EURATEX POSITION ON THE

EU Emission Trading System Revision

OCTOBER 2026

ENABLING A COMPETITIVE AND CLIMATE-NEUTRAL EUROPEAN TEXTILE INDUSTRY

In recent years, Europe's ambitious climate policies have not delivered the industrial transformation they were intended to support. On the contrary, the EU has witnessed an erosion of its industrial base, with rising costs and increasing regulatory burdens. Many European companies, particularly SMEs, are struggling to remain competitive and sustain their operations in the face of persistently high energy prices, complex regulatory requirements, and growing unfair competition.

The European textile industry supports Europe's climate-neutrality objective, however, believes that the objective can be achieved by ensuring that the following five points are met in the revision of the Emission Trading System:

1. **Link the ETS trajectory to industrial decarbonisation conditions** – Introduce an automatic review and adjustment mechanism based on energy affordability, infrastructure and technology availability.
2. **Keep free allocation focused on carbon-leakage protection** – Remove additional investment conditionality, allowing companies to retain flexibility over their decarbonisation investments.
3. **Ensure realistic fall-back benchmarks and sufficient free allowances** – Establish achievable benchmarks reflecting industrial realities and guarantee adequate carbon-leakage protection.
4. **Align the reduction trajectory with industrial innovation** – Reshape the LRF with slower reductions in 2030–2035 and faster reductions in 2035–2040, maintaining overall climate ambition.
5. **Make indirect carbon leakage compensation European** – Establish a harmonised EU framework financed through ETS revenues to prevent competitive disparities between Member States.

The share of textile installations covered by the ETS, even if there is a limited number compared to other sectors, should not lead policymakers to underestimate the consequences of the review on these companies. Europe needs an ambitious ETS, but also one that reflects the realities of industrial transformation. Therefore, emissions must fall because European production is successfully decarbonised, not because production, investment and emissions move outside Europe.

1. Link the ETS trajectory to the conditions needed for industrial decarbonization

The ETS trajectory assumes that industry will progressively replace fossil-based energy and technologies with low-carbon alternatives. This transition can only take place if the necessary enabling conditions are available. For textile manufacturing, this means access to **sufficient and competitively priced low-carbon energy, adequate electricity**

grid capacity, fit-for-purpose energy infrastructure and commercially viable decarbonisation technologies at industrial scale. Many of these conditions are outside the control of individual companies.

The ETS should therefore include an **automatic review clause**, based on clear and predefined indicators monitoring these enabling conditions. If they are demonstrably insufficient, a predetermined mechanism should allow for a temporary adjustment of the ETS trajectory without changing Europe's long-term climate objective. **The pace of the ETS must remain aligned with the actual capacity of European industry to transform.**

EURATEX calls for the introduction of an automatic review and adjustment clause linking the ETS trajectory to the availability of the essential enabling conditions for industrial decarbonisation.

2. Keep free allocation focused on carbon-leakage protection

Free allocation has a specific purpose within the EU ETS: protecting European production against carbon leakage as long as competitors outside Europe are not exposed to comparable carbon costs. Therefore, attaching additional investment conditionality to free allocation fundamentally changes the nature of this protection.

Companies would be required to commit **their own financial resources to prescribed decarbonisation investments in order to retain full access to free allocation**. This does not generate additional resources for the transition. On the contrary, it restricts companies' ability to allocate their available capital to the investments that are most appropriate for their specific industrial circumstances. **Capital committed to meeting ETS conditionality is capital that cannot be used for other investments needed to maintain and modernise production.**

Moreover, investment decisions depend on factors such as technology availability, energy infrastructure, grid capacity, permitting and economic viability. Reducing free allocation when these conditions prevent or delay investment does not remove the underlying barriers. It simply increases carbon costs and weakens the competitiveness of European industry.

Free allocation must remain a predictable and effective carbon-leakage protection instrument, while companies retain the flexibility to direct their own investment resources towards the most effective pathways for decarbonisation and industrial transformation.

