

PRIORITIES FOR THE EU ETS REVIEW

KEY MESSAGES

- 1 Better account for competitiveness while preserving environmental ambition.** BusinessEurope supports a central role of the ETS in EU's post-2030 climate framework, as a key market-based tool to reach climate neutrality in 2050. However, the alarming situation for EU competitiveness must be acknowledged. Businesses are facing increased costs and fierce global competition while the enabling conditions to create a business case for decarbonisation are largely missing. The ETS review must be adjusted to the current challenges and post-2030 context.
- 2 Introduce flexibilities to ensure long-term viability.** According to the Commission's own estimates, there will still be industrial emissions in 2039 when the current linear reduction factor (LRF) will reduce issuance of new allowances to zero. Firstly, ETS must be adjusted to enable the continued transition after 2040, by modifying the LRF to avoid an 'ETS Endgame' in 2040. Secondly, flexibilities to address hard-to-abate emissions could also include using allowances from the Market Stability Reserve (MSR), as well as introducing EU removals and high-quality international credits. The MSR must be made future-proof and adjusted to a new situation where allowances are becoming scarce, including by removing the invalidation rule. ETS revenues should be used to support the decarbonisation of the sectors covered by the scheme.
- 3 Secure strong carbon leakage measures to level the playing field.** The Commission should reconsider the planned phase-out of free allowances for all sectors. If CBAM does not prove effective in the assessment prescribed under the CBAM Regulation to be done in 2027, the phase-out of free allowances for CBAM-sectors shall be postponed. This must be taken into account in the ETS review. An extended carbon leakage list and a more realistic benchmark methodology is also needed, as well as removing the conditionalities for free allocation. The framework for indirect cost compensation should be preserved beyond 2030 and extended to more sectors and applied in more Member States. To avoid carbon leakage in the maritime and aviation sectors, alignment with global developments should be ensured.

INTRODUCTION

European businesses are fully committed to reaching climate neutrality in 2050. The EU ETS is a key technology-neutral tool to reach the target and has been effective in reducing greenhouse gas emissions. ETS should remain a central part of EU's climate policy in a post-2030 framework, and should focus on cost-effective emission reductions.

However, parts of the historical emission reductions in the industrial sector are a result of reduced industrial activity and plant closures. The growing carbon costs have put strain on businesses, on top of already high energy costs. Decarbonisation will lower carbon costs, but for installations with hard-to-abate emissions these costs can more permanently prevent their ability to operate if there is no access to low-carbon solutions with a business case. Decarbonisation must improve competitiveness, and cannot mean deindustrialisation.

A reduction of the ETS allowances will only drive a successful transition if the enabling conditions are there, including effective carbon leakage protection and access to affordable renewable and low-carbon energy, technological solutions and public and private financing. This is by and large not the case currently. ETS must be adjusted to the current reality and post-2030 context, to better take into account competitiveness while preserving environmental ambition.¹

EMISSIONS TRAJECTORY

European companies have and are investing heavily to decarbonise and advance towards the EU's objective of climate neutrality in 2050. The current linear reduction factor (LRF) mathematically derived from the 2023 revision of the EU ETS would, if extrapolated, reduce issuance of new allowances to zero by 2039. At the same time, the Commission's own impact assessments for the 2040 target show that industrial emissions will not reach zero at that point. Therefore, 2040 should not constitute an ETS Endgame. Installations with a decarbonisation pathway that will continue after 2030 will not be able to operate from 2040 if the operator cannot access necessary allowances. This prevents already today investments into installations with lifetimes beyond 2039. The ETS must therefore be adapted in view of the continued transition beyond 2040 with hard-to-abate emissions, and introduce flexibilities to address these emissions as well as prepare the EU ETS for climate neutrality.

Most importantly, the LRF must be adjusted to the 2040 target. This means acknowledging that industrial emissions will not have reached zero by this point and taking into account the innovation curve, technological readiness and enabling conditions such as the development of the CCUS value chain. Flexibilities could also include the use of allowances from the Market Stability Reserve as well as the introduction in EU's compliance framework of EU removals, and high-quality international credits. This will be important to preserve liquidity, contribute to reduce emissions and maintain an effective price signal while safeguarding EU competitiveness as the number of allowances in the market dwindles in the post-2030 years. Without flexibilities, EU producers could be effectively left without access to allowances while importers would still be able to purchase CBAM certificates and continue supplying the EU market, creating a major competitiveness distortion.

The trajectory must also take into account an efficient and fair burden sharing between sectors. If clean electricity is not available, the electrification of the transport sector will allocate emissions from the sectors covered by the Effort Sharing Regulation and EU ETS2 to EU ETS1, putting more pressure on ETS1 sectors.

¹ In light of carbon leakage risks, Confindustria calls for suspension of ETS obligations and a fundamental reassessment of the system.

Given that uncertainty regarding ETS stability and functioning after 2039 risks discouraging companies from making their next investments in the EU, a discussion on how the ETS should operate beyond 2040 and 2050 must also already be initiated. Uncertainty must be avoided including for companies who have invested heavily in the transition, to not punish frontrunners relying on given rules and to avoid devaluation of their investments.

