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Towards an ETS that works for climate and the transformation of industry

WG position paper on the 2021 update of the EU emissions trading system

INTRODUCTION

This decade will be pivotal in halting the worst effects of the climate emergency and living up to the Paris Agreement. In order to keep the EU in line with a 1.5°C compatible pathway the EU must achieve at least 65% overall emission cuts by 2030, which will require all climate related legislation to be radically revised. The European Parliament, and in particular the Green/EFA group will need to inject ambition for the Commission's 'fit for 2030 package' to be sufficiently ambitious.
The global race to climate neutrality is afoot and the EU needs to be bold to ensure European industry leads the way in the green and just industrial transformation.

The EU Emissions Trading System Directive (ETS) is supposed to be a central piece of legislation to establish the polluters pays principle and incentivising the decarbonisation of power generation, industry and aviation. Yet despite the recent rising price of carbon, the environmental and societal cost of GHG-emissions is still much higher. A surplus of emissions allowances and free allocation has led to insufficient price signals to trigger the systemic shift away from fossil fuels towards green solutions. This ETS revision must trigger this shift and help transform Europe's industry and support the shift to renewables.

The revision is not only about a higher carbon price, but also about creating the best possible instrument that works for climate and the green transformation of the power sector and the EU industry. The ETS is part of a toolbox, alongside other legislation such as Renewable Energy Directive (RED), Energy Efficiency Directive (EED), the Energy Performance of

Buildings Directive (EPBD), Carbon Border Adjustment Mechanism (CBAM), the Energy Taxation Directive (ETD), which
should phase-out fossil fuels and phase-in carbon neutral technology. Ambitious carbon pricing therefore needs to be
accompanied by rapid and massive deployment of renewables and energy efficiency measures.

In this paper, we outline our position on this year's revision of ETS. The EU must:

- Get the price right by getting rid of the surplus allowances, ending free allocation and setting a carbon floor price;
- Get the scope right, by including aviation and shipping and excluding road transport and heating;
- Get the incentives right, by investing back into climate action and create an international level playing field. Theseare our 3 priorities for the revision of ETS. In order to make ETS the true cornerstone of EU climate policy.

OUR CORE DEMANDS:

Coal phase out and towards 100% renewables!

- We need a strong CO2 price and no more free rides for polluters. This means establishing a carbon floor price of 50 euros from 2023 and an increase of the carbon price to 150 euros by 2030. This will ensure we achieve the phase-out of coal in the EU by 2030 and decisively move towards 100 per cent renewables.

Boost Europe's industrial modernisation!

- Climate-friendly businesses must be rewarded and polluters pay for the environmental cost caused. This means: free allowances phased out - including for industry and aviation. This will eliminate market distortion and finally establish a serious price signal for businesses to invest in green solutions. The revenues from the carbon price must be reinvested in the green modernisation of industry through instruments and measures such as carbon contract for difference, public procurement for green industrial products and standardisation.
- Increased revenues should result in significantly increased existing EU pots to support economic transformation - such as the modernisation or innovation fund. Rules for how ETS revenues are spent nationally must be strengthened further.
- To protect domestic industry, we will support the introduction of the carbon border adjustment mechanism. Imports with a high CO2 content will be taxed at the EU's external borders. This will reduce the risks of carbon leakage and generate increased revenues to support the green n modernisation of European economy, as well as climate action abroad

No second emissions trading for transport and buildings!

- To deliver the ecological transition in a socially just way, it has to happen together with people. Instead of imposing an additional burden on citizens by extending emissions trading to transport and buildings, we should rely on already regulatory laws such as emission limits for cars and vans or a phase out date for the internal combustion engine. In this way, climate protection and social justice can go hand in hand.
- CO2 car fleet limits andthe Energy Efficiency Directive for buildings work - they just need to be

tightened up. By doing this in the right way, we will be able to phase out the internal combustion engine by 2030 and trigger a job boom through a wave of renovation in the EU.

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Responsible MEPs

Michael Bloss

Member

Contact person

Yan Dupas

Advisor on Environmental Issues

Attached documents

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