Driving the EU's clean transition and competitiveness with a strong EU Emissions Trading System

July 2026

The Commission is modernising the EU's main decarbonisation policy, the **EU Emissions Trading System** (EU ETS), to make it an even stronger driver of investment, innovation and industrial competitiveness, in line with the EU Climate Law and the Clean Industrial Deal. The proposal maintains the ETS' market-based foundation while updating the system to meet Europe's industrial needs in a challenging geopolitical context. **Climate action, investment, competitiveness, resilience** and a level playing field will be at the heart of the updated framework. We will reward those leading the transition while supporting those that need more time to catch up.

What will the EU ETS reform deliver?

- **More financial support for clean investments in European industry** creating stronger incentives and driving competitiveness
- **A well-functioning carbon market,** aligned with the 2040 target
- **A stable and predictable carbon market** improving liquidity and resilience to price volatility
- **Support for Europe's deployment of home-grown clean technologies, sustainable fuels and competitive industries** reducing fossil fuels dependencies and imports
- **Continued protection against carbon leakage alongside CBAM** modernising free allocation, now conditional on investment in industrial decarbonisation
- **EU solidarity across Member States** with a Modernisation Fund upgrading energy systems in lower-income countries
- **Faster decarbonisation in aviation and maritime sectors while expanding to cover carbon removals and waste**
- **Create new business opportunities** reducing administrative burden, addressing evasion and ensuring a level playing field

How does the reform strengthen the ETS?

Investment in industrial decarbonisation

- **New Investment Booster** frontloading the new **Industrial Decarbonisation Bank** (2030-2040) with a total budget of €100 bn
- **Innovation Fund** maintained to spur first-of-a-kind clean technologies
- Strategic use of ETS revenues, earmarking minimum spending for priority sectors

Relief to EU industry with a stronger carbon market

- Emissions cap to fall in line with **2040 climate target**
- Permanent removals integrated
- **Market Stability Reserve** updated
- **Free allocation** continues beyond 2030, with €6 billion more for 2026-2030
- Free allocation continues to support frontrunners and is now conditional on investments in industrial decarbonisation in Europe
- Free allocation related to CBAM sectors phasing out at slower pace up until 2038

Business opportunities in ETS sectors

- Strengthens EU ETS in **aviation and maritime transport**, and extends it to **waste**
- Promotes investment in clean technologies and sustainable fuels in aviation and maritime sectors
- Addresses risks of evasion, supports a level playing field and improves coherence with international developments

Solidarity for lower-income Member States

- **Modernisation Fund** will continue to modernise energy systems
- Modernisation Fund disbursements conditional on respecting the rule of law
- Guaranteed access to Investment Booster for lower-income Member States

Key figures

Emissions reductions in ETS sectors **-50%** since 2005

Over €270 bn in ETS revenues since 2005

~€100 bn Industrial Decarbonisation Bank 2030-2040

~€30 bn Investment Booster (first phase of the IDB for period 2028-30)

€20 bn for the Modernisation Fund with **10%** solidarity redistribution

~40% of total EU greenhouse gas emissions covered

~€15 bn for the Innovation Fund since 2020

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