ECGA
European Advanced Carbon and Graphite Materials Association

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POSITION PAPER

ECGA Position Paper on the Post-2030 ETS Framework Review

Key recommendations

Objective 1: Improve carbon leakage protection

- Maintain effective free allocation for graphite electrode production and extend indirect cost compensation to 2040, which is currently until 2030.
- Reject investment conditionality based on the full economic value of free allocation; provide workable derogations if conditionality remains.
- Make heat, fuel and process-emissions allocation reflect comparable processes and feasible abatement.
- Ensure CBAM and export safeguards work for covered downstream sectors before withdrawing their protection.

Objective 2: Ensure market stability and predictability.

- Align the allowance trajectory with industrial abatement and remove the automatic LRF fallback linked to international credit availability.
- Preserve and release MSR allowances when needed; remove dynamic tightening and review scarcity and price triggers.
- Remove the mandatory 57% auctioning share and enable controlled use of high- integrity international credits and permanent removals.

Objective 3: Support the business case for decarbonisation

- Dedicate the 50% earmarking to energy-intensive industry and ensure effective access for projects in our sector.
- Provide additional CAPEX and OPEX support through the Investment Booster and Industrial Decarbonisation Bank.
- Use proportionate selection criteria, realistic delivery periods and clear cumulation rules.

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Introduction

ECGA calls for a post-2030 EU ETS that supports competitive industrial decarbonisation and preserves production in Europe. This paper focuses on stationary installations manufacturing graphite electrodes (covered under NACE 23.99), essential consumables in electric arc furnace steelmaking, vital for the decarbonisation of steel in Europe.

European producers compete internationally while facing energy and carbon costs that cannot necessarily be recovered through product prices. Electricity efficiency and early electrification do not remove exposure to carbon costs passed through electricity prices. Further investment depends on affordable energy, grid access, infrastructure, technology readiness and financing conditions that individual installations cannot secure alone.

ECGA supports a predictable framework for reducing emissions while protecting industrial competitiveness. Carbon leakage protection must remain effective throughout the transition. Investment support should make feasible projects bankable, while the allowance market must retain sufficient liquidity for residual emissions. Changes affecting upstream materials should also consider their consequences for downstream customers.

1. Improve carbon leakage protection

Carbon-leakage safeguards must address the carbon costs actually borne by producers and remain effective while commercially viable technologies, affordable energy and enabling infrastructure are being developed.

1.1 Maintain indirect cost compensation beyond 2030

The main competitiveness challenge for producers in our sector in Europe stems from the structurally higher electricity, grid, and system costs compared with competing regions, including the proven impact of ETS carbon costs on European electricity prices. Manufacturers in our sector use substantial electricity for high-temperature processing and graphitisation. Their ability to pass carbon costs through product prices is constrained by international competition, customer contracts and the availability of imported substitutes. Products from our sector do not share a single commodity exchange pricing mechanism.

The extension of ETS Indirect Cost Compensation (ICC) beyond 2030 is therefore an essential step forward to make sure that European producers continue to be partially protected from the indirect carbon costs embedded in electricity prices, thereby enabling electrified industry to be competitive in Europe.

Also, integrating EU Member States' reporting on indirect cost compensation into broader reporting on auction-revenue use under the upcoming amendment to the Governance Regulation is welcome.

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Our proposals

- Extend indirect cost compensation to 2040, with a review beyond that date if material exposure persists. Align the post-2030 ETS State Aid Guidelines accordingly and preserve predictable access for eligible producers in our sector.
- Revise Article 10a(6) to remove the 25% auction revenue reporting threshold as a policy constraint. The threshold should not operate as a spending ceiling where higher compensation is justified by eligible costs. Where compensation is provided, make at least 25% available where justified by eligible needs, with a reasoned explanation for a lower share and safeguards against overcompensation.
- In the future revision of the ETS State Aid Guidelines post-2030, no new conditionality requirements should be added for accessing compensation schemes, and the existing ones should be streamlined to avoid duplication and double reporting on eligible plants in our sector.

