions Trading System (EU ETS). It focuses on four elements particularly relevant to the Luxembourg industry: conditionalities for free allocation, the post-2030 cap trajectory and international credits, aviation, and finally, the use of ETS revenues.

FEDIL and its members support Europe's climate efforts and recognize the EU ETS as a central market-based instrument for industrial decarbonization, while underlining the important role played by other global mechanisms such as CORSIA for aviation. A credible and predictable ETS can provide the long-term visibility needed to plan and finance major industrial investments. At the same time, climate policy must support the EU's broader objectives of competitiveness, resilience and strategic autonomy.

The post-2030 ETS must therefore contribute not only to reducing emissions, but also to reversing Europe's deindustrialization trend and creating the conditions for new industrial investment and production capacity in the EU. Its design must combine a credible decarbonization pathway with the technological, infrastructural and economic conditions that allow existing industries to transform competitively in Europe, and to attract new industrial investors.

### **2. Conditionalities for free allocation (Article 10a (3c))**

While FEDIL shares the objective of stimulating decarbonization investments in Europe, we reject a generalized introduction of additional investment conditionalities for free allocation. Free allocations are first and foremost an instrument to protect installations exposed to carbon leakage. Free allocations should therefore not be treated as an investment subsidy or as freely available liquidity that can be made conditional on additional expenditure obligations. It is not an investment instrument.

Free allocation should also remain clearly distinct from compensation for indirect carbon costs. The two instruments, again, address different sources of carbon-leakage exposure: free allocation mitigates the cost of direct emissions under the ETS, while indirect-cost compensation addresses carbon costs passed through electricity prices. They are therefore complementary and should neither be treated as substitutes nor offset against each other. This is particularly important as industry decarbonises through electrification: the ETS should not penalise a company for moving from direct emissions to electricity-based production by exposing it to higher indirect carbon costs.

FEDIL thus calls for the removal of all forms of new conditionalities because they undermine the carbon-leakage protection function of free allocation while ignoring the obvious lack of enabling conditions for decarbonization in some essential and large parts of the industry.

The fundamental difficulty is that the pace of industrial decarbonization cannot be determined by investment obligations alone. Efficient decarbonization investments depend first on the availability, maturity and scalability of suitable technologies, and on access to competitive low-carbon energy, hydrogen and CO<sub>2</sub> infrastructure, adequate grids and efficient permitting. These conditions differ considerably between sectors, installations and Member States. Where they are absent, withholding free allocation does not create a viable decarbonization project; it merely adds carbon costs to an installation that may have no technically or economically viable alternative. This is particularly problematic for sectors with long investment cycles and substantial unavoidable or hard-

to-abate emissions such as the glass or cement industry. The regulatory framework must therefore distinguish between sectors by their actual decarbonization pathways rather than applying a uniform investment requirement. By contrast, an undifferentiated investment requirement may accelerate disinvestments and carbon leakage in hard-to-abate sectors.

Luxembourg installations illustrate this problem:

- In the **float-glass sector**, furnaces have investment cycles of around 15–20 years. The recently rebuilt (Q3 2023), highly modern float-glass installation in Bascharage, the sector's most modern and least polluting manufacturing site in the EU, cannot simply replace its furnace again during the next allocation period solely to satisfy new investment conditions. Furthermore, large-scale alternatives such as carbon capture, hydrogen, or electricity-based melting are not yet demonstrated at a viable industrial scale. In addition, hydrogen supply and carbon-management infrastructure are not available. Uniform conditions could therefore disadvantage precisely those installations that have recently invested in best available technology.
- A similar issue arises in the **steel sector**. For Luxembourg's electric-arc-furnace route, further decarbonization may involve replacing natural gas with hydrogen. However, members stressed that the principal constraint is not necessarily additional on-site investment (CAPEX). Any such investment plan is first conditional on the timely availability of adequate hydrogen supply infrastructure and, subsequently, on access to sufficient volumes of competitively priced low-carbon hydrogen. Given the current price differential between natural gas and low-carbon hydrogen, operating costs (OPEX) are expected to be a greater challenge than CAPEX for achieving economically viable long-term decarbonization of steel production in Luxembourg. Where structurally higher operating costs are the main barrier to decarbonisation, dedicated instruments such as Carbon Contracts for Difference (CCfDs) may be more appropriate than attaching additional investment obligations to free allocation. In such cases, an obligation to reinvest an amount equivalent to the economic value of free allocation may bear little relationship to the actual investment needs at installation level.

