

ETS the Cornerstone of EUs Climate Policy

Non-Paper by Portugal, Spain, The Netherlands, Luxembourg, Slovenia, Danmark, Finland and Sweden

Europe has limited access to fossil resources and is facing increasing competitive pressure at the global level. **Decarbonisation is therefore an essential condition** for preserving its economic competitiveness, ensuring the survival of its industry, strengthening its energy security, and reinforcing the Union's strategic autonomy.

The European Emissions Trading System (ETS) is the cornerstone of the EU's climate policy and is essential for providing the signals needed to strengthen European industry and to drive decarbonisation and reindustrialisation based on domestic, clean, affordable energy sources, while ensuring economic security.

European industry and energy markets require a stable regulatory framework that guides and unlocks the necessary investments. To this end, the stability of the ETS, as a carbon pricing instrument, is fundamental for attracting investment and providing long-term visibility to industrial sectors. A robust and predictable carbon price is a key signal for mobilising capital towards clean technologies and supporting the transformation of production processes, an area in which European industry has significant strengths.

In this context, the ETS has proven to be an efficient and cost-effective tool, allowing operators the flexibility to choose the most suitable compliance strategy, reducing the transition costs for businesses, consumers and governments. It is a well-established instrument that has evolved over time. Improving its design and functioning remains a priority in order to enhance both its efficiency and stability. Furthermore, for the price signal to work properly, the industries should have a real choice to transform their production processes. In the context of competitiveness and decarbonisation, support mechanisms for European industry, such as an industrial decarbonisation bank, have been identified.

The ETS is also a driver of innovation and modernisation in the European productive sector. The path towards long term competitiveness necessarily involves electrification and a swift transitioning away from fossil fuel energy. Europe can turn decarbonisation into a lever for industrial renewal and the creation of high-quality jobs.

Decarbonisation is already helping reduce our dependence on fossil fuels, strengthening our resilience, lowering structural energy costs, and enhancing our competitiveness. Revenues from the auctioning of emission allowances are

essential for financing this industrial transformation. The ETS supports a swift transitioning away from fossil fuel energy which in turn reduces energy costs for industries.

Making fundamental changes to the ETS, calling into question the ETS instrument itself, or suspending it, would constitute a very worrying step backwards, not only in terms of climate ambition, but also in weakening the carbon price signals that underpin investment and market stability. It would distort the level playing field, dramatically penalise early movers who have already invested and innovated in decarbonisation, slow down future investments, and undermine the ongoing transformation of economic and financial systems towards competitive, fair and sustainable models. In any case, targeted adjustments to the system that help preserve stability during periods of volatility and do not undermine the purpose of the system may be welcome.

Maintaining a robust carbon price is also key to securing the revenues needed to support industrial decarbonisation and clean technologies. The upcoming ETS review should support decarbonisation, investment and employment in Europe, while minimising the risk of carbon leakage. It is essential to provide large-scale, rapid and flexible investments to support the deployment of clean industrial processes.

Strengthening climate ambition is, can and should be aligned with promoting economic growth, energy security, and strategic autonomy. Decarbonisation offers Europe an opportunity to become an industrial leader in clean technologies, reduce energy prices and dependency to extra-European shocks and strengthen its competitiveness through industrial renewal. It is therefore crucial to maintain common price signals and avoid unilateral measures that could undermine the single market.