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EU Emissions Trading System (ETS) after 2030: combining competitiveness and emissions reduction

Executive summary

Orgalim calls for a predictable and pragmatic post-2030 EU Emissions Trading System (ETS) framework that **combines climate ambition with industrial competitiveness and investment capacity**. The review should preserve the EU's 2040 and 2050 climate objectives while giving European industry a clear investment signal through to 2040, including investment in infrastructure, technologies and with the financing needed to decarbonise competitively. In particular, the post-2030 ETS should:

1. Establish a robust carbon price based on a smoother, predictable post-2030 linear reduction factor trajectory
2. Direct more ETS revenues to industrial decarbonisation and continue indirect carbon cost compensation, with broader eligibility and harmonised implementation.
3. Include municipal waste incineration through a coordinated EU approach.
4. Integrate high-integrity permanent carbon removals to complement emissions reductions.
5. Recognise and support industrial frontrunners.
6. Provide an effective, WTO-compatible solution for export-exposed manufacturers across the value chain.

Together, these measures should deliver a stronger investment signal and curb the risk of carbon leakage.

The EU ETS review must set a credible post-2030 trajectory that combines climate ambition with industrial competitiveness and investment capacity. As a market based, technology-neutral and cost-efficient tool, the EU ETS, with a robust carbon-price signal, is a key driver for decarbonisation and investment in clean tech, and has been instrumental in the green transition of EU's energy system and industrial sector over the past two decades. Orgalim therefore welcomes the European Commission's proposed recalibration of the Linear Reduction Factor as an important step towards a more pragmatic pathway beyond 2030, as well as future-proof rules for carbon leakage protection including the postponement of the phase-out of free allocations for CBAM-covered sectors to 31 December 2037.

The review must combine a predictable and robust carbon-price signal with stronger support for industrial investment and a coherent extension of carbon pricing to other emitting sectors. The revised framework should preserve the EU's 2040

and 2050 climate objectives while giving European industry the time, infrastructure, technologies and financing needed to decarbonise competitively. A robust investment signal will support investments also in EU's strategic objectives on long-term competitiveness and energy security. A well-functioning ETS is for these reasons critical for EU's future.

Orgalim's six priorities for the post-2030 ETS

1. Adopt a pragmatic and predictable Linear Reduction Factor trajectory

Orgalim supports recalibrating the post-2030 Linear Reduction Factor (LRF) so that the ETS cap does not fall to zero prematurely and the system remains aligned with the EU's 2040 target and climate neutrality by 2050. In particular, we support a 90% reduction compared to 2005 (when the system was launched), which would mean that EU ETS 1 reaches carbon neutrality by the mid-2040s. The final framework should avoid abrupt changes, preserve a robust and predictable carbon-price signal and be reviewed against evidence on industrial transformation, energy and infrastructure availability, technological readiness and international competitiveness.

Orgalim therefore calls on the European Parliament and the Council to maintain a smoother post-2030 LRF trajectory as proposed by the Commission, accompanied by transparent monitoring and an evidence-based review clause.

In addition, Orgalim welcomes the postponement of the phase-out of free allocation for CBAM-covered sectors proposed by the Commission. Increased carbon costs borne by upstream industries risk eroding European industrial capacity and triggering carbon leakage. Orgalim reiterates the call for an effective export solution addressing the risks faced by both upstream and downstream producers competing in markets without equivalent carbon costs.

2. Use ETS revenues to accelerate industrial decarbonisation investment in Europe and the continuation of indirect carbon costs compensation

A substantially larger and clearly defined share of auctioning revenues should be channelled back not only to ETS sectors, **but more broadly into industrial transformation, including electrification, energy efficiency, clean energy supply, grids, circularity, carbon management and research and innovation**. Funding should support both innovative solutions and commercially available technologies that can deliver emissions reductions now. Access to the Innovation Fund and related instruments must become faster, simpler and more predictable, with proportionate requirements for projects of different sizes and sufficient accessibility for small and medium-sized enterprises.

Stronger earmarking of the Members States' ETS income to support decarbonisation in sectors affected by the EU ETS would also help speed up emissions reductions in a way that helps competitiveness. In this regard, Orgalim supports the European Parliament rapporteur's proposal to **increase the minimal share of auctioning revenue earmarked for industrial decarbonisation to 75%**. Transparency and accountability measures will be needed to ensure that ETS revenues genuinely support climate and energy objectives and strengthen Europe's industrial base.