FEDIL's primary position is therefore to encourage the Luxembourg Government to advocate for the **removal of the new conditionalities for free allocation**. If they cannot secure sufficient support for their removal during negotiations, FEDIL's secondary position would be to make the mechanism genuinely workable and sector-specific. This would require, in particular, carve-outs where relevant technologies or enabling infrastructure are not commercially available; recognition of investments already undertaken and of long asset-replacement cycles; appropriate treatment of unavoidable process emissions; and a sufficiently broad definition of eligible expenditure to cover relevant operating costs (OPEX) and industrial enabling infrastructure such as industrial grids. Additional flexibility in allocation could be provided (whilst meeting overarching policy objectives) by factoring in credit for any carbon benefits of products produced. For example, industry data cited by Glass for Europe, concluded that inefficient windows can account for up to 30% of a building's energy loss, making replacement with high-performance float glass a significant decarbonisation measure.

Any remaining conditionality should reflect what an installation can reasonably influence and should not reduce carbon-leakage protection when external technological, infrastructural or economic conditions prevent further emissions reductions.

### 3. Cap trajectory and international credits (Articles 9, 9b and 9c)

FEDIL welcomes the more gradual ETS trajectory proposed for the 2030s, as well as the introduction of international credits and permanent carbon removals as additional flexibilities. The trajectory should reflect the pace at which decarbonization technologies, enabling infrastructure and competitively priced low-carbon energy become available,

allowing industry to plan and finance its transition while maintaining production and investment in Europe. The Commission proposes an LRF of 3.7% from 2031 to 2035 and 1.7% from 2036.

However, the proposed fallback mechanism undermines the predictability the revised trajectory is intended to provide. Under the proposal, the 1.7% LRF from 2036 depends on the availability of sufficient high-quality international credits; if these are not available, the LRF would revert to 2.7%. The availability of such credits will depend on the development of projects and carbon markets in third countries and on the functioning of the envisaged purchasing facility—factors outside the control of EU industrial installations. This external uncertainty should not be transferred to companies making long-term investment decisions in Europe. **FEDIL considers that the 1.7% LRF from 2036 should be maintained regardless of the availability of international credits to preserve investment predictability.**

The EU should also provide clarity on the development of international credits and their interaction with the EU ETS well before 2033, ideally by 2030. International credits can contribute meaningfully to achieving climate objectives cost-effectively, but their eligibility framework should build on the mechanisms and safeguards established under Article 6 of the Paris Agreement and avoid additional requirements that unnecessarily restrict the availability of credible credits. The EU Climate Law already foresees a contribution from high-quality international credits from 2036.

For **2031–2035, FEDIL supports an LRF of no more than 3.7%.** A more moderate reduction of the cap, as suggested by MEPs, would further increase the availability of allowances during a particularly investment-intensive phase of the industrial transition and help contain carbon-cost exposure for installations that continue to purchase a significant share of their allowance needs. Lower reduction rates would provide additional room for European industry to invest, modernize and regain competitiveness internationally, while preserving a declining ETS cap.

FEDIL also supports a clear and predictable framework for **permanent technological carbon removals** within the EU ETS. The framework should provide long-term investment certainty, remain technology-neutral and support the development of the full carbon-management value chain required to deliver permanent removals, including capture, transport and permanent storage.

