

UFE's reply on the [European Commission's roadmap regarding the update of the Emission Trading System \(ETS\)](#)

UFE welcomes and fully supports the Commission's initiative to strengthen the ETS to contribute to achieving the new ambitious climate targets for 2030 and 2050. A reform of the ETS is needed to maintain its efficiency in the decarbonisation of the EU economy.

1. The ETS must be reinforced as the core instrument of decarbonisation in the EU

Carbon pricing is a very efficient tool to guide infrastructure planning and investment decisions. Therefore, the carbon price level on the ETS market must send **adequate signals** to stimulate industrial investments in low-carbon technologies.

Considering the proposed target of at least 55 % of GHG emissions reduction by 2030 and carbon neutrality by 2050, a **predictable carbon price** is essential to ensure the ETS plays a key role in decarbonising the EU economy while guaranteeing a smooth and fair transition. In this regard, UFE is in favour of the creation of a **carbon floor price of at least €30/tCO₂** on the ETS. This would also provide industry with a more predictable price outlook, which is essential for investment planning.

UFE strongly **supports the review of the linear reduction factor (LRF)** to align the ETS with the new climate targets and **welcomes the Commission's will to examine a one-off reduction of the cap** to reflect more accurately the actual emissions level.

2. A single ETS for all sectors is not the right instrument to foster decarbonisation in the EU

All sectors, including non-ETS sectors, must participate in the achievement of the 2050 climate-neutrality objective.

Although it is of the utmost importance to ensure that all sectors are subject to a meaningful CO₂ price signal or CO₂ standard regulation, UFE strongly believes that **one ETS for all sectors is not the right tool to support the decarbonisation objective of the EU**.

Some sectors, such as road transport and heating, are by nature **decentralised and not at risk of carbon leakage**. The ETS is therefore not the most effective tool to drive decarbonisation in these sectors, as effective sectoral legislation is already in place at European and national levels.

For instance, CO₂ legislation for the road transport sector¹ gives a clear long-term price signal to both consumers and car manufacturers. **Extending the ETS to road transport would increase the cost of transport for vulnerable households**, without inducing significant GHG emissions reduction. Indeed, the carbon price should reach around 200€/tCO₂ to drive significant behavioural changes. In this context, it is both fairer and more efficient to support households via investment aid.

The same applies for the building sector, where some existing sectoral legislation could lead to GHG emission reduction. In any case, the ETS won't have the expected outcome due to an insufficient CO₂-price level. UFE recommends reinforcing the climate-centric approach in the building legislation.²

When it comes to the **maritime and aviation sectors**, UFE is **in favour of an extension of the ETS**: the structure of these sectors, comprising few stakeholders, is conducive to an inclusion in the ETS.

¹ Such as [Regulation \(EU\) 2019/631 setting CO₂ emission standards for cars and vans](#) currently under revision; [Directive \(EU\) 2019/1161 on the promotion of clean and energy-efficient road transport vehicles](#); [Regulation \(EU\) 2019/1242 setting CO₂ emission performance standards for new heavy-duty vehicles](#).

² For more details, see [UFE's position paper on the Renovation Wave](#).

Therefore, UFE calls on the Commission to bear in mind that **the same carbon pricing instrument will not be suited for all sectors**. The extension of the ETS must be carefully assessed and its effectiveness must be compared with other carbon pricing solutions, always taking into consideration particularities of each sectors (marginal abatement cost, risk of carbon leakage etc.).

3. Consistency among all EU climate policy instruments is essential

In order to achieve the climate ambition of the EU, consistency among climate policy instruments and sectoral regulations is key.

The ETS revision is closely linked **to the revision of the Effort Sharing Regulation (ESR) and the implementation of the carbon border adjustment mechanism (CBAM)** and the review of the LRF and the MSR will depend on the scope of the revised ETS. When it comes to carbon leakage, the future of free allowances in the ETS will need to be assessed in the light of both the scope and parameters of the upcoming CBAM.

In reviewing the ETS, the Commission will also need to take into consideration the **new 2030 RES and energy efficiency targets**.

The ETS has proved to be an efficient tool to drive decarbonisation in the EU but has been fragile for a long time. Its update is needed to align it with the new EU climate objectives, but the Commission must ensure it does not lead to a weakening of the instrument.

4. The MSR should be adapted according to the evolution of the ETS and other targets

The 2021 market stability reserve (MSR) review is an opportunity to update its operational parameters: **the MSR should be updated to reflect the evolution of the market balance in an increasingly decarbonised economy**.

The effects of the extension of the ETS, of a CBAM (through possible higher share of auctioning), and of the RES and EE enhanced targets will also affect the ETS market balance, and have to be integrated in the study of the MSR evolution. The thresholds should be studied (whether according to TNAC volume or to price level), together with the possible adjustments of the MSR behaviour (intake/injection rate).

These changes are essential to ensure the well-functioning and efficiency of the ETS under the new 2030 and 2050 climate targets.

5. Investments in research and innovation must be strengthened

Research and innovation must be supported to boost the EU industry and provide local decarbonised solutions.

The power sector needs to invest in research and innovation to bring out decarbonised technologies addressing the challenges of circular economy. The EU needs to be at the forefront of these new technologies, which will shape the future economy. In this respect, **UFE is in favour of strengthening the Innovation Fund** via an improved support for low-carbon and carbon removal investment and innovation through various and adequate mechanisms.

As the increased climate ambition of the EU will have unequal impacts on Member-States, a just transition must be guaranteed via the Modernisation Fund.