

Position Paper 2026/176

Decarbonising Europe's industry without deindustrialising requires a policy update

IndustriAll Europe position on the 2026 EU ETS review

Document adopted by the 35th industriAll Europe Executive Committee
Elewijt, 27-28 May 2026 | 2026/176

While the EU is about to review its Emissions Trading System, industrial workers want a climate policy based on investment and Just Transition. Today, they fear that increasing carbon prices in a context of insufficient investment and delay in low-carbon infrastructure deployment will lead to site closures and restructuring. IndustriAll Europe urges the European Commission to propose a review of the ETS ensuring that decarbonisation does not mean de-industrialisation.

The EU Emissions Trading System (ETS) was established in 2005 to steer emission reduction in the power sector and part of the manufacturing industries. Since then, its scope has been extended to more sectors and its emission reduction target has become more consistent with the EU climate law objectives. As a result of the cap set on the emissions it covers, the ETS is now expected to bring emissions of more sectors to near zero in less than two decades¹.

In addition, the system of free allowances, used so far to limit the risk of delocalisation driven by climate policy ("carbon leakage"), will be progressively phased out and replaced by a carbon border adjustment mechanism (CBAM). After two years of transitional phase, CBAM entered into force in January 2026. The combination of enhanced emission reduction objectives and reduced free allowances is exposing the covered sectors to a higher carbon price that increases production costs. This ETS compliance cost is only economically viable if there is a business case for those companies ready to invest to make their installations fit for the EU net-zero objectives.

These major policy changes will have to be implemented in a context which differs in many ways from the previous decades when ETS was designed and developed. The international context is one of conflicts and trade tensions that undermine multilateral regimes. As a result, the idea of a global carbon price looks particularly uncertain. In addition, because of energy prices, the EU is struggling with a structural competitive disadvantage compared to some of its main competitors, especially in regions highly depending on fossil fuels. Internally, domestic demand remains hampered by the cost of living crisis, low wages and austerity policies.

In the same way, the transformative investments in plants and infrastructure did not take place at the expected scale despite available funds and policy support. In energy-intensive sectors, whilst there are flagship projects that are now at risk, overall there have been delays and cancellations of major

¹ The EU Emissions Trading System for fuels used in buildings and road transport (aka ETS2), created in the context of the Green Deal but to be launched in 2028, is not in the scope of this position paper.

investments in decarbonisation projects. Key enabling elements of a low-emission industry, such as carbon capture and storage or clean hydrogen production and infrastructure, have not been rolled out at the necessary scale or pace. Efforts to increase energy efficiency and accelerate direct electrification, where feasible, have not been sufficient. More broadly, recent trends show that private and public investment recorded in Europe is not in line with the investment needs identified in the Draghi report or in the European Commission impact assessments used to develop the EU climate policy. The ongoing recession and the resulting poor economic performance, uncompetitive electricity prices, and cheap industrial products massively imported from China can also partially explain the delays observed.

This diagnosis shows that industrial sites and jobs are in danger if nothing is done to adapt the EU climate policy, including the EU ETS, to the context we are facing. In the meantime, we get daily confirmation that climate change exists and requires a massive and urgent reduction of greenhouse gas emissions. So, dismantling or weakening the European climate ambition cannot be an option.

IndustriAll Europe supports a European climate policy based on a European industrial strategy, a sound investment plan, including through the next EU Multiannual Financial Framework, and a Just Transition framework to anticipate change and support workers. Achieving this requires an update of the existing policy instruments but not a deregulation exercise that would only bring additional instability and uncertainty.

IndustriAll Europe is therefore in favour of a reform of the EU ETS to deliver a predictable carbon price, but would oppose its dismantling. Without a carbon price, there would be uncertainty and this might shift the burden of emission reduction efforts to other emission sources and other instruments. However, any reform must be designed in such a way that companies – the so-called front-runners – which have invested heavily in green industrial products or processes, and have already embarked on the path of transformation, are in no way disadvantaged by new regulations. They must not be penalised for this now. This would cause them to lose their competitive advantage, and both past and future investments would become less profitable, which would increase uncertainty for further investors and have a counterproductive effect.

1. A European Industrial Strategy for Zero-Emission with a predictable carbon price that industry can work with

To ensure Europe's industrial leadership in the transition to zero-emissions, a robust and coherent industrial strategy is essential. This strategy must prioritise good industrial jobs, sustainable investment, and a Just Transition, while maintaining regulatory stability and a predictable carbon price that rises moderately and incentivises low-carbon transition, without bringing the carbon price beyond levels that would threaten competitiveness and jobs. In the short term, the EU needs to prevent any further price increase of emission allowances that would exacerbate the competitiveness crisis that the industry is struggling with.

For the longer term, the Clean Industrial Deal (CID) and Industrial Accelerator Act (IAA) should form the backbone of the EU industrial policy². This policy must secure quality industrial jobs in Europe through strong investment incentives, lead markets, local content requirements, and strong social and environmental conditionalities, with a Just Transition at its core.

