Press

Forum für Zukunftsenergien

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European Energy Colloquium
Reforming the ETS1:
Between Climate Protection and Competitiveness

Brussels, November 9, 2026 – In response to high energy prices, global competition, and growing pressure on European manufacturing, the European Commission released its long-awaited proposal to revise the EU Emissions Trading System (EU ETS1) in July 2026. The central challenge of this reform is to align the market with the EU's ambitious 2040 climate goal while protecting the industrial backbone of Europe. While industry associations welcome the measures as necessary relief against soaring operational costs, critics argue that softening the carbon price signal threatens Europe's climate targets and rewards delayed action. In the framework of the European Energy Colloquium, the Forum für Zukunftsenergien discussed whether the proposed reform strikes the right balance between climate ambition and economic survival together with the European Commission, scientific experts and representatives of the affected industries.

Ruben Vermeeren, Deputy Head of the carbon markets unit at the European Commission's DG CLIMA, explained that the proposed legislative reform of the EU Emissions Trading System (ETS), published in July 2026, would be essential to bring the system in line with the EU's 2040 climate target of achieving a 90 percent net emission reduction. He stated that the revised cap trajectory would see a reduced linear reduction factor of 3.7 percent from 2031 to 2035 and 1.7 percent from 2036 onwards, while being complemented by allowances for permanent domestic carbon removals and high-integrity international credits. Vermeeren emphasized that the Market Stability Reserve (MSR) parameters would be adapted to a lower intake rate of 12 percent to maintain market stability in a shrinking carbon market. Furthermore, he pointed out that free allocation for industry would transition into investment allowances tied to mandatory corporate decarbonisation plans. To support a fair transition, targeted financial assistance would be provided through enhanced solidarity mechanisms such as the Modernisation Fund, the Investment Booster, and the Industrial Decarbonisation Bank (IDB). Vermeeren also advocated for the gradual scope extension of the ETS, which would incorporate smaller ships in the maritime sector, flights landing in countries within a 5,000 km radius, and the gradual phase-in of municipal waste incineration between 2031 and 2034. Finally, he stressed that Member States would be required to dedicate at least 50 percent of their ETS revenues to sector-specific climate investments, with co-decision negotiations targeting an agreement in early 2027 ahead of implementation.

Mario Liebensteiner, Professor of Energy Markets at the Friedrich-Alexander University Erlangen-Nürnberg, explained that overlapping policies would fail to achieve additional carbon abatement due to the structural mechanics of the EU Emissions Trading System (ETS). He stated that because the ETS operates with a fixed, binding cumulative cap, a reduction in certificate demand caused by national or complementary measures, such as renewable subsidies or energy efficiency standards, would merely lower allowance prices without decreasing total emissions, a phenomenon widely known as the waterbed effect. Liebensteiner emphasized that this waterbed

effect was scientifically well-established in economic literature and neoclassical theory, which traditionally dictates that every market failure should be addressed with a single, appropriate policy instrument. He pointed out that under these assumptions, overlapping policies would be redundant and likely increase overall abatement costs unless they targeted distinct market failures like innovation spillovers or local pollution. Furthermore, he noted that while mechanisms like the Market Stability Reserve (MSR) and endogenous cap adjustments would puncture the waterbed effect by invalidating surpluses, they would only offer an imperfect correction that could distort expected prices, complicate rules, and fail to restore cost efficiency.

In the panel discussion, moderated by **Ulrike Drachsel**, Managing Director of the Forum für Zukunftsenergien, **Dr. Tobias Rammel**, Head of EU Representative Office at RWE AG, and **Thomas Richter**, Vice President, Global Government and Public Affairs at Solvay discussed the key aspects of the ETS1 Reform with the audience. Rammel explained that while companies would remain committed to climate goals, the ETS would not be the sole factor driving high energy prices, noting that cheaper green hydrogen and additional molecules would be required. He emphasized that the system needed to remain ambitious, market-based, and predictable, stating that carbon pricing alone could not deliver the entire industrial transformation without proper enabling conditions and robust carbon leakage protection. Furthermore, he noted that while he would not be overly worried about the timeline itself, he would be concerned about critical decisions being negotiated hastily in the middle of the night. Richter pointed out that European industry was actively decarbonising but warned that green hydrogen developments had fallen behind expectations and that shrinking demand paired with massive imports from the US and Asia created significant uncertainty. He stressed that the timeline for current reforms would be too short and tight, though he believed there would be plenty of room to find an agreement. He advocated for an unconditional approach to free allocations, a level playing field, and ensuring that at least 75% of ETS revenues would be channelled back into supporting the decarbonisation of ETS sectors. Adding to the discussion, Viola Rocher, Managing Director of the EU Delegation in Brussels from BDEW Bundesverband der Energie- und Wasserwirtschaft e.V., noted from the audience that path dependency would play a critical role, emphasising that the environmental and climate targets could not be watered down.

We thank the **RWE AG** for the support and **Rhineland-Palatinate State Representation in Brussels** for its hospitality!

The presentations will soon be available for members of the Forum für Zukunftsenergien e.V. to download from the Website (Press/Publications). If you or your company/institution are members of the Forum für Zukunftsenergien and do not yet have access data, please send an email to: info@zukunftsenergien.de.

About the Forum für Zukunftsenergien e.V.

The Forum für Zukunftsenergien is the only industry-neutral and politically independent institution in the energy sector in the pre-parliamentary arena in Germany. The registered association promotes renewable and non-renewable energies as well as rational and economical energy use. Its goal is to promote a secure, affordable, resource-efficient and environmentally friendly energy supply. The association has approximately 230 members from industry, the energy sector, associations, research and service institutions, as well as prominent figures from politics, business, science and administration.

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