In the wider CBAM debate, any proposal to cover indirect emissions must demonstrate equivalent treatment of actual electricity-related carbon costs, including exports and contractual electricity procurement.

1.2 Ensure effective CBAM and export protection

ECGA welcomes the proposed slower phase-out of free allocation for CBAM sectors from 2034 to 2038. However, we believe that this is not enough. Given the ongoing energy crisis and the absence of a clear, demonstrably effective plan to resolve it, these measures should be fundamentally reconsidered. Its effectiveness depends on whether imports bear equivalent carbon costs and whether a durable export solution is available. Investment conditionality must not make EU installations' access to protection more difficult than the adjustment applied to imports.

Our proposals

- Put the phase-out of free allocation for covered sectors on hold until CBAM provides effective carbon-leakage protection and a comprehensive export solution is in place.

Where equivalent protection cannot be provided, free allocation should not be phased out.

- Establish a permanent and legally workable export solution for CBAM sectors, based on verified additional carbon costs and the relevant product-pricing mechanisms. •Assess whether investment conditions create unequal effective carbon costs between EU producers and imports. Test the consequences for downstream demand and upstream suppliers.
- Any future proposal to extend CBAM to upstream and downstream sectors must undergo a separate product-specific legal and economic assessment. It must address emissions boundaries, verification, circumvention, downstream competitiveness and exports. Current policy and funding decisions must not assume that these products are already covered.

1.3 Preserve free allocation as a carbon leakage safeguard

Free allocation conditional on an EU Decarbonisation Investment Plan is at odds with protecting our sector against carbon leakage. From 2031, the Commission proposes to make free allocation conditional on installations preparing an independently verified "Invest in EU decarbonisation plan". For each five-year allocation period, installations would be required to undertake eligible decarbonisation investments in the EU corresponding to at least 100% of the economic value of the free allocation received. The investments would also have to deliver significant emissions reductions at installation level during the relevant five-year period.

Under the proposed mechanism, 80% of the free allocation would be granted following verification and approval of the investment plan. The remaining 20% would be released only after the competent authority confirms that the investments have been implemented, that the required expenditure has been made and that the applicable conditions have been fulfilled.

ECGA supports investment in industrial decarbonisation. However, converting free allocation into an investment mandate can weaken protection where qualifying projects are unavailable, unaffordable or dependent on infrastructure outside the operator’s control.

For certain process emissions, the availability and deployment date of technically mature and commercially viable abatement solutions remain uncertain and differ between installations. Where solutions are available, their CAPEX and OPEX may significantly exceed the economic value of the allowances received. Further, an installation may not have sufficient eligible projects capable of delivering the required emissions reductions within the relevant five-year period, even where it has a credible longer-term decarbonisation pathway.

Where qualifying investment costs exceed ETS compliance costs, operators may forgo free allocation and buy allowances instead. Conditionality can therefore increase carbon-cost exposure without accelerating abatement. Where investment is already commercially attractive, it may add administration without a material incentive.

The possibility to plan and implement an investment in a given technology depends on a set of "enabling conditions" that are in many cases outside the control of the company and vary across Europe. These are, for example, the availability of technologies at industrial scale, the local availability of energy infrastructure and the local availability of renewable energy (electricity, hydrogen, biomethane).

Withholding 20% of allocation creates cash-flow and regulatory uncertainty. Eligible costs, significant emissions reductions and the economic value of allocation require clear definitions. Changes in inputs or product mix also complicate the verification of installation-level reductions.

The carbon leakage protection ensured by free allocation will be weakened and fragmented because the assessment of the plans and the decision of whether to grant the remaining 20% will be made at the discretion of national authorities.

A top 10% exemption must not create arbitrary differences between installations using comparable technologies. Performance rankings can reflect product mix, quality requirements, maintenance cycles and operating disruptions. A narrow ranking does not demonstrate that other installations have access to further feasible abatement. Transparent comparability criteria and protection for other efficient installations are needed.