In this policy puzzle, carbon pricing has a role to play if adequately designed. Regulatory stability and a stable carbon price are crucial to drive investment towards low-carbon technologies and reward front-

² See [IndustriAll Europe position on the EU's Clean Industrial Deal](#)

runners, while blocking regression. However, the carbon price should not be left to market speculation or hedge funds but instead be designed to provide the predictability investment needs without penalising first movers and companies that achieve a high degree of climate reductions, or facilities that lack access to infrastructures necessary for decarbonisation.

The European Commission should explore ways to adapt the EU ETS to the new context we are in, while keeping the carbon price incentive and predictability. As things stand today, we must acknowledge that the framework conditions are not sufficiently in place. As a result, the European Commission should also provide the necessary flexibility to energy-intensive industries in the short term, provided that this flexibility leads to transformative investments and to guarantees from companies that employees will keep their jobs.

Therefore, industriAll Europe supports the following measures:

- The set up of a “Industrial decarbonisation observatory”, involving trade unions, that would closely monitor the deployment of industrial decarbonisation key enablers and related infrastructure (e.g. CCUS, clean hydrogen, electricity generation and electricity grid) and assess the ETS architecture, including the ability of industrial sectors to reduce their emissions at a pace dictated by a single linear reduction factor. It should also assess the need for initiatives to accelerate the deployment of key enablers and to remove obstacles, so that the evolution of the EU ETS reflects real technological progress rather than being driven solely by policy targets.
- As benchmarks are used to calculate the volume of free quotas distributed to plants, their updates must better take into account the infrastructure development as well as the hurdles that prevent the widespread adoption of solutions adopted by the 10% best performing installations³.
- Residual emissions from ‘hard to abate’ and ‘hard to electrify’ industries⁴ should be recognised in the system beyond 2039, to provide longer term predictability.
- The proposed amendment from the European Commission to remove the cancellation mechanism of excess emissions allowances from the “Market Stability reserve” is a step in the right direction to prevent soaring carbon prices.⁵
- To avoid that front-runner companies are penalised, ETS revenues should finance “Carbon Contracts for Difference” (CCfD) to secure a market for their products. Where needed, “super credits” should be an alternative option to reward low-carbon investments already made.

While adapting the EU ETS to the current context, the EU should continue to foster energy and resource efficiency, direct electrification from zero emission sources, the circular economy and eco-sufficiency where relevant. The EU should also take into account progress in decarbonisation efforts within industry on other continents, while keeping the ambition to be at the forefront during the green transition.

Any kind of support provided to companies under the EU ETS should come with strong social and investment conditionalities to secure the future of European industrial installations and the related jobs. Companies receiving support must commit to climate-neutral plans, negotiated with trade unions, that safeguard jobs and secure investments in European sites.

³ For a technical explanation of the allocation of free allowances, see [here](#).

⁴ We mainly refer here to emissions that are unavoidable due to the manufacturing processes of certain products, such as cement and lime, in a context where CCS is not a viable option.

⁵ See the proposed Amendment; https://ec.europa.eu/commission/presscorner/detail/en/ip_26_666

2. The ETS alone cannot deliver affordable electricity

Electrification is an important pillar of the EU strategy to decarbonise industries, and greenhouse gas emissions from electricity generation have significantly decreased since the launch of the EU ETS. Nevertheless, the current EU ETS-energy market nexus disincentivises the shift to electricity. Through the marginal pricing system, the EU ETS is impacting the electricity price, including when power is generated from low-emission sources. This system keeps the electricity price linked to price fluctuations on commodity and CO₂ markets and entails unjustified extra cost for end-users. This undermines the competitiveness of existing electro-intensive industries, when they do not have a long-term supply contract, and might discourage investments in the electrification of industrial processes. An impact assessment is needed to clarify these issues and identify the appropriate mechanism to resolve the situation, which must be transparently discussed with the involvement of all stakeholders.

To mitigate this impact on electro-intensive industries, Member States have the right to provide state aid. In 2024, 15 Member States used this possibility to the extent that “total indirect cost payments amounted to around EUR 5.52 billion”⁶. This fragmented solution is seen by governments as a short term necessity but it creates unfair competition within the single market. Therefore, industriAll Europe reiterates its call for a European mechanism to compensate the impact that the ETS has on electricity prices for industrial consumers, especially in regions structurally dependent on fossil fuels for electricity generation.

That said, using public money to soften the economic consequences of public policies is not making the best use of scarce financial resources. Instead, the European price setting mechanism itself urgently needs to be reformed. Reforming the electricity wholesale market would fix that issue upstream and allow for the amount saved to be invested in the infrastructures that industry needs to achieve deep greenhouse gas emission reductions. Therefore, industriAll Europe reiterates its call to deepen the reform of the EU electricity wholesale market to better decouple electricity prices from fossil fuels and carbon prices, while taking into account the wide variety of situations across Europe⁷. Securing the supply of adequate volumes of decarbonised electricity at competitive prices to industry must be a priority for the EU, and its policy instruments must support the achievement of that objective.

