Sandbag at COP31: Petrochemicals under the CBAM

Side event panel contribution.



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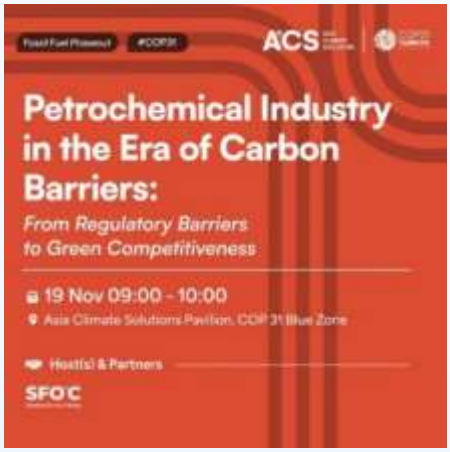

On 19 November, Sandbag's Adrien Assous participated in the COP31 side-event, **'Petrochemical Industry in the Era of Carbon Barriers: From Regulatory Barriers to Green Competitiveness',** hosted by Solutions for Our Climate (SFOC). Held at the Asia Climate Solutions Pavilion, the discussion brought experts together to examine how carbon-related trade measures including the Carbon Border Adjustment Mechanism may reshape global markets for petrochemical products.

In November 2025, Sandbag published *Chemicals in the CBAM: Time to step up*, and in April 2026, *Carbon pricing trends in Asia* exploring potential CBAM costs for Japan, South Korea, Vietnam, Indonesia, and the Philippines.

Adrien joined Ayoung Kim (SFOC), Thomas Koch Blank (RMI), Karina Marzano Franco (Agora Industry), and Danial R. (Climate Analytics) on the panel, and Chaejin Shin (SFOC) moderated.

The discussion was part of a broader session on the implications of carbon trade measures for the sector, following Ayoung Kim's presentation of SFOC's analysis of how carbon trade barriers are affecting the petrochemical industry.

What are the main challenges for the inclusion of chemicals in the CBAM?

The main challenge concerns the attribution of emissions. To determine how many CBAM certificates need to be surrendered, emissions need to be monitored, reported, and verified. The use of actual data (rather than default values) will require verification by accredited verifiers.

Most organic chemicals and polymers derive from steam cracking products. Steam cracking is an energy-intensive process that breaks down refinery products into "basic" organic chemicals. The basic organic chemicals produced include ethylene, propylene, butadiene, hydrogen, and aromatic compounds

benzene, toluene and xylene (together referred to as BTX). These products are produced at the same time in a cracker, making it challenging to precisely allocate emissions for each of the products.

Reporting could rely on default values instead. Currently, default values are optional and usually set quite high, to prevent declarants from choosing the option most favourable to them. An agreement could be reached between the EU and third countries to adopt mandatory but less punitive default values.

Alternatively, chemicals could join the CBAM but with a very limited scope, downstream of steam crackers. Products like styrene, acetone, VCM and ethyleneglycol would then fall under the CBAM, but with an emissions scope (very) limited to the processes downstream of the steam cracker.





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How have EU climate policies influenced the sector's approach to decarbonisation?

The sector's most visible response has regarded lobbying. Just as there are many delegates from the petrochemical industry at this COP, the same companies exert their influence over EU policy. With some success, unfortunately.

The chemicals sector is not currently covered by the CBAM so the phase out of free allocation under the EU ETS will not affect this sector. In addition, the revision of ETS benchmarks initially proposed by the European Commission for heat and fuels, which rule a large part of allowances to chemicals, was overturned so that the plants covered will receive 130 million more free allowances over 2026-30 than initially proposed.

The lack of industrial response to climate policy has already had negative impacts in the competitiveness of EU low-carbon industry: in January 2026, Vioneo, a company that develops technology that could transform plastic waste into molecular feedstock for new plastics production, opted to build a new factory in China rather than in Belgium. The facility will have an annual capacity of 300,000 tonnes of polyethylene and polypropylene from green methanol derived from biogenic carbon dioxide.

How can carbon pricing contribute to meaningful emissions reductions rather than simply increasing compliance costs?

An important but often overlooked aspect of the CBAM is that it creates a stream of revenues.

As it ramps up in parallel with the gradual phase-out of free allocation under the EU ETS, the carbon cost borne by EU producers rises as well. EU market prices will therefore adjust upwards as both imported and domestic supply become more expensive.

Higher EU selling prices allow exporters to recover at least part of their CBAM costs through higher revenues. If the additional revenues from higher prices exceed the CBAM fees paid, exporters may enjoy a net benefit.

With a robust carbon price combined with a CBAM, cleaner production therefore benefits a source of revenues that contributes to repaying investment costs.

We thank the SFOC organisers and fellow panellists for a valuable discussion.