Protection against indirect carbon costs must also be preserved in order to support investment capacity. In this context, Orgalim welcomes the proposed **continuation of indirect cost compensation beyond 2030** in the Commission proposal recital 42 as an essential safeguard for manufacturers. The extension after 2030 should also provide an opportunity to **expand sectoral eligibility** by revising the methodology used to identify eligible sectors in the upcoming ETS State Aid Guidelines, drawing on data available across all sectors so that manufacturers facing comparable constraints are not excluded because of data gaps. The eligibility list and methodology should also be reviewed with regard to their

implications for other support mechanisms, including special electricity tariff schemes. In addition, the system and its extension should be closely monitored to ensure harmonised implementation across Member States and avoid an adverse effect on the single market.

3. Support the inclusion of municipal waste incineration in the EU ETS

Bringing municipal waste incineration within the system would strengthen incentives for waste prevention, reuse and recycling, improve consistency in carbon pricing across emitting sectors and support investment in more circular and lower-carbon waste management. This is a building block of the future circular economy in Europe. The extension should be implemented through **a harmonised EU approach that avoids distortions between Member States and prevents the diversion of waste to landfill or exports outside the EU**. It should be accompanied by robust monitoring, clear rules on the treatment of fossil and biogenic emissions, and a predictable transition that gives operators and public authorities sufficient time to prepare.

4. A role for permanent carbon removals into the EU ETS

Orgalim welcomes the proposed inclusion of permanent carbon removals in the EU ETS, in line with our call for their adequate integration into the system. **High-integrity removals will be needed to address residual emissions and support climate neutrality by 2050**. Their inclusion should complement, not replace, rapid emissions reductions and should be governed by robust sustainability, permanence, monitoring and verification criteria. A technology-neutral framework should provide a credible investment signal for scalable permanent removal solutions in line with the Carbon Removals and Carbon Farming Regulation (CRCF) while safeguarding the environmental integrity and stability of the ETS. **An earlier inclusion of the carbon capture and removal technologies in the EU ETS in 2029 as proposed by the European Parliament draft report would be welcome** to stimulate the deployment of the technology – provided the purchasing programme for the removals is ensured.

5. Recognise industrial frontrunners

The ETS review should recognise that many industrial installations have already made substantial investments to improve energy efficiency and reduce emissions. These investments and their respective business cases are based on future robust carbon-pricing for the decade to come. Any policy changes should avoid disadvantaging companies that acted early compared with those delaying investment decisions. In this context, Orgalim welcomes the stronger recognition of industrial frontrunners in the European Parliament draft report, encompassing companies that have undertaken significant decarbonisation investments before 2029 and that are included among the **40% best performers – instead of only the 10% most efficient installations**. Together with a robust carbon prices investment signal, this approach supports the industrial transformation and helps ensure that companies investing ahead of regulatory requirements are appropriately recognised and supported during the transition.

Recognition of frontrunners should extend beyond ETS installations. Downstream European manufacturers are also making substantial investments in electrification, energy efficiency and low-carbon production, while bearing higher costs for decarbonised basic materials. The EU's broader industrial policy and funding framework should offer incentives to these early movers outside ETS1.

6. Provide an effective solution for export-exposed sectors

Orgalim urges decision-makers to provide an effective solution for European manufacturers that export to markets where competitors do not face an equivalent carbon cost.

As free allocation declines, these companies may be unable to pass ETS and CBAM costs on through international markets, weakening their competitiveness and discouraging production and investment in Europe. The risk of carbon leakage is real: production and emissions could shift to jurisdictions with weaker climate requirements, undermining both Europe's industrial base and the EU's climate objectives. The co-legislators must therefore establish **a practical, WTO-compatible mechanism that preserves manufacturers' global competitiveness across the value chain while maintaining incentives to decarbonise**.

Orgalim represents Europe's technology industries, comprised of 770,000 innovative companies spanning the mechanical engineering, electrical engineering, electronics, ICT and metal technology branches. Together they represent the EU's largest manufacturing sector, generating annual turnover of over €2,972 billion, manufacturing one-third of all European exports and providing over 11,9 million direct jobs. Orgalim is registered under the European Union Transparency Register – ID number: 20210641335-88.

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