The EU ETS should not undermine the strategic objective of maintaining a secure and resilient energy system during the transition. Conventional electricity generation plays a critical role in balancing supply and demand, especially as renewable energy sources—which is intermittent by definition—grow. If the ETS framework places excessive cost pressure on power generation without considering its role in system stability, it could undermine energy security. Therefore, adjustment mechanisms are needed to ensure that essential electricity production remains viable, supports grid stability, and contributes to Europe’s broader goal of energy independence, even as emissions reduction efforts continue.

3. Using ETS revenues to unlock investment

While reaching EU climate objectives will require double the annual investment in the energy system⁸, in recent years large-scale industrial decarbonisation projects have been postponed or cancelled. The 2026 Annual Single Market Report confirms that private investment is decreasing across the board. Unlocking

⁶ [EU Carbon Market Report](#), 2025

⁷ See IAE position on the [EU Electricity regulation](#) adopted in 2023

⁸ “Annual energy system investment needs (excluding transport) above 3% of GDP for the period 2031-2050 [...] This amounts to an additional 1.5 percentage points of GDP compared to average energy system investment in 2011-2020”, See: [Europe's 2040 climate target and path to climate neutrality by 2050 building a sustainable, just and prosperous society](#) (Impact Assessment) - SWD(2024) 63 final, p. 55. See also “[Stepping up Europe’s 2030 climate ambition. Investing in a climate-neutral future for the benefit of our people](#)”, SWD(2020) 176 final, pp.69-70.

investment is key to ensuring that industry can cope with a higher carbon price, but workers see more uncertainty than realisation.

The 2025 Clean Industrial Deal Communication sets out most of the EU's industrial investment strategy⁹. The use of the EU ETS auctioning revenues – €43 bn in 2025 and €258 billion from 2013 to 2025 - is part of this menu. At the EU level, the two ETS funds – the Innovation Fund and the Modernisation Fund – are key pillars of industrial decarbonisation. For industriAll Europe, they must be reinforced with additional auctioning revenues to better support industrial decarbonisation and electrification. A fair geographical balance among Member States must be ensured in the project funding but also among regions whilst making funding conditional on genuine efforts to reduce greenhouse gas emissions. Strong social conditionalities must be attached to the funding to ensure that funded projects lead to longer term investment and quality jobs in Europe under the EU ETS. These conditions must include binding commitments to maintain employment, provide training for employees, and guarantee that sites receiving public support will not be closed.

At national level, while 20% of auctioning revenues were used to finance energy-related projects, only 5% have been used to finance industrial decarbonisation¹⁰. For industriAll Europe, a minimum of 50% of the ETS revenues collected by national governments must be earmarked for projects fostering industrial decarbonisation¹¹. It is an indicative target that should be adapted to national contexts. The Energy Union Governance rules and the related “National Energy and Climate Plans” must be used to better plan how ETS revenues will contribute to industrial decarbonisation without jeopardising other objectives such as Just Transition, eradicating energy poverty and international climate justice.

4. Ensuring a Level Playing Field

The implementation of the Carbon Border Adjustment Mechanism (CBAM) must ensure an effective protection against carbon leakage¹². Until the effectiveness of the CBAM mechanism has been demonstrated, it is necessary to keep the phase-down of free emission allowances reversible to prevent a situation in which the competitiveness of European industry would be undermined and millions of good industrial jobs put into danger. To that aim, the industrial decarbonisation observatory mentioned above should assess on a yearly basis the need to revise the free allowances phase-down trajectory and suggest corrective measures if CBAM would not provide the necessary level playing field between importers and EU producers when it comes to CO₂ cost. Should adjustments be necessary, they should have a limited impact on the price of CO₂ so as not to undermine the incentive nature of the ETS.

The scope of CBAM should be extended in a targeted manner, in order to prevent any circumvention that would distort competition, and a permanent solution for exports must be established. Exemptions to CBAM must be avoided, as they would undermine its effectiveness. These changes must not be made at the expense of European companies that are already committed to decarbonisation.

Furthermore, the use of international credits within CBAM and in the 2040 climate regime must be strictly limited in both quantity and quality, and credits generated by industrial projects in third countries should be excluded. Incentivising the use of international credits from industrial projects in third countries would

⁹ See the [Clean Industrial Deal](#)

¹⁰ See “[Report on the functioning of the EU carbon market in 2024](#)”, SWD (2020) 176 final

¹¹ Pursuant to the ETS Directive as adapted in 2023, Member States must use 100% of the revenue collected (or an equivalent amount) to support specific climate action and energy transformation purposes. The ETS Directive lists all the possible activities falling under the scope of what can be financed with Member States' auctioning revenues.

¹² After two years of transitional phase, CBAM is fully operational since January 2026, meaning that importers of CBAM products have to pay for the embedded CO₂ emissions.

drive investments out of Europe at a time when its industry is struggling with a lack of investment. An enhanced Market Stability Reserve, working in a transparent way under democratic supervision, could be entrusted with the purchase and selection of high-quality international credits. However, the use of funds must under no circumstances lead to the relocation of industrial investment outside Europe, the loss of jobs, or the weakening of European value chains.