

CUTS: Renewable carbon as a competitive advantage for Europe

BIOECONOMY Policy Brief – CUTS (Carbon Utilization Trading System)

*Europe's industry needs carbon—but **not from fossil sources**. With the Carbon Utilization Trading System (CUTS), climate risk becomes a market opportunity. This market-based instrument creates incentives for consumer goods manufacturers to use renewable carbon in the production of their products. This promotes investment and strengthens Europe's position in global competition.*

Background

Europe's Path to a Climate-Neutral Industry

With the Clean Industrial Deal, Europe has committed to a profound industrial transformation. By 2040, greenhouse gas emissions are to be reduced by 90 percent compared to 1990 levels.

For the energy sector, the EU Emissions Trading System (EU ETS) serves as an established instrument. However, for the material use of carbon – that is, where carbon remains bound in materials, chemicals, plastics, or packaging and is not burned – a comparable framework is lacking.

These sectors are central to Europe's competitiveness but difficult to decarbonize. Even in a climate-neutral economy, they remain dependent on carbon as a raw material.

While the EU ETS is making fossil carbon increasingly expensive in energy production, fossil carbon remains cheaper than any renewable alternative in chemical applications. This hinders innovation and jeopardizes jobs in key industries such as chemicals, packaging, and consumer goods. It is also the reason why the bioeconomy has not yet taken hold on a large scale in material carbon use.

The Net Zero Industry Act, the ETS reform, and the discussion surrounding the Carbon Border Adjustment Mechanism (CBAM) make it clear: **Europe needs complementary instruments that not only reduce emissions but also incentivize the development of sustainable raw material cycles.**

This is where CUTS comes in—as a bridge between climate and industrial policy. And as a tool to secure Europe's economic autonomy. This creates incentives for innovation and new business models.

CUTS creates incentives to develop new technologies in Europe.

Approach

Rethinking carbon – from a problem to a valuable raw material

CUTS accelerates the transition to renewable carbon in industry. Unlike emissions trading, it does not focus on combustion, but on the material use of carbon.

How the CUTS system works (Figure 1):

- Manufacturers of consumer goods must purchase CUTS certificates for the carbon content of their products.
- CUTS certificates for fossil carbon must be purchased from a trading office.
- Producers of renewable chemicals and materials (from biomass, recycling, or CO₂-utilization), on the other hand, receive free certificates for the renewable carbon in their products.
- They can sell these to manufacturers of consumer goods to cover their certificate requirements. In this way, they offset part of the higher costs associated with sustainable raw materials.
- The trading office gradually reduces the quantity of fossil certificates: **fossil carbon becomes more expensive, renewable carbon more attractive.**
- The system operates according to the so-called “book-and-claim” principle. The physical flow of materials is decoupled from sustainability verification. This makes certificate trading flexible, efficient, and scalable across Europe. This principle has already proven effective in promoting renewable energy. Manufacturers from third countries also participate in the system as soon as they wish to sell their products in the EU. Outsourcing production to countries outside the EU thus offers no advantages.

How CUTS Works



Figure 1: Distributors of consumer goods are required to offset their carbon footprint with certificates. A central authority controls the issuance of fossil certificates. The goal is to create incentives for sustainable carbon.

Opportunities and Benefits

1. Strengthening European Industry

CUTS operates at the end of the manufacturing chain, where products reach the market. It thus has a different focus than the EU ETS. The CUTS system creates incentives for the use of renewable carbon sources in material applications. It strengthens the competitiveness of European chemical and materials manufacturers as well as that of the recycling industry and biomass producers and processors.

2. Ensuring fair competition in international trade

EU exports remain exempt from the system, while companies must purchase certificates for all imports. Sustainable imports receive free certificates upon verification of origin. In this way, CUTS ensures a level playing field between European and international producers and prevents carbon leakage without creating trade barriers.

3. Creating incentives for climate-friendly investments

The trading office controls the number of certificates that can be purchased from it. This makes it possible to gradually increase the price of fossil carbon certificates. This creates a market-based incentive to switch to renewable raw materials and invest in climate-friendly technologies (see Figure 2). Companies that make the switch early benefit from cost and technology advantages.

4. Combining Climate Protection and Economic Efficiency

The proceeds from the sale of fossil certificates can be used to administer the certificate trading system and to further incentivize the use of renewable carbon. In this way, CUTS remains cost-effective and budget-neutral, while the funds are targeted precisely where they will most effectively accelerate the transition.

