

BDI, CONFINDUSTRIA and MEDEF Statement on the Revision of the EU ETS

The forthcoming revision of the EU Emissions Trading System (EU ETS) will be one of the most important industrial and climate policy decisions of the current European mandate.

European industry remains fully committed to the EU's long term climate objectives and for this reason we feel the responsibility to design a competitive path for achieving climate neutrality. The **EU ETS has played a role in reducing emissions** over the past two decades by providing a **price signal in a technology neutral manner** and therewith encouraging investments in low-carbon technologies.

However, as shown by a new study from the University of Milan-Bicocca¹, the impact of the ETS as a decarbonization driver in manufacturing has been more limited than previously estimated. Between 2013 and 2024, the strongest emissions reductions came from deindustrialization: the number of active manufacturing plants in Europe subject to the ETS decreased by 14.6%, while those that did not close operated at reduced capacity, averaging around 80%.

Moreover, the context in which the post-2030 ETS will operate has fundamentally changed and will continue to evolve in the years ahead. European industry faces persistently high energy costs, intensified global competition, growing geopolitical uncertainty, increasing trade tensions, and unprecedented investment needs for decarbonisation. At the same time, many of the most cost-effective emission reduction opportunities have already been implemented, while the deployment of breakthrough technologies, clean energy infrastructure, hydrogen networks and CO₂ transport and storage systems remains insufficient, as not price competitive yet.

The revision of the ETS must therefore be guided by two simple principles: Europe must decarbonise its economy without losing its industries, and the overall framework conditions for investment must be improved considerably so that the ETS can be the tool to drive investments into decarbonisation in Europe. Climate ambition and industrial competitiveness must be pursued together as mutually reinforcing objectives, fully consistent with the priorities of the **Clean Industrial Deal**.

In this context, BDI, Confindustria and MEDEF call for the **following priorities to guide the revision of the EU ETS**.

1. Align the ETS trajectory with industrial realities and ensure a fair sharing of climate efforts

The adaptation of the **Linear Reduction Factor (LRF)** must be based on a **realistic assessment**, considering residual industrial emissions beyond 2040, the maturity and

¹ Beccarello, M., Di Foggia, G. & Jammeh, B. (2026). ETS Functioning and Directions for Mechanism Improvement. CESISP – University of Milano-Bicocca. <https://doi.org/10.5281/zenodo.20322457>

affordability of innovative technologies, infrastructure availability and on whether a global level playing field can be achieved **assuring European industrial competitiveness**.

The current trajectory risks creating excessive scarcity of allowances well before economically viable decarbonisation pathways are available across all industrial sectors. The future ETS framework should therefore ensure a **more sustainable and realistic reduction pathway towards climate neutrality**.

The definition of the ETS1 trajectory should not be considered in isolation. It must be part and parcel of a well-balanced allocation of society-wide efforts considering both the European and global contexts. Should ETS2 not be further delayed, effective carbon leakage protection must also be ascertained for industries within its scope. European industries must not become the “adjustment variable” of an unbalanced climate policy architecture. Industry cannot be held responsible for slower or more difficult decarbonization in other sectors like agriculture.

2. Reform the Market Stability Reserve to ensure a “healthy” market balance

The MSR became operational in 2019 and has since become a rules-based “hinge” between supply and demand of allowances.

The current design must be reviewed to avoid artificial shortages due to the pro-cyclical behaviour of the present MSR. The revision should include better calibrated intake and release thresholds and end the automatic cancellation of allowances held in the reserve. Better price-shock responsiveness should potentially be considered throughout the revision.

The ETS will help industrial transformation and investment if it takes into account technological and economic realities, developments in the European and global economy, the condition of European industries, and broader geopolitical affairs, including non-EU carbon markets, climate targets and policies.

The MSR must be made fit for the future to tackle and reduce the volatility of the ETS and thus support the deep decarbonisation efforts needed to reach carbon neutrality.

3. Strengthen carbon leakage protection through a comprehensive toolbox

A **strong and competitive European industrial base is a prerequisite** for achieving global climate objectives.

