

IENE Comment

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working for industry**



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Lakshmi Mittal *

Earlier this year, the European Commission signalled it was willing to do something that previously would have been rejected as politically impossible — relax the emissions trading system, the EU's flagship climate policy, for industry.

This development, which comes at the same time as the EU recommitted to reducing the continent's CO₂ emissions by 90 per cent by 2040, is an acknowledgment that the policy isn't working as it should.

The ETS — which puts a price on CO₂ emissions — has been a foundational pillar of the EU's ambition to lead the world on the energy transition. It offered a mechanism to punish emitters and incentivise decarbonisation, while allowing Europe to establish a lead in lower-cost, greener energy.

In some sectors, it has delivered results. The most obvious example is power, where technologies have become commercially scalable and, in many cases, cheaper than fossil generation. Emissions from EU27 power and heat plants have fallen by about 49 per cent between 2005 and 2023.

But it is not working for energy-intensive industry. Witness European steel, where only limited decarbonisation projects have been given the go-ahead. Low-cost, low-emission energy sources for steel and other energy-intensive sectors remain elusive. Decarbonisation enablers such as competitive electricity prices, low-cost green hydrogen, carbon contracts for difference, “green premia” for steel, and carbon capture and storage are not in place. No company can afford to invest without a credible path to competitiveness.

Moreover, Europe is in effect alone in charging a significant cost for CO₂ emissions. And contrary to hopes, energy prices in Europe are much higher than elsewhere. European industry has therefore lost competitiveness, not just in its own market but in export markets, which provided a large source of growth.

Against this backdrop, the issue of greatest concern for the steel industry and other “hard to abate” energy-intensive industries is the rapid and large increase in planned ETS costs over the next five years. By the early 2030s, assuming no free CO₂ allowances and a carbon price of €150 a tonne, we calculate the cost of steel made in the EU will have increased by about 50 per cent. This will be a direct result of the additional CO₂ costs imposed by the ETS.

This in turn will have profound implications for steel-intensive manufacturing. EU manufacturers will have higher ETS costs, yet it remains unclear when steel-intensive imports will bear comparable costs. Nor has the Commission implemented a proposed rebate to remove these costs from exports of steel-intensive goods (which happens, for example, for VAT).

These higher costs will pass down the value chain, causing a decline in competitiveness and

activity, accelerating deindustrialisation, collapsing investment and a further reduction in manufacturing employment in Europe. This would be directly at odds with the objective, set out in the EU Industrial Accelerator Act, of increasing manufacturing as a share of GDP to 20 per cent.

We estimate that under an ETS “as is” scenario, the impact could be a 30 to 40 per cent decline in EU manufacturing activity, with implications along the value chain for up to 5mn jobs.

This outcome has to be avoided. A way of incentivising decarbonisation without compromising competitiveness must be found. It is not an easy problem to solve, but reform of the ETS is essential and we applaud European policymakers for putting the topic back on the agenda. Important steps to support Europe’s steel sector have already been taken; in January the carbon border adjustment mechanism was introduced, and the tariff-rate quotas will be introduced on July 1. Fixing the ETS is the final piece of the puzzle.

Decarbonisation is the goal everybody seeks, but the solution for the steel industry lies in pausing the ETS at its current level until the enablers of economically viable decarbonisation are in place and core issues of import and export competitiveness resulting from any unintended consequences are resolved.

During that period, it will be important to ensure that ETS revenues are used for industry decarbonisation, and that first movers continue to be incentivised and not penalised. Only then will our industry be able to responsibly contribute to Europe achieving its 2040 emissions reduction targets while maintaining a vibrant, competitive manufacturing sector — an aim we all want to achieve. The choice is not between climate ambition and competitiveness. The choice is between a climate strategy that strengthens Europe’s resilience and economic security, and one that hollows it out.

**** The writer is executive chair of ArcelorMittal. This article was published in the Financial Times on June 17, 2026.***

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