Facts over Fiction: Why the *EU ETS* is key for a *competitive, secure Europe*

FOSSIL DEPENDENCE, NOT CLIMATE POLICY, IS DRIVING HIGH ENERGY PRICES FOR EUROPE

Domien Vangenechten, Vilislava Ivanova, Rheanna Johnston

Europe faces a defining choice. Amid geopolitical instability, energy price volatility, and intensifying global competition, the Union must strengthen — not weaken — the foundations of its industrial and energy strategy. **The European Union Emissions Trading System (ETS) is central to that foundation.** It drives clean investment, reinforces energy security, generates fiscal revenues, and underpins Europe's credibility for investors.

Recent weeks have seen a series of announcements and proposals calling for revision or suspension of the EU ETS, often paired with attacks on electricity market design. The ETS has been singled out and accused of being a major driver of high energy prices and industrial competitiveness pressures. But while these calls have been loud, they have come from only a limited number of actors and do not reflect widespread positioning of industry.[1] Meanwhile, the response in defence of the framework as a critical driver of competitiveness and security is mounting.[2]

The war in Iran has once more exposed Europe's acute vulnerability to relying on fossil fuels, the real driver of its energy insecurity and competitiveness pressures. The recent price surge – equivalent to an additional carbon cost of €175 per tonne of CO_2 for fossil gas[3] – hits energy-intensive industries and households hard. Yet there is no

[1] As **reported by Politico** on Mar 3rd 2026, the petition organised by Cefic and published on February 11th, was backed by only 16 lobby groups, not the original 1,350 Antwerp Declaration signatories.

[2] **Joint Statement: Europe's competitiveness and energy security hinge upon a strong and stable EU ETS**, March 2026; **Open Letter: European Industry needs the predictability of a robust ETS to Compete and Invest**, March 2026

[3] E3G estimates comparing the European benchmark TTF for natural gas of February 26 with March 9, 2026.

free allocation to shield industry against fossil costs, nor does it raise revenues that can be used to support vulnerable households or invest in clean solutions.

As Member States exchange views over the coming weeks, solutions will be needed which defend the integrity of the EU's carbon pricing and single market, while tackling high energy prices and advancing industrial decarbonisation and electrification.

This briefing:

- **Unpacks why the EU ETS is foundational** to Europe's strategic independence, energy security and long-term competitiveness.
- **Examines the actual impact of the ETS on energy costs and industry**, showing limited effects (11% on average) on final electricity bills, while industry remains a net beneficiary: support received through national ETS revenue use and the Innovation Fund are at least four times higher than the carbon costs paid since 2021.
- **Sets out pragmatic short-, medium-, and long-term recommendations** that deliver targeted relief for energy prices and barriers to industrial decarbonisation, while preserving regulatory stability, credible investment signals, and the Single Market.

The ETS is foundational to Europe's independence, security, and competitiveness

1. The ETS drives investment in renewable energy, energy security, and industrial renewal

The ETS has cut emissions in covered sectors by half since 2005, while real GDP has grown by almost a quarter.[4] Power and industry emissions are on track for the 2030 target of -62% compared to 2005.[5]

By putting a price on carbon, the ETS:

- Improves the investment case for renewable energy, grids, storage and efficiency.[6]
- Accelerates the modernisation of energy-intensive industries.
- Creates the business case for future-proof industrial production in Europe.

[4] EEA, **ETS data viewer**; Eurostat, **national accounts and GDP**

[5] European Commission, **EU Climate Action Progress Report 2025**

[6] The EU leads globally in public R&I spending on clean energy, while Europe accounts for about 1/5th of global venture capital investments in cleantech. Europe's clean energy sector now employs over 1.8 million people in Europe, 1/3rd of which in the more than 400 clean tech manufacturing facilities which exported €80 billion in clean technologies in recent years.

Over 250 large-scale projects have been announced, are under construction or are already operating in Europe, accounting for over 25% of the global pipeline of clean heavy industry projects, including nearly 50% for steel and over 80% for cement. [7]

Together with the internal electricity market, **the ETS actively reduces fossil fuel demand and limits exposure to imported energy.** In an era of geopolitical instability, it directly strengthens Europe's energy independence and shields the Union from external energy shocks.

2. The ETS strengthens Europe's fiscal capacity

The ETS generates substantial and predictable public revenues. By 2024, it had raised over €250 billion, with annual revenues reaching approximately €39 billion in 2024.[8] By 2030, it is expected to generate at least an additional €200 billion.[9] Member States channel these revenues into industrial decarbonisation, clean energy deployment, clean transport, energy efficiency, and climate adaptation. The ETS also finances EU-level priorities, including through the Innovation Fund and Hydrogen Bank, while contributing to the 2028–2034 Multiannual Financial Framework currently under negotiation.

