

A Competitive ETS for a Strong European Industrial Base

Draft by Austria | September 2026

We, the **signing COMPET-Ministers from Austria, XXX** generally welcome the European Commission's proposal to reform the EU Emissions Trading System. It represents an important **industrial-policy correction** of the current trajectory and shows that Europe's climate policy is increasingly taking competitiveness, investment and strategic independence into account.

We see this proposal as an effort to create a realistic and more market-oriented emissions trading system.

The European Commission has taken up several key concerns raised by the European industry:

- the linear reduction factor would fall to **3.7% from 2031-2035 and 1.7% from 2036-2040**, allowing allowances to remain available into the 2040s;
- the phase-out of free allocation for CBAM sectors would move from **2034 to 2038**;
- approximately **EUR 6 billion** in additional free allocation is envisaged for 2026-2030;
- up to **260 million high-quality international credits** would create additional flexibility;
- permanent carbon removals would be integrated into the ETS;
- an **Industrial Decarbonisation Bank of around EUR 100 billion** and an ETS Investment Booster of approximately **EUR 30 billion** would substantially strengthen industrial transformation financing.

These are important corrections in the right direction. But they can only serve as a first step for the reform discussions on this file in the months to come.

Competitiveness must become the core principle of the ETS

The EU ETS has helped reduce emissions in covered sectors by more than **50% since 2005** and has generated more than **EUR 270 billion in revenues**. At the same time, European industry is operating under substantially higher energy and carbon costs than almost all its international competitors and essential prerequisites for decarbonisation are currently neither sufficiently available nor cost competitive. The next phase of European climate policy therefore cannot be measured by territorial emission reductions alone. We also must look at **industrial production, enabling investment, carbon leakage, employment and European value creation**. A tonne of CO₂ is not saved globally if its production simply moves from Europe to a third country with higher emissions.

Europe must reduce emissions and strengthen industrial value creation at the same time.

2038 cannot become the next cliff edge

We welcome the extension of free allocation for CBAM sectors from 2034 to 2038. However, **2038 is too early to become an automatic end date and the volume of free allocation in the coming years is far too small**. The phase-out of free allocation including its trajectory must depend on whether CBAM has demonstrably become an equivalent and effective carbon-leakage protection instrument. That is not currently the case. European industry is being asked to

undertake multi-billion-euro investments in electrification, hydrogen, CCS/CCU and new production processes. These investments require affordable electricity, functioning grids, hydrogen as well as according input materials availability and CO₂ transport and storage infrastructure. Where these conditions are not yet available, removing carbon-leakage protection does not accelerate transformation, it risks accelerating the relocation of production. We therefore call for a simple principle: **CBAM must work first. Free allocation should only end by ensuring an effective and reliable carbon leakage protection and business perspective.**

The biggest gap remains exports

The most important unresolved issue is the lack of a structural solution for European exports. CBAM can protect the European market against certain carbon-intensive imports. But a European company exporting to world markets continues to bear EU carbon costs while competing against producers that may face no comparable burden. This is particularly problematic for Europe's energy-intensive and export-oriented industries. **A border adjustment without an effective export solution is only half a carbon-leakage policy.** We therefore call for a, **administratively workable export solution** as part of the CBAM review. Temporary financial support cannot replace a structural solution. If European companies lose global market share because they produce under Europe's climate rules, neither Europe's industrial base nor the global climate benefits.

Less bureaucracy, more investment freedom

We also **remain concerned about the proposed new conditionality for free allocation.** Free allocation is an instrument designed to prevent carbon leakage and should therefore be maintained in its current form. Linking the allocation of free allowances to investments that are not even feasible due to the lack of an appropriate regulatory framework would effectively force companies to shift their investments abroad. Conditionality does not create Business Cases. Under the Commission proposal, **80% of free allowances** would be linked to an approved decarbonisation investment plan, while the remaining **20%** would only be granted after an ex-post verification of implementation and emission reductions. The objective of linking support to transformation must also be linked to investments already made. However, this approach creates uncertainty for the companies concerned and would also entail a substantial administrative burden.

More flexibility and more private investment

We support the Commission's opening towards international credits and permanent carbon removals. Climate change is global. High-quality international reductions that meet strict standards of additionality, environmental integrity and avoidance of double counting can reduce transformation costs without lowering climate ambition. The proposed **260 million international credits** should therefore be a starting point rather than an artificial ceiling. The same applies to CCS, CCU, DACCS and BioCCS. Hard-to-abate industries need real technological

options. Europe must create the infrastructure and regulatory conditions that allow these technologies to scale commercially. We also welcome the **EUR 100 billion Industrial Decarbonisation Bank**. But public money alone cannot finance Europe's transformation. The purpose of European industrial policy must be to **mobilise private capital**, not to replace it. Europe needs competitive energy prices, predictable regulation, faster permitting and a deep capital market.

Governments cannot permanently subsidise an uncompetitive business environment. It must predictably create the conditions in which private investment becomes profitable again.

Our priorities for the negotiations from COMPET-Minister's perspective:

1. **No automatic end of free allocation**; instead, the phase-out must be linked to the demonstrated **effectiveness of CBAM and the availability of a viable business case**.
2. **A trustworthy ETS trajectory up to 2050**, including sufficient allowance availability for technologically unavoidable residual emissions.
3. **A genuine effective CBAM export solution** to protect European companies competing on global markets.
4. **Simpler conditionality**, no disproportionate combination of ex-ante and ex-post controls and no unnecessary liquidity burden for industry.
5. **Recognition of first movers** that have already invested substantially in decarbonisation.
6. **Prior application of high-quality international credits and permanent carbon removals**, under strict environmental-integrity standards.
7. **A liquid and predictable carbon market**, including a Market Stability Reserve that prevents excessive volatility rather than creating artificial scarcity.
8. **Use of ETS revenues for productive industrial investment**, while preserving sufficient national budgetary flexibility.

The Commission proposal shows that Europe is beginning to recognise an economic reality: **There will be no successful green transition without a competitive European industrial base.** The ETS should remain a strong, market-based instrument. But its success must be measured by whether it generates **lower emissions, more investment and more industrial value creation in Europe.**

We will **support the Commission where it moves in this direction and push for further improvements where competitiveness and carbon-leakage protection remain insufficient.**

Our objective is not less climate ambition. Our objective is more industrial strength to deliver that ambition. Less emissions. More investment. More European industry.