The CBAM is an important step forward, but it has not yet demonstrated its full effectiveness. Important issues remain unresolved, including export competitiveness for the entire value chain, circumvention risks, downstream sectors inclusion and administrative complexity.

Until these issues are satisfactorily addressed, **carbon leakage protection must continue to rely on a comprehensive toolbox including:**

- **a strengthened and effective CBAM with a consistent downstream scope, anti-circumvention measures and an effective scheme to address carbon leakage for ETS and non-ETS exporters;**

- **the continuation of state-aid harmonized indirect cost compensation in the EU ETS beyond 2030, avoiding distortions in the single market while preventing indirect carbon leakage;**
- **the maintenance of free allocation after 2034 for sectors and value chains where carbon leakage risks persist and the CBAM is not working.**

No carbon leakage protection instrument should be removed before viable and equivalent alternatives are fully operational.

At the same time, the methodology for defining free allocation benchmarks needs to become much more transparent, **taking into account the geographical context and access** to specific technologies, infrastructures, resources, and feedstocks.

4. Mobilise ETS revenues for industrial decarbonisation and strengthen European financing instruments

The success of the transition will depend not only on carbon pricing but also on Europe's capacity to finance industrial transformation.

ETS1 revenues should be fully dedicated to decarbonisation, competitiveness and industrial transformation. They should not become a general budgetary resource disconnected from the sectors bearing the cost of the system.

The next Multiannual Financial Framework should significantly strengthen European support for industrial decarbonization through a strong European Competitiveness Fund, an expanded Innovation Fund, and the new Industrial Decarbonisation Bank, supporting all decarbonization solutions based on a cost-efficient and technologically neutral approach, using tools like Contracts for Difference and Carbon Contracts for Difference, support for CCS and CCU deployment, industrial electrification, hydrogen infrastructure and strategic value chains.

The Clean Industrial Deal must be developed further, so that investment within the EU becomes attractive again.

5. Introduce the necessary flexibilities while preserving environmental integrity

The post-2030 ETS must incorporate pragmatic flexibility mechanisms, in line with a cost-efficient approach of the transition, based on the marginal cost of abatement, able to reduce compliance costs while maintaining environmental ambition.

This should include a carefully designed **use of high-integrity international carbon credits** under Article 6 of the Paris Agreement, in line with the provisions of the agreement on the EU 2040 climate target. Also, the **recognition of permanent carbon removals and domestic carbon capture and storage** solutions should be thoroughly assessed in the new system design. This further includes coherent consideration of the EU Carbon Removal Certification Framework.

Such flexibilities would support cost-effective decarbonisation while preserving the competitiveness of European industry.

6. Scope of the ETS

The scope of the ETS should be carefully reconsidered considering sectors' financial capacity to invest in decarbonization, avoiding the creation of a system which would function primarily as a regressive environmental tax rather than an effective incentive for the transition. In this regard we call the EU Commission to:

- **Rule out an extension of the scope of the EU ETS in maritime transport and aviation to ensure consistency with international frameworks** like CORSIA and avoid creating overlapping or conflicting carbon pricing mechanisms, **distortions of competition**, the **undermining of the competitiveness** of European operators as well as economic and political retaliatory measures. A geographical extension of the scope of the EU ETS would increase cost pressures on European airports and harbours and accelerate the shift of traffic to regions where less ambitious environmental, social, and safety standards apply. This would undermine Europe's connectivity, economic resilience, and strategic autonomy.
- **Address possible simplifications of the system to avoid unjustified administrative burdens, especially for small emitters, and carefully evaluate potential further extension of the scope avoiding unwanted environmental negative effects in line with broader EU policies.**

Conclusion

The revision of the EU ETS must pave the way **for a framework oriented towards industrial transformation, investment, and competitiveness.**

Europe needs a carbon market that remains credible and ambitious, while reflecting technological realities, preserving industrial activity and supporting large-scale decarbonisation investments.

The Clean Industrial Deal provides the right, yet too abstract, strategic framework. The revision of the EU ETS must now become one of its main instruments, jointly with every other EU competitiveness tool, ensuring that climate ambition, industrial sovereignty and economic prosperity advance together.

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