

## A robust ETS for a competitive and decarbonised EU – CLG Europe View on the EU ETS post-2030 reform



### The role of the ETS for decarbonising industry, completing power sector decarbonisation and innovation

- The EU ETS should be reinforced - as a **strong, cost-effective, predictable and long-term investment framework** that drives power and **industrial decarbonisation, innovation and European competitiveness**.
- The ETS should not be weakened through political interventions that reopen agreed trajectories or reduce its ambition, as this would **undermine investment certainty**, penalise first movers, slow down the deployment and scaling of innovative clean technologies and **delay the transition to clean industry**.
- The success of the ETS framework will ultimately depend not only on the **carbon price signal** itself, but also on the **broader enabling framework: access to affordable clean power, electrification, infrastructure, and strategic use of ETS revenues** to translate the carbon price into real industrial transformation.
- By strengthening the business case for decarbonisation, efficiency, electrification, renewable and low-carbon energy, the **ETS reduces fossil fuel demand** and reinforces EU homegrown low-carbon energy production, thereby lowering exposure to volatile global energy markets and reducing dependence on external suppliers.
- By embedding carbon scarcity and a long-term **carbon price signal** into the market, the EU ETS improves the **competitiveness and investment case for low-carbon production pathways**, reinforced by demand-side instruments (such as the IAA) that support lead markets for clean industrial products, ensuring that most efficient and cleaner production pathways are structurally rewarded over time. The EU ETS does not replace private capital; it **de-risks, crowds in and accelerates private investment by introducing a clear carbon price-signal**, reducing uncertainty and improving the **bankability of low-carbon projects**.
- The ETS has already contributed to **power-sector decarbonisation**, which helped soften the economic impact of the post-2022 gas crisis by reducing reliance on fossil fuels.
- Weakening the ETS key parameters would increase regulatory and investment uncertainty, foster the adoption of less efficient measures, raise the cost of capital while lowering Member States revenues to support the transition, maintain the reliance on imported fossil fuels, and expose European industry to **higher energy and geopolitical risks**, while delaying the transition to competitive clean industry.
- CLG Europe stresses that **any changes to the ETS architecture should be assessed holistically and in light of their cumulative impact on the functioning of the system**. Adjustments to the LRF, the MSR, free allocation, the use of ETS revenues, possible interaction with international credits or carbon removals, and other supply-side measures should not be considered in isolation, as their combined effect could significantly affect market scarcity, investment certainty and the long-term credibility of the ETS. **Any reforms should therefore preserve the integrity, predictability and effectiveness of the ETS** as a driver of industrial decarbonisation, innovation and investment.



## Modifications of the Linear Reduction Factor

- There should be no political weakening or short-term adjustment of the cap that reduces ambition or undermines the **carbon price signal**.
- This means that maintaining a cap trajectory aligned with the EU's **2040 climate and energy target**, preserving the **environmental integrity and long-term credibility of the ETS**. The agreed **LCRF should therefore remain broadly intact**, providing a clear long-term investment signal and preserving carbon scarcity within the system as a driver of industrial decarbonisation and investment certainty. At the same time, some **hard-to-abate residual emissions** will remain beyond 2040, requiring careful consideration of the interaction between the cap trajectory, allowance banking (TNAC), the MSR and possible role of domestic permanent carbon removals.
- By crowding in private investment, the ETS reduces the need for additional regulatory intervention, making it one of the most efficient tools to drive industrial decarbonisation.



## Future role of the Market Stability Reserve

- The MSR should be a strong, quantity-based instrument that ensures **market stability** and maintains a credible **carbon price signal** which underpins **investment decisions in low-carbon technologies**.
- There should not be discretionary political intervention in the carbon market, which would undermine investor confidence, **predictability and credibility of the ETS** and could impact its functioning.
- As the economy decarbonises, the number of allowances that will be considered tight or loose will change completely. The functioning and threshold of the MSR should evolve to reflect a **structurally tightening carbon market** and declining allowance volumes post-2030.
- CLG Europe calls for **greater transparency and forward guidance** on MSR functioning to support predictability in structurally tightening the ETS.



## Phase-out of free allowances and CBAM

- The **transition from free allocation to CBAM** should be used as the solution to carbon leakage and a way to **restore the full carbon price signal**.
- The phase-out of free allocations for CBAM sectors under the ETS, as agreed in the **Fit for 55 package**, should not be delayed or weakened, because this would automatically slow down the phase-in of CBAM and weaken the signal to consumers to adopt low-emission products.
- The EU ETS and an effective CBAM together are essential to provide **stable and predictable conditions for industrial decarbonisation** and fossil-free production in the EU.
- During the transition to CBAM, **the role of free allocations should be carefully assessed for sectors facing genuine carbon leakage risks**, particularly for industries where commercially-viable, non-fossil technological solutions are not yet available or where structural bottlenecks persist

- However, **free allocation should remain a temporary measure** rather than a substitute for industrial transformation and conditionalities for receiving free allocations should be reinforced to foster investments in the transition.
- In parallel accelerate investments in readily deployable decarbonisation solutions to support industry, particularly already existing industrial electrification options, grids and clean infrastructure. This will require a stronger public finance architecture, including greater use of ETS revenues through instruments such as European Investment Bank guarantees and the proposed Industrial Decarbonisation Bank to crowd in private capital and reduce investment risk.



