Tomorrow's Affairs
Analysis of today
Assessment of tomorrow

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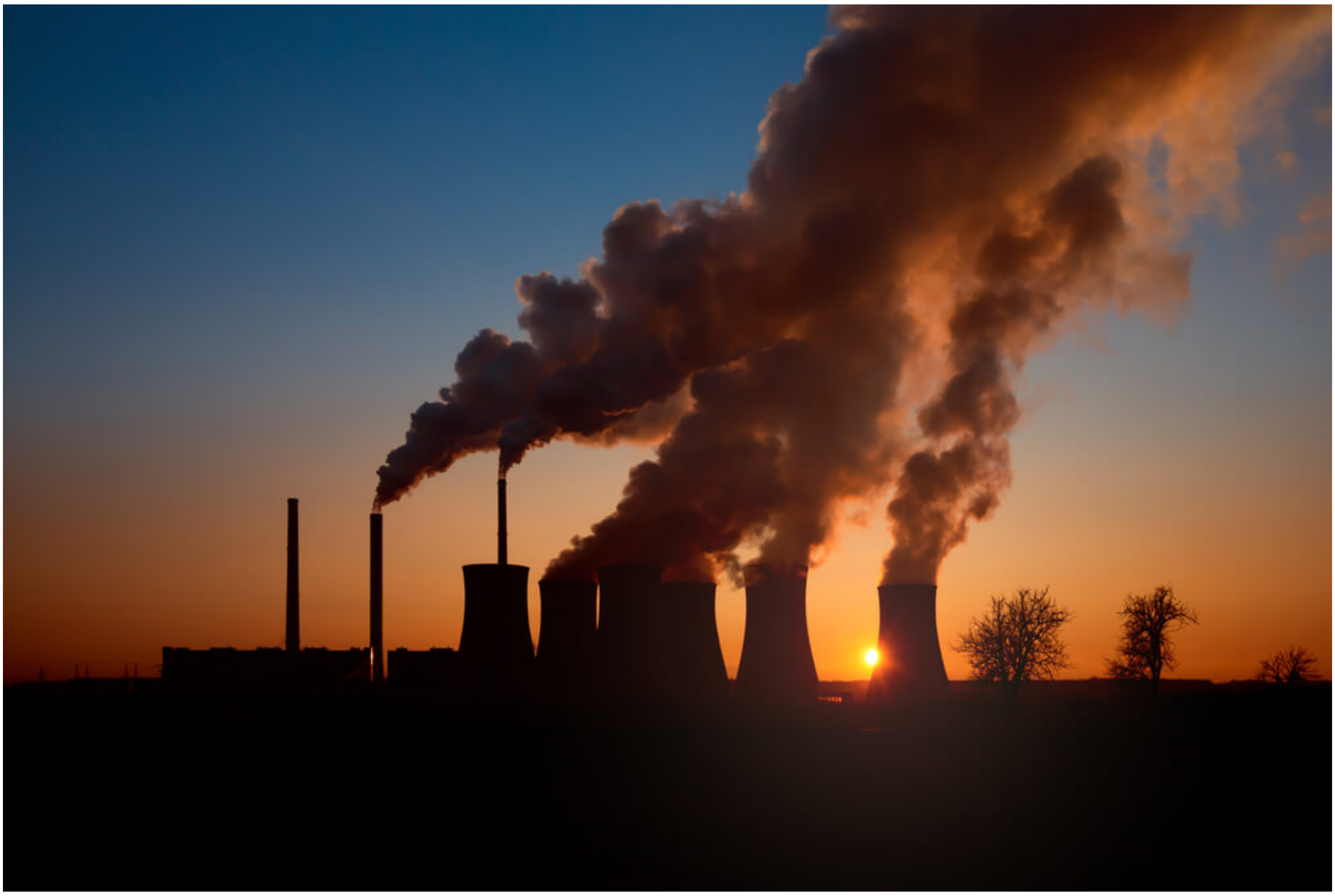
Abandoning the carbon pricing policy would be a grave mistake for Europe



The European Union's carbon-pricing policy has long been the subject of fierce debate.

To some, it is a bold experiment in aligning markets with planetary limits; to others, it is an added burden on households and businesses already strained by rising energy costs.

One fact, however, remains difficult to dismiss: the EU's Emissions Trading System (ETS) has reduced carbon dioxide emissions faster and more cheaply than almost any other climate policy.

The question now is not whether carbon should be priced, but how to make the system fairer, more efficient, and resilient to political headwinds.

Europe's climate credibility depends on striking the right balance between ambition and economic pragmatism.

Since its launch in 2005, the ETS has delivered large, market-driven emissions reductions.

Power-sector emissions have plunged, coal has been largely priced out of the market, emissions across participating sectors have fallen by roughly 50%, and billions of dollars in ETS revenues have been channeled into clean-energy technologies.

As a result, what began as an experimental cap-and-trade scheme has grown into the world's largest carbon market by revenue and become a model for similar systems from California to China.

Today, nearly 30% of global CO_2 emissions are covered by some form of pricing scheme – compared to less than 6% two decades ago – generating over $100 billion in public revenue each year.