Investments in material efficiency, recovery and recycling can reduce emissions across the value chain without reducing absolute emissions at the receiving installation. The rules should assess these benefits using consistent and independently verified methods. They must avoid rewarding a reduction achieved only by outsourcing a production stage or penalising a plant that processes more secondary material. Installation-level obligations and wider life cycle benefits must be distinguished transparently.

Our proposals

- Remove the proposed requirement to invest the equivalent of 100% of the economic value of free allocation. Free allocation should remain a carbon leakage safeguard based on representative benchmarks and production, rather than depend on an investment obligation unrelated to available abatement.
- If conditionality remains, provide a workable derogation where an installation demonstrates that commercially viable technology, necessary energy supply, grid capacity or transport and storage infrastructure will not be available within the relevant allocation period. Such installations should retain their full benchmark-based entitlement.
- Maintain protection for efficient and low-emission installations, including early movers, while ensuring that an exemption based on the best 10% is not the sole route for installations with limited feasible abatement. Recognise investments already made and avoid duplicate plans for projects supported by EU instruments.
- Define eligible expenditure, valuation dates, emissions reduction criteria and approval procedures in advance. A clear appeal mechanism and consistent implementation across Member States are essential. External delays should not trigger loss of protection where the operator has fulfilled its own obligations.

1.4 Heat and fuel benchmarks

ECGA calls for a broader review of the free allocation methodology. Benchmark reductions should reflect achievable improvements in comparable processes, including actual technology deployment and the availability of alternative energy carriers. An automatic annual reduction that exceeds demonstrated progress can become an additional cost without creating a feasible investment response.

Graphite electrode production relies on thermal treatment at different temperatures and on processes with specific atmospheric and quality requirements. The ability to electrify a stage or

replace a fuel depends on electricity supply, connection capacity and commercial operating conditions.

A benchmark derived from a broad pool of unrelated installations may therefore require an emissions performance that a particular production stage cannot achieve with available equipment and energy supplies. Biomass, hydrogen, biomethane and electricity must each be assessed for technical compatibility, reliable supply and total cost. Availability in the wider energy system is insufficient evidence that an installation can use them.

Comparability must account for temperature, heat quality, product purity, operating conditions and the physical role of carbon. ECGA supports a horizontal correction for affected users; a sector-specific approach must not delay relief or exclude industries with smaller installation populations.

Our proposals

- Establish a representative methodology based on comparable processes and technically credible abatement. Use verified data and consult affected operators before changing the approach. Publish the rationale, boundaries and distributional effects of any proposed benchmark.
- Provide a transitional safeguard against abrupt fallback allocation cuts that do not reflect feasible abatement. Assess retaining earlier values or another equivalent correction while the revised methodology is developed. Ensure that the solution protects all comparable exposed users.
- Where separate benchmarks are assessed for critical or strategic raw materials, apply transparent product and process criteria and explicitly assess relevant production in our sector. A strategic contribution does not automatically establish legal classification.
- Support any correction with an adequate allowance budget, avoiding an equivalent loss through the cross-sectoral correction factor. Remove the mandatory 57% auctioning share to reduce this risk.
- Retain appropriate protection for eligible residual process emissions, including assessment of preserving the 0.91 allocation factor. Avoid mechanical reductions that presume abatement without evidence of a viable technology or process change. •Assess carbon capture using realistic gas composition, capture rates, transport access, storage availability and energy requirements. Permanent storage of fossil or process carbon is an emissions reduction measure and must be distinguished from atmospheric carbon removal.
- Recognise material efficiency and circular production through consistent verified methods. Avoid double counting and ensure that changes in product mix or installation boundaries do not produce artificial improvements or unjustified allocation losses.

1.5 Protect exporters and exposed production

European producers in our sector serve EU and export markets. Protection must address direct and indirect carbon costs and the extent to which those costs can be recovered through prices.

Our proposals

- Maintain effective free allocation and indirect cost compensation for eligible producers in our sector, including exporters. Assess direct and indirect exposure separately and prevent duplicate compensation.

