

EU ETS: the cornerstone of cost-effective decarbonisation

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1. Europe needs the ETS to achieve its decarbonisation goals

The bigger picture

- The ETS is the most effective carbon pricing system in the world – because investors trust it. It is the single largest reason that Europe has halved emissions in the sectors covered by the ETS in the last 20 years.
- Europe isn't getting close to its decarbonisation targets without it. Now is the time to cement its status as the key driver of decarbonisation and future proof it for the next two decades.

What we would like to see

- a) **Align the LRF with the 2040 target** to stay on track for climate neutrality by 2050 and distribute decarbonisation efforts across all sectors (ETS, ESR, LULUCF).
- b) **Launch ETS2 by 2028** to build confidence among investors in low-carbon solutions while securing early funding for vulnerable consumers.
- c) **Strengthen existing instruments regulating international aviation (CORSA) and maritime emissions (Net-Zero Framework)** in order to promote international carbon markets and avoid market fragmentation.

2. Europe's climate ambitions will be tested – the ETS can be designed to withstand those tests

The bigger picture

- Europe has a competitiveness problem, a fragmented political landscape and is dependent on imported energy in a geopolitically fragile world. There are, sadly, shocks ahead until Europe boosts its energy independence.
- Reflecting this reality in the way the system is designed can avoid more frequent reviews and the proliferation of other policies which only serve to undermine confidence and increase cost.

What we would like to see

- a) **Improve the Market Stability Reserve (MSR)** by removing the invalidation clause and setting dynamic thresholds to increase future stability and responsiveness. The ETS must

remain a predictable volume-based mechanism to be able to effectively manage surplus, scarcity and to withstand external shocks.

- b) **Integrate international credits into the EU climate framework** - subject to stringent criteria and strong governance - and distribute them cost-efficiently across sectors (ETS, ESR, LULUCF), enabling countries with similar ambitions to contribute to global decarbonisation at least cost.
- c) **Gradually integrate domestic carbon removals into the ETS** to create a market-driven, cost-effective way to scale up negative emissions while providing flexibility for hard-to-abate sector.
- d) **Link the ETS to comparable systems** – because larger systems are better able to deal with shocks.

3. Take the chance to show that the ETS drives European competitiveness and growth

The bigger picture

- There is an incorrect, but widely held, view that climate action will always damage EU competitiveness and harm consumers.
- The ETS has an image problem: public acceptance of carbon pricing depends how successfully its revenues are used towards decarbonising industries and supporting consumers.

What we would like to see

- a) **Require more rigorous rules and more transparent reporting** of how ETS revenues will be used by Member States.
- b) **Distribute revenues proportionally** to support a cost-effective decarbonisation of industries, small businesses and low-income households.
- c) **Mobilise resources for the ETS Investment Booster** through transparent and predictable mechanisms that preserve the integrity of the ETS.

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