Impact of CUTS on the Consumer Goods Industry

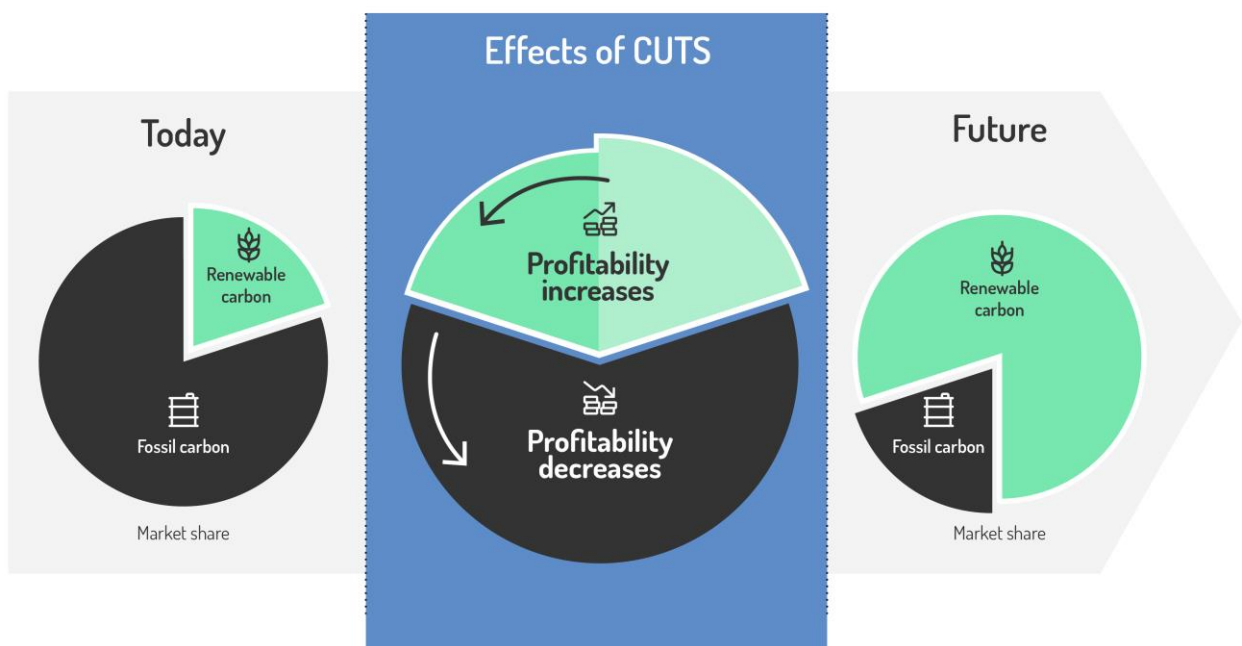


Figure 2: CUTS gradually offsets the structural cost disadvantage of renewable carbon for use in consumer goods.

Outlook and Next Steps

Global demand for carbon-based raw materials is steadily increasing. Europe must ensure that this demand is met sustainably. The Carbon Utilization Trading System (CUTS) can be a key instrument in achieving this.

CUTS has the potential to create a competitive European market for renewable materials. It **supports the creation of new value chains, thereby securing jobs in Europe.**

The system strengthens the **strategic independence and resilience of the European economy.** In times of geopolitical uncertainty, it stimulates the development of a European raw materials base using **market-based instruments** and without subsidies.

At the same time, CUTS promotes important **innovations in key technologies**—including Carbon Capture and Utilization (CCU) and bio-based chemicals, as well as recycling and the circular economy. In this way, CUTS not only contributes to achieving climate goals but also **paves the way for climate-neutral industrial production.**

CUTS enhances policies that create **lead markets for sustainable products**, exactly as envisioned by the EU's Clean Industrial Deal. Furthermore, the system complements existing instruments such as the EU ETS, CBAM, and the Net Zero Industry Act.

CUTS can **be introduced gradually by sector and combined with quotas and other market mechanisms.** Suitable pilot sectors include the chemical, packaging, and cosmetics industries.

CUTS makes climate protection market-ready and industry policy future-proof.

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About CropEnergies AG

CropEnergies is a leading producer of renewable ethanol and operates biorefineries at six locations in Europe. Its core business is the production of bio-based products in the sectors of fuel, energy, food and feed, neutral alcohol, biogenic CO₂, and bio-based chemicals. CropEnergies is part of the Südzucker Group and employs more than 500 people.

About the Südzucker Group

The Südzucker Group is a globally active group of companies dedicated to the development, production, and supply of plant-based solutions across five segments: Sugar, Specialties, CropEnergies, Starch, and Fruit. Its focus is on the production of food, feed, and other products in the food and non-food sectors. The Südzucker Group has approximately 19,300 employees and over 90 production sites worldwide, processing more than 30 million tons of renewable agricultural raw materials annually.