2. Ensure market stability and predictability

2.1 Align the allowance trajectory with industrial abatement

ECGA supports reviewing the allowance trajectory against technology readiness and the infrastructure needed for industrial abatement. A declining cap must maintain a workable compliance route for residual emissions while preserving the incentive to invest. Otherwise, supply constraints risk reducing European production before feasible alternatives are available.

The proposed LRF is 3.7% for 2031–2035 and 1.7% from 2036, with a possible increase to 2.7% linked to international-credit availability. These parameters must be assessed together with the cumulative allowance budget, reserve rules and compliance flexibilities.

ECGA calls for scenario analysis covering industrial demand, residual emissions, electricity-related carbon costs and alternative deployment schedules. The review must test whether changes preserve both adequate market liquidity and the EU climate objectives, including under delayed infrastructure delivery.

Under proposed Article 9b, the Commission would assess international-credit availability by 31 January 2033. Linking the trajectory from 2036 to this assessment creates uncertainty for investments with long lead times. The interaction between the credit volume envisaged for ETS and the wider Climate Law flexibility also requires explanation.

Our proposals

- Given the severe challenges currently facing European industry, the proposed sequencing should be reversed: an LRF of 1.7% should apply from 2031 to 2035, with the higher rate of 3.7% taking effect only thereafter. This would give industry essential time to stabilise, restore its competitiveness and rebuild the investment capacity needed for decarbonisation, subject to an assessment of the cumulative emissions budget and consistency with the EU climate framework.
- The fallback rule related to the availability of cost-effective, high-quality international credits and the possibility to automatically increase the LRF back to 2.7% from 1.7% from 2036 should be removed. It could mean that the ETS cap reaches zero several years earlier than otherwise planned. This creates significant uncertainty for the operating conditions of the ETS industry, as the likelihood of triggering the rule is very hard to forecast.
- Any future adjustment of the LRF should be made through the ordinary legislative procedure, following a comprehensive assessment of technology readiness, infrastructure availability, competitiveness, carbon leakage and the availability of other compliance flexibilities.

- The Directive should allow for more regular reviews that may adjust the trajectory gradually, while avoiding abrupt reductions in the remaining allowance budget.

2.2 Adapt the Market Stability Reserve

ECGA welcomes the proposal to halve the MSR intake rate from 24% to 12% from 2028. This responds directly to our concern that a mechanism designed to address historical oversupply should not continue removing allowances at the same rate as the market moves towards structural scarcity.

We also welcome the proposal to end the invalidation of allowances held in the MSR. Preserving these allowances can create a buffer for future scarcity and market disruption.

However, ending invalidation will have little stabilising effect unless allowances retained in the reserve can be released back into the market in a timely and predictable manner.

The Commission proposes that, from 2029, the MSR intake and release thresholds, and the standard release volume, decrease by 4% annually. The lower release framework would start with a 400 million allowance threshold, a lower buffer of 300 million and a release volume of 100 million allowances. While intended to reflect a shrinking market, progressively lowering the release thresholds risks making the MSR less responsive precisely when scarcity and liquidity constraints become more acute.

Our proposals

- The lower 12% intake rate as of 2028 is welcome and should be maintained. It will help avoid disproportionately high withdrawals as the number of allowances in circulation declines.
- The 4% annual reduction of the MSR thresholds, buffers, and release quantity should be removed. This newly introduced "dynamic" reduction would progressively tighten the market, de facto offsetting the benefits of other measures intended to address future allowance scarcity and liquidity concerns.
- The 400 million TNAC lower threshold should be increased. With allowance availability expected to decline substantially over time, an increased lower threshold – for example around 700 million allowances – should be considered to ensure sufficient market liquidity.
- Make the end of allowance invalidation a structural feature of the post-2030 MSR. Preserve the reserve as a buffer against scarcity and disruption.
- The MSR must be allowed to return allowances to the market in case of scarcity.

Preventing further invalidation is important but insufficient on its own. The MSR must also enable the timely release of allowances when market conditions require it, e.g., to contain excessive price increases, avoid triggering the CSCF, replenish the New Entrants Reserve. The proposal should be amended to clearly provide for this possibility.