CARBON LEAKAGE PROTECTION

The use of free allocation and indirect cost compensation has in general been somewhat effective in tackling carbon leakage. However, experiences over the past years have shown that even the current level of protection is insufficient to bridge the structural competitiveness disadvantages facing Europe, particularly in the context of overall persistent higher energy prices and global cost disparities, which might result in deindustrialisation of Europe.

Most importantly, the Commission should reconsider the planned phase-out of free allowances for all sectors. If CBAM does not prove effective in the assessment prescribed under the CBAM Regulation to be done in 2027, the phase-out of free allowances for CBAM-sectors shall be postponed. The possibility of this outcome must be taken into account in the ETS review. Stronger carbon leakage protection could also be achieved by basing the free allocation on an extended carbon leakage list and an updated benchmark methodology, reflecting realistic performance levels taking into account technological and economic constraints.

Moreover, free allocation under the EU ETS should not be conditional on implementing energy efficiency measures nor preparing site-level climate plans. Such conditionalities are not suitable in a technology-neutral and market-based regulation and adds complexity and uncertainty without significant emission benefits. Removing such conditionalities would and should not weaken energy efficiency efforts.

The framework for indirect cost compensation should be preserved beyond 2030, also for CBAM sectors, until a fully decarbonised energy system is achieved. This is vital to address the indirect carbon costs passed on to industry through electricity prices. The scope should be extended to additional, currently non-covered, electro-intensive sectors where the risk of carbon leakage is high. We value the Commission's efforts to expand the scope of eligible sectors under the framework for indirect cost compensation, which clearly moves in the right direction. However, regular reviews and increased funding will be essential to ensure that support is not diluted as more sectors become eligible, in combination with increased efforts to decarbonise the energy system. To ensure a level playing field, the Commission must urge Member States to make use of indirect cost compensation and monitor its use from an internal market perspective.

MARKET STABILITY RESERVE

While the Market Stability Reserve (MSR) has been effective in addressing the surplus of allowances, it has been less effective when it comes to improving the system's resilience to major shocks. The MSR was designed to handle surplus accrued in the past. To secure the functioning of the future market post-2030, the MSR should be adapted to the new situation where allowances are becoming scarce. It must be repurposed to a forward-looking instrument aimed at safeguarding sufficient liquidity in the market to avoid price spikes.

To make the MSR more responsive to liquidity issues, the invalidation rule should be removed and the intake rate and release thresholds should be made dynamic based on market and economic conditions. Moreover, the response time should be decreased from the current annual supply adjustments. The MSR must remain rules-based to safeguard the trust in the ETS. It is also necessary to distinguish between allowances in the MSR invalidation account that are there due to emissions reductions achieved thanks to investments and innovations, from those caused by the reduction of industrial activity. Without MSR reform, scarcity-driven price spikes are likely, adding further strain on industrial production in Europe.

USE OF ETS REVENUES

The Innovation Fund should be directed to the entities covered by the EU ETS to better support the decarbonisation of these sectors. The Innovation Fund should be technology neutral and broad in the type of efforts it supports, going beyond the current focus on solely breakthrough technologies. Easier access to the funds should also be ensured, by reducing both bureaucracy in the application process and any unnecessary conditions. The same applies to the new Industrial Decarbonisation Bank, which is a welcome step to support the decarbonisation of industry. However, for the Industrial Decarbonisation Bank to make a meaningful difference, it must constitute genuinely additional funding rather than a re-labelling or reallocation of existing financial instruments. Criteria should be based on competition and excellence. It must be sufficiently funded, and we are therefore alarmed by the potential use of ETS revenues as an 'EU own resource' rather than going to industrial decarbonisation. Diverting ETS revenues away from industrial decarbonisation, especially businesses covered by the EU ETS, would fundamentally undermine Europe's ability to keep energy-intensive value chains on the continent.

The Innovation Fund should remain as a complement to the Industrial Decarbonisation Bank. Moreover, Member States' use of ETS revenues should be made more transparent, in order to facilitate assessments of their use and effectiveness in supporting the decarbonization objective of the ETS. In addition, the Modernisation Fund should be maintained after 2030.

Future decarbonisation funding should take into account the need for long-term financing horizons (15 years or more), the potential for time-limited support for operational (OPEX) and capital (CAPEX) expenditures, and the importance of supporting the decarbonisation trajectory of all installations until the relevant technologies reach commercial viability.

REMOVALS

Removals will be increasingly needed to reach net-zero and to ensure long-term viability of the EU ETS. A robust accounting framework should be designed to avoid gaps or double counting in emissions. Permanent technological removals will be crucial to address hard-to-abate emissions. Natural removals such as those from forests, soils and agricultural practices have an important role, but their effects are more complicated to monitor and report with certainty. To bring much needed financing to scale up CCUS in Europe, technological removals should be integrated into the ETS under conditions that ensure their integrity and based on a technology neutral approach. Moreover, a clear and consistent approach to recognising the climate benefits of CCU should be ensured to allow new low-carbon and renewable fuels and products to be developed and deployed, as well as to avoid storage of carbon atoms when they are needed for industrial processes.