Crucially, the ETS price signal underpins Contracts for Difference (CfDs, for renewables) and Carbon Contracts for Difference (CCfDs, for industrial decarbonisation), **supporting project bankability with limited reliance on direct subsidies**. Undermining the ETS would erode this architecture, forcing Member States to shoulder far higher subsidy burdens to maintain investment viability, crowding out private capital and risking increased fiscal liability.

At a time of tight public finances, the ETS thus expands Europe's investment capacity without increasing debt or taxation. **It turns climate ambition into fiscal strength.**

3. The ETS is a critical asset for the EU's global influence

The ETS enhances Europe's influence on worldwide climate and trade negotiations. Dozens of countries now operate similar carbon pricing mechanisms,[10] many inspired by or closely mirroring the EU model. Through the Carbon Border Adjustment Mechanism (CBAM), the EU protects its industry from carbon leakage and creates an incentive for trading partners to strengthen their own climate policies to avoid border levies.

In a fragmented global trade environment, the ETS — reinforced by the CBAM — sets stable, enforceable rules. It safeguards European industry, promotes fair competition, and projects European standards globally.

---

[7] Mission Possible Partnership, **Global Project Tracker**

[8] European Commission, **2025 Carbon Market Report**

[9] E3G estimate based on Climact data at a carbon price of €70 per ton of CO_2 – the average price in March 2026

[10] World Bank, **State and Trends of Carbon Pricing 2025**

The impacts of the ETS on energy prices and industrial competitiveness are often overstated

Recent statements by certain industries[11] and Member States[12] have singled out the EU ETS as a major driver of high energy prices and industrial competitiveness pressures. While high electricity and energy costs are a legitimate concern, **the primary driver of recent high prices remains fossil fuel volatility and geopolitical factors – not the ETS.**

Limited impact on electricity bills while reducing costs in the longer term

Direct impacts of the ETS on electricity prices are limited and should be distinguished between short-term and longer-term effects:

- **In the short term**, ETS carbon costs contribute only modestly to wholesale prices: for gas plants on average about a quarter of marginal production costs in the period of 2020-2025 resulted from the carbon price, while fuel costs in contrast made up around two thirds.[13] Carbon price pass-through occurs only when fossil fuels set the marginal price; in periods or regions with high renewables penetration, this effect weakens significantly as non-fossil sources increasingly determine prices. The price of carbon contributes on average 11% to electricity bills,[14] and it adds significantly less in several countries, such as France, Spain or even Italy (see Table 1). Other additions to the electricity bill can be far more impactful: taxes, levies, and network tariffs can make up nearly 50% of the final electricity bill for both industry (particularly SMEs) and households.[15]

Table 1: Share of ETS costs in overall price of electricity in 2024 for energy intensive industry in select member states.

EU Average	Germany	Netherlands	France	Italy	Spain
11%	9.5%	8.5%	1.7%	6.8%	6.5%

Source: *Lower shares of fossil gas generation in power correspond to a lower share of ETS costs. Source**: European Central Bank, 2026** and **European Commission, 2026***

[11] Politico, 5 March 2026, **Big EU lobby groups exaggerated industry support for attack on carbon price**
[12] Politico, 26 February 2026, **Italy calls for suspension of carbon price in major attack on EU climate policy**
[13] Ortelius Navigator, **ETS costs account for 2,8 to 4,3% of Belgian power prices in 2024,** 2026
[14] European Commission, **Speech by President von der Leyen at the European Parliament plenary debate in preparation of the European Council meeting of 19-20 March 2026**
[15] Ortelius Navigator, **ETS costs account for 2,8 to 4,3% of Belgian power prices in 2024,** 2026

- **In the long term**, the ETS supports structural investments in clean technology that reduce electricity prices. By incentivising renewables deployment and supporting the business case for storage and flexibility, they help displace fossil fuels from the power sector, in turn lowering EU's exposure to volatile imported fuels and supporting the buildout of a more resilient, domestic energy system. A renewables-based energy system, including the costs of grids, storage and back up is the most affordable path forwards, saving the EU €1.6 trillion compared to a slow transition scenario and €487 billion less than the next most affordable option.[16]

Targeted measures to shield exposed industries against these costs are already available, such as indirect costs compensation.[17] This allows Member States to address immediate pressures with ETS revenues, while preserving the trajectory that is essential to realising these long-term affordability and security gains. Fifteen Member States currently operate such schemes, disbursing over €5.5 billion to covered industry in 2024 alone.[18]