2.3 Strengthen the response to excessive price increases

Article 29a should respond more effectively to future market conditions. A 2.4-times price trigger, assessed over six months against a two-year reference period, risks delaying intervention when price increases undermine industrial competitiveness.

Our proposals

- Review the trigger and assessment periods to enable a timely and predictable response to excessive carbon-price increases.

2.4 Allow controlled direct compliance with international credits

The proposal represents an important recognition that high-integrity international credits can complement domestic action and provide additional flexibility. Proposed Article 9b would set aside and auction up to 260 million EU allowances to finance the central purchase of up to 260 Mt of international credits for the period 2036–2040. The credits would have to meet the safeguards established under the European Climate Law, including additionality, avoidance of double counting, permanence, robust monitoring and respect for environmental and human-rights standards. The European Climate Law also provides that Article 6 credits may contribute up to 5% of 1990 EU net emissions from 2036.

However, the proposal does not allow ETS installations to surrender Article 6.4 credits directly for compliance. Instead, credits would be purchased centrally and cancelled, while the corresponding adjustment is reflected indirectly through the lower LRF. This only partially addresses ECGA's concerns. It does not give hard-to-abate installations a targeted compliance option linked to their residual emissions, and it makes the entire cap trajectory dependent on the availability of the full anticipated credit volume.

Our proposals

- The Directive should establish limited, phased and carefully controlled compliance flexibility based on high-integrity Article 6.4 credits, restricted to demonstrably unavoidable residual process emissions where no technically available, infrastructure-ready and economically viable domestic abatement option exists. Eligibility to be subject to strict EU quality, additionality, accounting, MRV, permanence and sustainability criteria, with full corresponding adjustments to prevent double counting.
- Quantitative limits to be differentiated where appropriate according to sectoral abatement potential and restricted to residual emissions for which commercially viable domestic abatement solutions are not available.
- A pilot phase before 2036 so that methodologies, bilateral arrangements, registries and purchasing channels can be tested before international credits are expected to affect the ETS trajectory.

2.5 Widen access to permanent carbon removals

The integration of carbon removals into the ETS remains too narrow in scope. We support the Commission's clear commitment to integrate 250 Mt of domestic permanent carbon removals into the EU ETS. While this commitment provides some certainty to help scale up the market, it does not fully respond to the Commission's objective of creating additional "emissions space" for ETS sectors, as the direct benefits of such integration remain restricted to BioCCS installations compensating their own fossil emissions.

Our proposals

- Eligibility for direct compliance use must be widened to allow for all ETS installations to use EU-certified permanent carbon removal credits (generated by third parties) to meet ETS compliance obligations.
- All permanent removals certified under the EU framework should be eligible within the ETS, independently of the technology used or the cost of the removal solution.

3. Support the business case for decarbonisation

We fully support the Commission's objective of ensuring that more EU ETS revenues are reinvested in the sectors contributing to the system. The 50% earmarking is a fundamental step in this direction. However, the list of priority areas remains too broad to ensure that funding reaches sectors facing the greatest decarbonisation challenges, notably energy- intensive, circular and strategic industries such as our sector. A Member State could comply with these provisions by allocating even more auction revenues to the electricity sector, without allocating anything to energy-intensive industries.

The Investment Booster and the Industrial Decarbonisation Bank are welcomed, particularly as they support mature and available technologies, complementing the ETS Innovation Fund's focus on more innovative technologies. While both instruments are positive on paper, their ability to effectively support industrial decarbonisation will ultimately depend on their design and implementation as well as external conditions like the availability of energy infrastructure and renewable energy. It must be ensured that these new instruments are fit to the technology challenges of our sector and are not designed in a way that de facto excludes plants in our sector from being eligible.

3.1 Direct revenues and support towards industrial needs

Our proposals

- The 50% earmarking should be fully dedicated to supporting energy-intensive industries, including exposed production in our sector. Any sub-target for CBAM sectors must complement a credible funding route for industries outside CBAM. Selection should address demonstrated carbon-leakage risks and decarbonisation needs without assuming that all eligible industries are covered by CBAM.