- The importance of predictability is particularly evident for Luxembourg's **cement industry**: Deep decarbonization will depend substantially on carbon capture, requiring projects with long engineering, permitting and investment lead times, as well as access to CO<sub>2</sub> transport and permanent storage infrastructure. Major investment decisions could therefore coincide with the period in which, under the Commission proposal, the post-2035 trajectory would still depend on the assessment of international credit availability. This uncertainty complicates investment decisions precisely when capital-intensive decarbonization projects need to move toward implementation.

FEDIL therefore supports an LRF of maximum 3.7% for 2031–2035 and a fixed 1.7% LRF from 2036 onwards, regardless of the availability of international credits. International credits and permanent carbon removals should provide additional cost-effective flexibility towards the EU's climate objectives, rather than introduce uncertainty into the investment framework for European industry.

#### 4. Aviation – scope, CORSIA and SAF support (Articles 3c(6), 11a, 25b, 28a and 28b)

FEDIL supports a **global approach to aviation emissions through CORSIA<sup>1</sup> and maintaining the EU ETS's current geographical scope**. This is particularly important for Luxembourg, whose airport is a major European cargo hub competing directly with hubs in the Middle East, Africa and Asia. Measures that apply unevenly across routes and competitors risk shifting traffic rather than reducing global emissions. The following points are critical for Luxembourg's aviation sector.

- **Scope:** FEDIL rejects the proposed **5,000 km extension of the ETS scope from 2029**. The Commission's impact assessment does not provide an objective basis for this specific threshold, which contradicts the principle of proportionality. The distance criterion itself creates competitive asymmetries: For Luxembourg's cargo sector, for example, Addis Ababa, an important competing cargo hub, lies just outside the proposed radius (about 5,350 km from Frankfurt) and profits from additional exemptions.

Stops in Central Asia and the Middle East, which are crucial for Luxembourgish cargo operators, would be covered, whereas non-EU operators flying over Russia from Europe to Asia would receive the double benefit of shorter routes and no ETS coverage. Such a design risks redirecting freight flows through competing hubs rather than reducing aviation emissions. FEDIL therefore believes international aviation emissions should be addressed primarily through the agreed CORSIA framework, rather than an additional EU-specific one.

- **CORSIA:** FEDIL supports **CORSIA as the global market-based instrument for international aviation** and considers that the EU should avoid introducing additional eligibility requirements that go beyond the rules agreed at ICAO level. The aviation sector has raised concerns that such EU-specific criteria would selectively restrict access to CORSIA Eligible Emissions Units for EU carriers only, in a market where supply is already constrained, thereby weakening the level-playing field and the practical functioning of the global scheme. Provisions that add additional EU-only requirements should therefore be removed.

FEDIL therefore considers that EU implementation should support the effectiveness and availability of CORSIA credits, rather than introduce additional constraints that could later lead to the mechanism being assessed as insufficient ahead of the 2032 review proposed by the EU Commission.

- **ETS as a Service:** The aviation sector is concerned that the new proposed "ETS as a Service" scheme is used to bypass ICAO's multilateral negotiations. Furthermore, this proposal could potentially be used to avoid the necessary procedures for the conclusion of international agreements by the EU under the guise of "technical assistance". FEDIL therefore recommends deleting this provision outright.
- **SAF support:** Effective support for sustainable aviation fuels (SAF) is essential if aviation is to meet its decarbonization objectives while remaining competitive. The proposed 110 million allowances until 2040 appear largely insufficient compared with industry estimates of approximately 450-500million allowances required over the same period, with some industry estimates showing even higher requirements.

FEDIL is also concerned about phasing out support for conventional biofuels after 2029, which account for the large majority of SAF available to operators. Further, the EU should avoid outright geographical and technological restrictions on eligible fuels but could instead incentivize EU production and sourcing through bonus support. The support mechanism should remain sufficiently open to allow

---

<sup>1</sup> CORSIA is the "Carbon Offsetting and Reduction Scheme for International Aviation" implemented by the International Civil Aviation Organization (ICAO). All EU member states, including Luxembourg, are participants.

sustainable fuels to scale as quickly and cost-effectively as possible. In particular support for advanced biofuel and eSAF should be increased.