Direct impact on energy-intensive industry remains limited

Historically, energy-intensive industry has received significantly more free allowances than needed to cover its emissions, effectively muting decarbonisation signals.[19]

The direct cost impact of the ETS on energy-intensive industry today is significantly lower than often portrayed:

- **Free allocation still covers most industrial emissions**: 97% of total EU energy intensive industrial emissions since 2021.[20]
- This means that while the average carbon price in the period 2021-2024 was €70 per tonne of emissions, **industry effectively paid only €1.65 per tonne**; total carbon **costs are under 0.2% of GVA** in these sectors.[21] The carbon price therefore currently does not constitute a significant strain on industry cost-competitiveness.
- Industry has been a **net beneficiary of the ETS**: direct support received through national ETS revenue use and the Innovation Fund is **at least four times higher** than the carbon costs paid since 2021 (see figure 1).

---

[16] WindEurope & Hitachi, **Delivering a cost-effective energy system for Europe**, 2025

[17] The EU's indirect cost compensation system enables Member States to reimburse eligible sectors for carbon costs embedded in electricity prices, mitigating pass-through without distorting market signals. 15 Member States currently operate such schemes, disbursing over €5.5 billion in 2024 alone. The Commission amended the ETS State aid Guidelines in December 2025 to expand coverage (adding 20 new sectors and two subsectors) and raise aid intensity to 80% - further strengthening the ability to provide targeted, proportionate relief aligned with ETS objectives and avoiding the need for broader, more disruptive interventions.

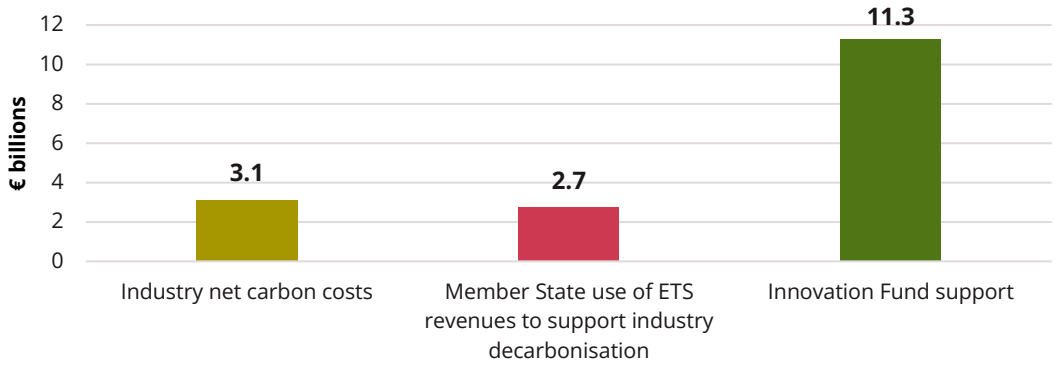
[18] European Commission, **Annual Carbon Market Report**

[19] JDI & E3G, 2022, **No more free lunch: Ending free allowances in the EU ETS to the benefit of innovation**

[20] **EEA** data

[21] E3G estimate based on **EEA** and **Eurostat**

The financial value of direct support received by industry is higher than its carbon costs (2021–2024)



Source: *E3G estimates; Industry net carbon costs based on **EEA data**; estimate of Member State use of ETS revenues is based on self-reporting by Member States as reported in the European Commission **Annual Carbon Market reports**; Innovation Fund resources as reported in the European Commission **Annual Carbon Market Report***

Figure 1: The financial value of direct support received by industry is higher than its carbon costs in recent years (€ billions, 2021-2024)

A tightening ETS must be matched with stronger enablers

Starting this year, the pairing of CBAM with the gradual phase-out of free allocation will intentionally increase industry's exposure to the carbon price. This also enables producers to pass costs down to consumers, while increased revenues can be reinvested to support industrial transformation. Rising costs should therefore not be conflated with competitiveness losses. Similarly, the progressive tightening of product benchmarks will further reduce free allocation levels, sharpening incentives for decarbonisation.

Industry had time to anticipate these changes. Indeed, the long-term price signal sent by the ETS – together with these planned adjustments – has underpinned the recent wave of clean industry investments. As ETS fundamentals are being questioned, many first movers are now left worried about the viability of their projects.[22]

Of course, strong carbon price signals alone are not enough. **The focus should therefore be on strengthening the enablers necessary to accelerate industrial transformation and improve project bankability** – stronger lead markets[23], faster access to affordable clean energy and infrastructure[24], and smarter, output-based support mechanisms – **rather than weakening the foundations.**[25]

[22] Confederation of Finnish Industry, **Strong support from Nordic business for EU emissions trading**, 2026

[23] **Open letter: call for EU lead markets strategy for low-carbon products**, October 2025

[24] E3G, 2026, **Industrial electrification in the EU – Blocked by the grid? Options for member states to unlock grid access for industrial consumers**

[25] E3G, 2025, **Powering Europe's industrial foundation**

Measures to reduce energy prices and support industry decarbonisation and competitiveness

The following measures can support delivering much needed affordable clean power for industrial electrification, while avoiding abrupt overhauls and retaining stable market signals.