- Funding from the Industrial Decarbonisation Bank and the Investment Booster must be additional to, and must not replace or be made a condition for, free allocation or indirect cost compensation.
- The Industrial Decarbonisation Bank should support both CAPEX and OPEX. Many low-carbon and renewable technologies that are being, or will need to be, deployed for industrial decarbonisation entail higher operational costs. The Commission proposal and Impact Assessment appear somewhat contradictory on this point, referring in some instances to support for both CAPEX and OPEX and in others to support being limited to the funding gap. Greater clarity is therefore needed, with the former approach to be preferred.
- Support periods for CCfDs should reflect industrial investment cycles. The proposed 10-year term for CCfDs support is positive, as it reflects the duration of industrial investment cycles. However, it may still be insufficient for more complex decarbonisation projects, such as CCS. Longer durations should therefore be considered where necessary to provide sufficient investment certainty.

Priority projects include furnace modernisation, electricity efficiency, feasible electrification, material efficiency and carbon capture. Funding should assess verified emissions performance and technical viability rather than administrative classification alone.

3.2 Ensure fair access and project selection

Competition for support should account for fundamentally different technologies, investment cycles and abatement constraints. A single ranking based only on the lowest short-term cost per tonne can exclude industrial processes that require more expensive technologies but remain essential to European supply chains. Dedicated windows or comparable project groups should be assessed where justified.

Eligible projects in our sector need a clear funding route irrespective of their customers' CBAM status. Dedicated windows or comparable project groups should account for differences in technology, deployment timelines and abatement constraints.

Our proposals

- Provide explicit eligibility for projects in our sector. Any earmarking for CBAM sectors must complement access for other exposed energy-intensive industries.
- Publish predictable application timetables and proportionate documentation requirements. Completion and bid bonds, delivery deadlines and verified-abatement conditions must reflect industrial operating realities.
- Allow justified extensions for permitting, grid connections, energy supply and shared carbon transport or storage delayed outside an operator's control. Distinguish external delays from failure to fulfil commitments.
- Demand-response requirements must reflect safe operating constraints in high- temperature processes; limited flexibility must not automatically exclude projects. •Assess funding

availability across Member States and avoid excessive dependence on national fiscal capacity. Comparable projects should have a credible route to support throughout the internal market.

- Monitor whether funding retains production and delivers verified abatement. Publish aggregate results while protecting commercially sensitive information. Revise instrument design where systematic barriers exclude technically sound industrial projects.

3.3 Enable cumulation and national top-ups

Cumulation should be possible between compatible EU instruments and through Member State top-ups, subject to State aid rules and transparent safeguards against double funding. Support for capital expenditure, incremental operating expenditure and electricity-related carbon costs addresses different needs and should be coordinated accordingly.

Rules should state how support interacts with free allocation, indirect cost compensation and carbon contracts for difference before companies commit to projects. They should provide a predictable approach to changes in carbon prices, energy prices and overcompensation occurs.

Support must remain additional to free allocation and indirect cost compensation. Distinct support for capital costs, incremental operating costs and electricity-related carbon costs should be coordinated without reimbursing the same eligible cost twice.

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About ECGA

The European Advanced Carbon and Graphite Materials Association (ECGA) is the voice of Europe's advanced carbon and graphite industry. Established in 1995 and based in Brussels, ECGA represents and supports the sector in EU policymaking and industrial development.

ECGA members supply indispensable materials for strategic European value chains, including steel and aluminium, batteries and energy storage, advanced manufacturing, aerospace, defence, nuclear applications, industrial lubricants and electronics. Together, they represent more than €3 billion turnover in Europe and cover 100% of EU-based production of natural graphite, carbon anodes and pastes, cathodes, graphite electrodes and battery anode material.

As graphite is recognised as a critical and strategic raw material, ECGA works to strengthen a competitive, innovative and sustainable European graphite value chain. Through policy engagement, industry coordination and communication, ECGA advocates for resilient supply chains, fair competition, circularity and the role of carbon and graphite materials in Europe's energy transition, industrial competitiveness and strategic autonomy.

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