## Integration of International Credits

- **International credits should not be reintroduced into ETS compliance**, as this could weaken the **carbon price signal** and repeat past oversupply issues.
- In addition, this is because the ETS functions as a **domestic decarbonisation instrument**, focused on driving emissions reductions and can therefore drive investment within Europe.
- CLG Europe could accept a limited role for **high-integrity international credits** only outside ETS compliance, under strict conditions and clearly defined residual use cases.
- The same then applies to the use of international carbon credits under CBAM, this could be problematic for the overall effectiveness of the mechanism – and the cumulative impact of considering international credits in both mechanisms needs to be clearly assessed.



## Integration of Carbon Removals

- Carbon Removals should have a **limited and targeted role** to address residual emissions in hard-to-abate sectors. A revised ETS could play a role in supporting project development.
- There should not be a broad use of removals that would substitute for emissions reductions or weaken the ETS **carbon price signal: true mitigation requires cutting fossil fuel use**.
- Carbon removals differ in permanence and should not be treated as equivalent. Only **permanent technology-based, long-term storage** can credibly address residual emissions, while temporary or reversible sinks (particularly many nature-based removals) should complement, not substitute, emissions reductions and deliver co-benefits.
- **Temporary carbon removals should not be allowed under ETS compliance**. CLG therefore supports a differentiated approach, with clear targets and robust standards, certification and MRV to ensure environmental integrity over time.
- Any integration of carbon removals should be conditioned on **strict safeguards**: quantitative limits directly tied to scientifically grounded estimates of these unavoidable emissions by the target year robust certification and MRV, and a clear prioritisation of solutions that contribute to industrial value creation, while limiting the role of storage to unavoidable residual emissions where no alternatives exist. This is also as the availability of sustainable biomass and carbon resources is limited. As this is an area which continues to see technological developments, a road map should be put in place to review additional Carbon Dioxide Removals (CDR) solutions .

## € Usage of EU ETS revenues

- The EU ETS has already generated over **€180–200 billion in revenues** for Member States (2005–2025), alongside €7+ billion committed via the Innovation Fund, ~€19 billion via the Modernisation Fund, making it one of Europe’s **largest climate and industrial financing instruments**. These revenues are already supporting the scaling of European clean industry.
- However, Member States have not used them consistently for industrial decarbonisation objectives, with a significant share not directed to climate action or to high-value decarbonisation projects. Given scarce resources, the review should tackle fragmented or non-strategic use of revenues that fails to support bankable industrial decarbonisation projects, enabling infrastructure, and **clean technology scale-up**
- ETS revenues should be used efficiently, systematically and strategically by Member States for climate and energy purposes and their transformation into a **core public finance lever for industrial decarbonisation**. By crowding in private investment, ETS revenues can play a central role in reducing investment risks and supporting industrial transformation.
- This implies a more structured and coordinated approach, including a significant and defined share of Member State ETS revenues to be directed toward investments that reduce structural emissions and costs, in particular by enabling **industrial electrification**, energy savings, expanding access to affordable low carbon energy and supporting **breakthrough technologies in strategic sectors**. This requires stronger support for enabling infrastructure, including grids, flexibility, storage, energy efficiency, and system integration, which are critical to deployment at scale. The revenues should also be used to improve the investment case for capital-intensive industrial projects, including through instruments that provide greater revenue certainty.
- The EU should therefore harmonise indirect cost compensation schemes across Member States, shifting their focus from simply compensating for higher electricity costs for industrial consumers towards actively supporting the above structural solutions for industrial decarbonisation. This would help accelerate the transition while ensuring a more **level playing field in the single market**.
- Stronger EU–national coordination in the use of ETS revenues could ensure a **level playing field across Member States** and fair contribution to the transition, particularly in light of the growing role of the Innovation Fund and the proposed **Industrial Decarbonisation Bank (IDB)**.
- While funding arrangements under the IDB remain uncertain amid ongoing MFF negotiations, the **European Investment Bank (EIB)** could help accelerate the industrial transition by mobilising financing linked to expected future ETS revenues without distorting the ETS market. Such approaches should maintain the ETS market stability and avoid measures that weaken carbon price predictability.



### Link to UK ETS

- **Enhanced international cooperation on carbon pricing will be critical**, including exploring closer alignment and potential linking between compatible emissions trading systems such as the **EU ETS and UK ETS**, where this supports **market stability**, industrial decarbonisation and high climate ambition.