- **Fair competition:** SAF support should preserve a level playing field between EU and non-EU operators. Under the current rules, support is linked to flights for which an operator must surrender ETS allowances. From 2029, the proposal would make SAF support available for all flights departing from EEA airports, including routes that are not subject to an equivalent ETS surrender obligation. FEDIL supports the general principle of the liberalization of the SAF support, which finally aligns the EU ETS support with the ReFuelEU mandate's scope. However, a limitation could potentially be put into place to avoid excessive depletion of available support by non-EU carriers which do not bear the same EU carbon cost.

In particular, several non-EU competitors can continue to use Russian airspace on routes between Europe and Asia, while EU carriers must operate longer routings. ETS-funded aviation support should therefore be designed to contribute to decarbonization without creating additional competitive distortions.

- **Non-CO2:** FEDIL believes the revision of the EU ETS directive should be used to push back the deadline of 31 December 2027 for the evaluation of non-CO2 effects in EU ETS. While the necessary monitoring of such effects was foreseen to start in 2025, the necessary software (NEATS v.3) has only been functional since mid-2026, meaning the evaluation would be based on initial and incomplete data, putting the scientific foundation of the outcome into question. FEDIL recommends moving the deadline to at least end of 2030 or later, to allow for a thorough analysis.

## 5. Use of ETS revenues (Article 10(3))

The Commission proposal would require Member States to direct at least 50% of the ETS revenues under their control to defined priority areas, including industrial decarbonization. FEDIL welcomes this as a significant improvement: according to the Commission, only around 5% of Member States' ETS revenues currently directly support industrial decarbonization.

However, investment needs for industrial decarbonization are substantial, particularly for energy-intensive sectors and the enabling infrastructure on which their transition depends. Particular attention should be given to instruments such as Carbon Contracts for Difference (CCfDs) or equivalent mechanisms that can bridge the operating-cost gap between conventional and low-carbon production routes. For many industrial decarbonisation pathways, the principal barrier is not only the initial investment cost but the structurally higher cost of low-carbon energy, hydrogen or other inputs. ETS revenues should therefore support mechanisms that provide sufficient long-term visibility to operate decarbonised assets competitively in Europe.

This support must also be accessible to small and medium-sized industrial companies exposed to high energy costs. Luxembourg's small and medium-sized companies stress that they often have less financial capacity and fewer specialized resources to develop complex decarbonization projects or prepare demanding applications for EU-level instruments such as the Innovation Fund, the Industrial Decarbonization Bank or the Investment Booster. If adequate support remains out of reach, high energy and carbon costs may erode their capacity to invest and ultimately put industrial activity at risk. Luxembourg should therefore use ETS revenues to provide accessible national support, with proportionate application requirements and proactive assistance, also enabling smaller companies to invest in decarbonisation before financial constraints force them to reduce or cease production.

FEDIL therefore **calls for 100% of Member-State-controlled ETS revenues to remain** earmarked for climate and energy purposes, with a significant share directed to industrial decarbonization and the infrastructure required to support it. ETS revenues should not be diverted to the EU budget as an "EU own resource," as this would reduce the funding available for the industrial transition. Implementation should remain effective at the

national level so that Luxembourg-based projects can access these revenues, with their use clearly **reflected in Luxembourg's PNEC**.

---

**FEDIL - The Voice of Luxembourg's Industry**

|                          |                   |
|--------------------------|-------------------|
| LUXEMBOURG OFFICE        | POSTAL ADDRESS    |
| 7, rue Alcide de Gasperi | P.O. Box 1304     |
| Luxembourg-Kirchberg     | L-1013 Luxembourg |
| T: +352 43 53 66-1       |                   |