INTERNATIONAL CARBON CREDITS

Global carbon markets are crucial to lay the ground for a global carbon price in the medium to long term, as well as mobilise investments in climate mitigation in a cost-efficient manner and add private climate finance to public efforts. The rules for the 'Paris Agreement Carbon Crediting Mechanism' (PACM) under Article 6.4 of the Paris Agreement have after several years of work been adopted – with efforts ongoing to implement the mechanism. To encourage the trading of PACM credits, the EU should integrate high-integrity international credits into its climate policy architecture as a complement to domestic decarbonisation and removal efforts. We welcome that the revised EU Climate Law opens the door for a limited amount of international credits to be used to achieve the EU's 2040 climate target. High-quality credits should be used in a manner that safeguards the incentives for EU domestic decarbonisation and investments into EU clean technologies and industrial resilience. Given the substantive efforts made not least by the EU to develop rules, standards and methodologies for Article 6 to ensure its integrity and alignment with the Paris Agreement, the EU should refrain from adopting additional criteria.

It must be ensured that ETS1 sectors will benefit from the use of international credits. One option to be carefully assessed could be an indirect integration of international credits into the ETS1 through a purchasing authority at the European level. This could lead to an adjustable new liquidity in the market in the late 2030s if the mitigated or removed emissions in the amount of credits purchased find their way into the market – either through additional auctioning of allowances or through storage in the MSR. However, this is only one possible option. Any proposal for integration of international credits into the European climate policy architecture should be accompanied by thorough impact assessments. Any integration must be designed to contribute to global climate efforts and ensure integrity. It must also safeguard the stability and predictability of the ETS price signal and incentives to invest in EU decarbonisation, while creating necessary liquidity and flexibility in view of 2040.

ALIGNING MARITIME AND AVIATION WITH GLOBAL DEVELOPMENTS AND COMPETITIVENESS CONSIDERATIONS

By 2026, the maritime sector will be fully phased in to the ETS. Given the global exposure of the sector, it is crucial that the EU actively supports developments within the International Maritime Organisation (IMO). It is unfortunate that the decision-making at the IMO Marine Environment Protection Committee meeting in October 2025 was postponed by a year. The EU must do everything in its power to ensure that a decision on an international emissions reduction system is reached as soon as possible. If IMO adopts a global market-based measure to reduce emissions from the sector, at an equivalent ambition level to ETS and FuelEU Maritime, the maritime sector should be removed from the EU ETS and FuelEU Maritime provisions. This is important to avoid double or triple carbon pricing, not least for remote and island economies that lack alternative transport options.

The impacts of ETS for maritime and the risks of carbon leakage will vary in different regions. In the Mediterranean region, concerns remain over the potential diversion of economic activity to neighbouring non-EU ports. This risk is particularly pronounced for EU ports engaged in transshipment activities or those servicing routes where Europe is not the final destination. For outermost regions and islands, the exemption from ETS should be extended beyond 2030 and possibly in scope, given the limited availability and high costs of low-carbon maritime technologies and fuels as well as their limited alternative transport options. Moreover, the ETS revenues should be used

to stimulate the uptake of such clean technologies and fuels, in particular to bridge the price gap between conventional and low-carbon fuels. In the Baltic Sea, ice conditions and the need for ice-strengthened vessels will remain. Ice-strengthened vessels may emit five percent more emissions than regular vessels due to increased fuel consumption. The compensation for ice-strengthened vessels must therefore be made permanent after 2030, in particular in light of geopolitical tensions making safety of maritime transport ever more important.

When it comes to aviation, the ETS should continue to focus on intra-EU/EEA flights and not be expanded to cover international flights outside of Europe. Reduction of emissions from international flights should be negotiated at the level of the International Civil Aviation Organisation (ICAO). Internationally agreed rules are essential for ensuring a level playing field within the global aviation sector and avoiding carbon leakage.

BUSINESSEUROPE



BusinessEurope is the leading advocate for growth and competitiveness at the European level, standing up for companies across the continent and campaigning on the issues that most influence their performance. A recognised social partner, we speak for enterprises of all sizes in 36 European countries whose national business federations are our direct members.

Austria	Belgium	Bulgaria	Croatia	Cyprus	Czech Republic
Denmark	Denmark	Estonia	Finland	France	Germany
Germany	Greece	Hungary	Iceland	Iceland	Ireland
Italy	Latvia	Lithuania	Luxembourg	Malta	Montenegro
Norway	Poland	Portugal	Rep. of San Marino	Romania	Serbia
Slovak Republic	Slovenia	Spain	Sweden	Switzerland	Switzerland
The Netherlands	Türkiye	Türkiye	Ukraine	Ukraine	United Kingdom



Avenue de Cortenbergh 168
 B - 1000 Brussels, Belgium
 Tel: +32(0)22376511 / Fax: +32(0)22311445
 E-mail: main@businesseurope.eu

WWW.BUSINESSEUROPE.EU

EU Transparency Register 3978240953-79