Carbon pricing during periods of economic stress

Such growth inevitably introduces new challenges. As the ETS expands to sectors like transportation and construction, and as free allowances are phased out between 2026 and 2034, rising carbon prices will hit businesses and households more directly.

These realities should not be ignored, but they are no reason to abandon a policy that has demonstrated its effectiveness.

Instead, they call for careful recalibration to keep the system fair and politically sustainable.

While the temptation to soften or suspend carbon pricing during periods of economic stress is strong, abrupt policy reversals would erode investor confidence, heighten uncertainty, and undermine Europe's credibility as a climate leader.

Stability is the foundation of long-term innovation, and Europe's clean-tech investment boom depends on it.

> The goal of carbon pricing is not to punish industry

That said, the goal of carbon pricing is not to punish industry. By signaling that pollution comes at a high cost and that cleaner production pays, companies are able to pursue the most efficient path to reduce emissions, rather than conforming to one-size-fits-all mandates.

The revenues can – and should – be reinvested in the economy to support vulnerable businesses and households through the transition.

A "climate dividend" for households, funded by ETS proceeds, could offset higher energy and transportation costs while strengthening public trust.

Targeted support, when conditional on measurable decarbonization gains, could ease affected industries' transition until low-carbon alternatives become commercially viable, so long as policymakers avoid subsidies that shield inefficiency under the guise of promoting competitiveness.

A quiet revolution in global climate policy

The EU's Carbon Border Adjustment Mechanism (CBAM), entering into force in 2026, is a crucial – albeit misunderstood – companion to the ETS.

It extends the carbon price to imports of steel, aluminum, cement, fertilizers, electricity, and hydrogen, ensuring that European firms are not undercut by more carbon-intensive foreign competitors.

Contrary to what some critics claim, this is not protectionism; it is climate realism.

The CBAM could also catalyze a quiet revolution in global climate policy. By tying access to the world's largest single market to carbon transparency, the EU is sending a clear message: if you want to sell here, you must play by the same environmental rules.

> The EU should not allow political pressures to dictate the pace or direction of its energy transition

Other major economies, including the United States, are already exploring similar ideas, reflecting a growing recognition that fair competition and climate action can go hand in hand.

Yet the very possibility of carbon-pricing systems converging across borders is precisely why some governments and industry groups seek to block or fragment emissions trading.

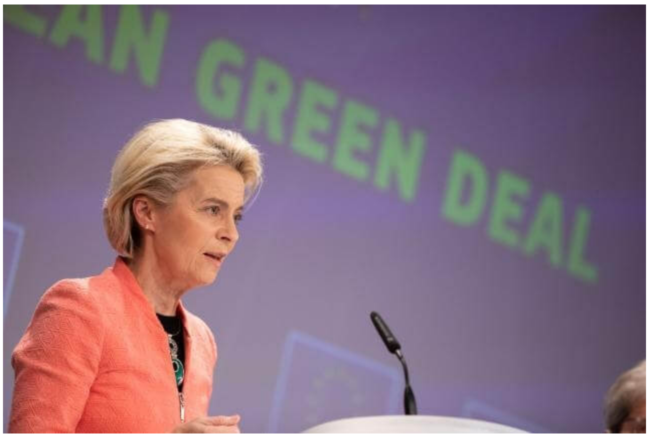
After all, a transparent, comparable carbon price erodes the competitive advantage of carbon-intensive manufacturing.

The EU should not allow political pressures to dictate the pace or direction of its energy transition. But the CBAM must be refined to ensure that ambition does not harden into rigidity. To this end, four measures stand out.

Fairness and reciprocity in carbon costs

First, benchmarking imports could offer partial relief to foreign producers that match best-in-class EU standards.

This approach would reward climate-efficient production, reduce trade tensions, and allow the EU to maintain free allowances for clean European producers.



Recognizing that climate resilience and competitiveness are not mutually exclusive is essential - Ursula Von der Leyen

Second, the EU should introduce export rebates for European firms operating in markets that lack effective carbon pricing.

To advance meaningful climate progress, clean European products must be able to compete globally.

The third priority is to simplify and harmonize reporting requirements for the CBAM and beyond.

A streamlined CBAM could replace a patchwork of overlapping rules with a single, transparent carbon price for domestic production and imported goods alike, cutting red tape and providing businesses with greater clarity.

Lastly, the CBAM should be introduced

gradually to avoid unintended harm to the world's poorest and most vulnerable economies.

The EU could even direct a share of the CBAM's revenues to help these countries invest in cleaner production.

Rather than weakening the system, this would serve its objective of fairness and reciprocity in carbon costs.

Recognizing that climate resilience and competitiveness are not mutually exclusive is essential. Far from bureaucratic constraints, the ETS and the CBAM are the scaffolding of Europe's future economy.

By spurring innovation in clean technologies, carbon pricing can fuel the growth of strategic sectors, from green hydrogen to advanced materials and circular manufacturing, while reducing energy dependence.

To make that model work, policymakers must focus on three principles: fairness, to keep citizens engaged; predictability, to maintain investor confidence; and consistency, to sustain Europe's leadership on the global stage.

If Europe avoids abrupt policy changes during the energy transition, it will not only meet its climate targets but also shape the rules of the emerging low-carbon economy.

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