Short term measures for immediate relief

- **Member States must swiftly implement the European Commission's guidance on electricity grid connections and the forthcoming guidance on electricity taxation** to accelerate grid connections and quickly reduce electricity bills for consumers.
- **Member States should use existing instruments to provide targeted relief for industry's electricity costs**, such as indirect emission cost compensation under the ETS State Aid Guidelines and temporary electricity price support under the Clean Industrial Deal State Aid Framework.
- **The Commission must continue to rigorously safeguard the integrity of the single energy market** – the cornerstone that delivers energy security, efficiency gains and sustained cost reductions – ensuring national measures do not create distortions.

Medium term measures to close gaps in industrial decarbonisation frameworks

- **The Commission should put forward joint EU solutions to address high electricity costs for industries investing in decarbonisation**, to replace national electricity price-support schemes, including indirect CO_2 cost-compensation mechanisms, to correct fiscal disparities and achieve the necessary scale to deliver more effective support.
- **Co-legislators need to swiftly adopt strengthened lead market provisions through the Industrial Accelerator Act** to provide demand certainty and improve bankability for industrial decarbonisation projects. These should be further expanded across heavy industry sectors and beyond only public demand tools.
- **Adopt differentiated, sector-specific approaches to industry decarbonisation.** Build on recent EU action plans for the metals and chemicals sectors and use the upcoming ETS review to tailor support and carbon leakage provisions to the unique needs, decarbonisation pathways, technology readiness, and leakage risks of individual sectors. The review should also enable targeted adjustments to facilitate investment – for example by reimagining remaining free allocation to reward early movers and channel revenues towards bankable projects through a well-resourced Industrial

Decarbonisation Bank and national scheme – rather than undermining the ETS price signal or simply shielding laggard incumbents.

- **Member States need to fully implement the existing Electricity Market Directive's provisions** to enable dynamic tariffs for consumers, rollout innovative non-wire grid technologies, as well as incentivise and reward flexibility by industrial consumers. Setting up rules for flexible connection contracts, including non-firm connections and phased grid access would further reduce upfront barriers for network users.

- **Scale up Contracts for Difference for renewables and long-term Power Purchase Agreements** by implementing recent legislative updates and European Commission guidance. These instruments can support shielding consumers from fossil gas volatility and provide stable electricity prices for consumers.

- **Quickly agree on and implement an ambitious European Grids Package**. Accelerating the cost-efficient build out of European grids, including though transparent and forward-looking planning processes and collaborative cross-border infrastructure are a key opportunity to advance resilient, secure and interconnected electricity grids for European consumers.

Long-term measures to structurally reduce fossil gas demand

- **Reduce the role of fossil gas in setting wholesale electricity prices.** Accelerate renewables deployment and invest in non-fossil flexibility and energy storage technology to limit gas price spillovers into power markets. Increasing non-fossil generation and flexibility can reduce the impacts of fossil gas prices while preserving clear market signals for continued investment.

- **Invest rapidly in new interconnections and continue strengthening the Energy Union.** A fully integrated market enhances resilience, lowers systems costs, and protects consumers from price shocks.

Depending on further developments in the Middle East and their effects on energy and commodity markets, the EU should also be ready to prepare and agree a new REpowerEU-style emergency package to accelerate electrification and energy efficiency measures in industry and households. This should also include additional measures like windfall taxes or the temporary emergency cap on market revenues introduced during the last crisis.

ABOUT E3G

E3G is an independent think tank working to deliver a safe climate for all.

We drive systemic action on climate by identifying barriers and constructing coalitions to advance the solutions needed. We create spaces for honest dialogue, and help guide governments, businesses and the public on how to deliver change at the pace the planet demands.

More information is available at **www.e3g.org**

COPYRIGHT

AUTHORS

Domien Vangenechten is Programme Lead of the EU Industrial Transition Team. He leads work on the transformation of the EU's manufacturing sectors and industrial policy.

Vilislava Ivanova is Programme Lead for energy transition research, focusing on cross-cutting energy transition strategies, political economy analysis and knowledge-sharing.

Rheanna Johnston is Senior Policy Advisor for EU energy transition policy, focusing on delivering grids and electrification for a fair and resilient future energy system.