EURATEX calls for removing the additional investment conditionality from free allocation.

3. Ensure realistic fallback benchmarks and sufficient free allowances

Benchmarks should reward efficiency and decarbonisation. They should not result in structural under-allocation because the benchmark performance depends on site-specific circumstances, infrastructure or energy sources that are not realistically accessible to all installations. Benchmark values must therefore reflect achievable industrial performance rather than assuming that all installations can decarbonise at the same pace.

The discussion should not be limited to the rate at which benchmarks are tightened. Equal attention must be given to whether the benchmark itself continues to represent an achievable performance level. At the same time, sufficient allowances must remain available for free allocation. A representative benchmark offers inadequate protection if the resulting allocation is subsequently reduced because the overall quantity of free allowances is insufficient.

EURATEX calls for ensuring representative and achievable fallback benchmarks and guarantee sufficient allowances to deliver effective carbon-leakage protection.

4. Align the reduction trajectory with the industrial innovation curve

Industrial decarbonisation does not follow a linear path. New technologies require development, engineering, permitting, infrastructure and industrial-scale deployment. Uptake can accelerate significantly as technologies mature, enabling infrastructure becomes available and investment risks decline. The ETS reduction trajectory should reflect this reality.

Requiring the steepest reductions before technologies can be deployed at sufficient scale risks increasing carbon costs without enabling equivalent technological transformation. The answer is **not less climate ambition, but better sequencing of that ambition**.

The Linear Reduction Factor should therefore provide a more gradual trajectory during 2030–2035, compensated by faster reductions during 2035–2040, when low-carbon technologies and supporting infrastructure are more widely available at industrial scale.

EURATEX calls for maintaining overall ambition but reshape the LRF, aligning the 2030-2040 reduction pathway more closely with the industrial innovation and investment curve.

5. Make indirect carbon leakage compensation European

Electrification will be essential to industrial decarbonisation. Yet companies replacing fossil fuels with electricity can reduce their direct emissions while becoming increasingly exposed to indirect ETS costs embedded in electricity prices.

Despite its energy-intensive processes, the textile industry remains insufficiently recognised under existing eligibility criteria for indirect carbon cost compensation. These criteria do not adequately reflect the sector's exposure to international competition and its limited ability to pass additional electricity costs on to customers. This is particularly relevant given the sector's hybrid energy profile, combining electricity-intensive activities such as spinning, weaving, knitting and nonwovens with heat-intensive processes such as dyeing, drying and finishing.

Moreover, a European carbon price combined with national compensation mechanisms risks creating unequal conditions within the Single Market. Carbon-leakage protection should not depend on the budgetary capacity of the Member State in which a company manufactures.
One European carbon price calls for one coherent European approach to carbon-leakage protection.

A harmonised European framework would strengthen investment predictability and ensure that industrial investment decisions are driven by efficiency and decarbonisation potential, rather than differences in national compensation schemes.

EURATEX calls for an EU-wide framework for indirect carbon leakage compensation, funded by ETS revenues, with eligibility criteria that better reflect energy-intensive textile activities.

Conclusion

The ETS review will shape industrial investment and decarbonisation decisions for the next decade. Changes to the reduction trajectory, free allocation, benchmarks and carbon-leakage protection must be assessed together, considering their cumulative impact on European manufacturing. **Such a fundamental reform requires a thorough impact assessment, including sector-specific consequences, rather than a rushed legislative process.**

Europe cannot achieve climate neutrality by relocating production, investment and emissions outside its borders. The post-2030 ETS framework must enable textile manufacturers to decarbonise and remain competitive in Europe. **Climate ambition and industrial competitiveness must reinforce each other**.

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.

CONTACT
RUE BELLIARD 40, 1040 BRUSSELS
EURATEX.EU
INFO@EURATEX.EU