EURATEX

POSITION PAPER

Emission Trading System (ETS)

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EURATEX, the voice of the European textile and apparel industry, represents a key industrial sector comprising over 200,000 companies and 1.2 million workers throughout Europe. As a highly trade-intensive industry, European textile and apparel companies export €66 billion and import around €100 billion annually. Our sector is actively engaged in sustainable practices, prioritising high-quality and durable production, and remains committed to contributing to the EU's climate objectives through continuous efforts to reduce its environmental footprint.

The sector acknowledges the role of market-based instruments such as the Emissions Trading System (ETS) in driving decarbonisation, provided that the design effectively rewards transition efforts made by the industry. In this context, the current design and implementation of the ETS are increasingly perceived as discouraging, rather than as a framework that meaningfully incentivises and supports the transition to climate neutrality. In contrast to other major economies, where climate policies are more closely aligned with industrial competitiveness and backed by substantial support measures, the EU approach is placing disproportionate pressure on its industrial base.

When discussing the Emission Trading System (ETS) for the textiles sector, it is important to see two different angles. There are companies that fall under the system and therefore pay for ETS certificates, while other companies with combustion installations lower than 20 MW do not fall in the system but are affected by indirect costs passed down by electricity suppliers via their electricity bill. Nonetheless, companies covered by the ETS are affected by both, as they must purchase emission allowances while also paying higher electricity prices.

Therefore, EURATEX priorities are the following:

1. AVOID DISPROPORTIONATE COMPLIANCE OBLIGATIONS FOR TEXTILE SMES

EURATEX expresses serious concern about any potential reduction of the 20 MW threshold for combustion installations, as such a change would impose a significant administrative burden for textile SMEs, which represent 99% of the sector. ETS compliance involves highly complex monitoring, reporting, and verification requirements that demand dedicated internal resources, technical expertise, and ongoing engagement with competent authorities. SMEs do not have the administrative capacity to manage these obligations. This concern is further compounded by the fact that the ETS framework, as currently designed, is not well suited to SME-driven industries.

2. RECOGNISE AND COMPENSATE THE TEXTILE SECTOR'S INDIRECT CARBON COSTS

The cumulative impact of ETS indirect costs places significant pressure on margins and competitiveness. Despite its energy-intensive processes, the textile industry is not sufficiently recognised as eligible for indirect cost compensation. This because existing eligibility criteria rely primarily on narrow electricity-intensity indicators and consumption profiles of very large industrial users, failing to reflect the textile sector’s hybrid energy profile, which combines electricity-intensive operations, such as spinning, weaving and knitting, with heat-intensive processes, including dyeing, drying and finishing. At the same time, the textile industry also processes energy-intensive raw materials with embedded carbon costs and is highly exposed to international competition. Therefore, such compensation should take the form of a simple cost compensation mechanism, should not be conditional upon additional investment commitments, and should be accessible through a simple application process. **EURATEX, therefore, calls for a prompt review of the ETS State Aid Guidelines to ensure that textile production processes facing substantial indirect carbon costs can benefit from adequate compensation.**

3. REINVEST ETS REVENUES WHERE THE COSTS ARE INCURRED

The current use of ETS revenues is decided by each member state, and those do not have obligations on how to use the income generated. While the system generates significant financial resources, there is limited assurance that these funds are systematically reinvested into the industries bearing the cost burden. A more structured approach is therefore needed to ensure that ETS revenues support on-site industrial transition projects that can deliver measurable emissions reductions, which have yet to be quantified by the authorities, together with the industry. **EURATEX recommends developing EU-level guidelines for Member States to ensure that a significant share of ETS revenues is reinvested into industrial decarbonisation of companies paying for the costs.**

4. MAINTAIN ADEQUATE FREE ALLOCATION FOR THE TEXTILE INDUSTRY

Textile companies covered by the ETS are subject to generic heat and fuel benchmarks that do not adequately reflect the sector's production processes and limited short-term decarbonisation options. The significant reduction in these benchmark values results in a corresponding decrease in free allocation, despite the absence of technically and economically viable alternatives for many processes. As a result, also the companies newly brought within the system would be required to surrender CO_2 allowances at the sharp reduction in free allowances. **EURATEX therefore recommends reviewing the current ETS benchmarking methodology and suspending the reduction of the heat and fuel benchmarks until viable decarbonisation pathways are available for our sector.**

Overall, engagement under the Emission Trading System must be accompanied by robust safeguards against carbon leakage and a policy framework that ensures that decarbonisation efforts strengthen rather than weaken the industrial base in Europe. The current Carbon Border Adjustment Mechanism (CBAM) is not a workable solution for our industry due to the complexity of textile value chains and the practical difficulty of calculating embedded emissions for imported products. Consequently, CBAM should not serve as a model for any future carbon leakage protection mechanism for the textile sector, as it creates significant unnecessary complexity.

EURATEX calls to ensure that any extension of the ETS system scope is strictly conditional upon the establishment of an efficient and effective carbon leakage protection system for the textile industry.

To conclude, there is a growing concern that current climate objectives, in their present design and timeline, may not be achievable without significant loss of industrial capacity in Europe. While the system should evolve to better incentivise and reward decarbonisation efforts, the central challenge extends beyond ETS itself. Europe must ensure that climate ambition is implemented in a way that does not come at the expense of its industrial base.

EURATEX
THE TEXTILES AND APPAREL CONFEDERATION

As the voice of the European textile and clothing industry, EURATEX works to achieve a favourable environment within the European Union for the design, development, manufacture and marketing of textile and clothing products.
Working together with EU institutions and other European and international stakeholders, EURATEX focuses on clear priorities: an ambitious industrial policy, sustainable supply chains, innovation and skills development, free and fair trade.

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