

Revision of the Emissions Trading System (ETS) – Positioning of the Romanian Business Community

July 2026

Executive Summary

The transition to a sustainable and competitive economy has remained a constant theme on Concordia Employers' Confederation's agenda in recent years, against a European backdrop marked by numerous significant changes and updates to the legislative framework, in relation to the commitments made at European Union level on climate and the environment.

The Emissions Trading System (ETS 1) is one of the main instruments of the green transition, and its benefits at EU level have been proven. Since its introduction in 2005, emissions have fallen by 39% across the EU, while the economy has grown by approximately 71%, demonstrating that decarbonisation and competitiveness are convergent goals, given that the ETS covers 45% of the EU's greenhouse gas emissions.¹

At national level, according to studies conducted, "the 57% reduction in emissions recorded by the oldest installations under the EU ETS is greater than the overall reduction in emissions. The number of first-generation installations still active under the EU ETS has fallen by more than half, from 222 active installations in 2007 to just 106 in 2021, while average emissions have fallen by only 11%." "The share of emissions produced by the first and 'oldest' installations under the EU ETS – installations that have been covered by the ETS since 2007 – accounts for more than 90% of total national emissions every year, driving the overall emissions trend."²

Through this position paper, Concordia Employers' Confederation highlights the main points that should be considered in the process of revising ETS 1, in line with the needs and specific characteristics observed at national level. A balanced revision of ETS 1 is all the more important given that, starting in 2028, industries — SMEs in particular — will also feel the significant direct impact of ETS 2, which will apply to road transport and buildings. In this regard, we also stress the importance of the Social Climate Fund as a protective instrument, including for micro-enterprises and affected workers.

We believe Romania should support a balanced decarbonisation pathway that:

- maintains the competitiveness of industry;
- ensures energy security;
- stimulates private investment;
- and protects social cohesion.

Summary of Recommendations

¹ The EU ETS extends beyond the EU's borders, also regulating emissions in the European Economic Area and in Northern Ireland. Since 2020, the EU ETS has been linked with the Swiss emissions trading system, and negotiations are currently under way to link it with the United Kingdom's system (UK ETS).

² https://mmediu.ro/app/webroot/uploads/files/Livrabil_impact_legislatie.pdf, pp. 58–61

Technological neutrality and economic efficiency

Decarbonisation through all available solutions: renewables, nuclear, biomethane, low-emission hydrogen, advanced biofuels (incl. SAF / e-SAF), CCS.

Avoiding favouring technologies that are premature and costly.

The role of natural gas and the Black Sea

Recognising domestic gas as a transition fuel until 2040, essential for the EU's energy security and grid stability.

Through Neptun Deep (operational from 2027), Romania will become the EU's leading producer, reinforcing the Black Sea's strategic status.

MSR flexibility and lower carbon price volatility

Romania should promote a more dynamic use of the MSR, better adapted to market conditions, in order to limit excessive volatility and episodes of sharp increases in the carbon price. To this end, adjustments are needed such as removing the mechanism that cancels the liquidity surplus above the threshold of 400 million allowances under ETS 1, or introducing firm, automatic intervention mechanisms when critical price thresholds are exceeded — as is the case under the ETS 2 scheme (the EUR 45/allowance threshold). Such an approach would help strengthen predictability and reduce pressure on industry and consumers. We consider this intervention essential also in the context of the risk of an “ETS endgame”, which involves a significant reduction in the volume of available allowances after 2035, with a potential impact on market liquidity and carbon price stability.

The need to maintain the competitiveness of European industry

Against a backdrop of intensifying global competition and rising compliance costs associated with the green transition, maintaining the competitiveness of European industry must be a central objective of the ETS revision. Decarbonisation policies must be designed to allow for emission reductions without affecting European industry's capacity to invest, innovate and compete on international markets.

In the absence of adequate protection and compensation mechanisms, there is a risk that industrial activities will relocate to jurisdictions with less stringent environmental standards and significantly lower compliance costs. Such a phenomenon would lead to the loss of investment and jobs in the European Union, without generating any real benefit for reducing emissions at global level (carbon leakage).

In this context, the ETS revision should be aligned with the European Union's industrial policy and competitiveness objectives, including by maintaining a level playing field, ensuring a gradual transition, and adapting the timeline for reducing free allocations to the availability of decarbonisation technologies at industrial scale.

Free allocations for industry

Given the current energy crisis and heightened global competition, **the pace of reducing free allocations for strategic industrial sectors needs to be adjusted. Romania should support**

defining a more gradual pathway, including the possibility of maintaining free allocations beyond 2034, **so that industry can adapt progressively to carbon costs, avoiding the risks of relocation and loss of competitiveness**. Any such recalibration must be grounded in robust impact assessments and aligned with the availability of decarbonisation technologies at scale.

ETS funds for the energy transition

It is essential that the revenue generated by the ETS, particularly through the Modernisation Fund, **continue to be directed as a priority toward financing decarbonisation projects in sectors of strategic importance for Romania**. These resources must be used to support investment in energy infrastructure, low-emission technologies and innovation, with dedicated financial envelopes for SMEs, thereby contributing to a fair and sustainable transition. In this regard, Romania should support simplifying access to financing and increasing flexibility in the use of funds, in order to respond more effectively to national needs.

Major risks identified

- Cost increases arising from the implementation of the ETS Directive and the CBAM Regulation, with a direct impact on competitiveness and consumers.
- Risk of industrial relocation and job losses.
- Possible social and economic imbalances in the absence of a gradual transition pace.

1. Context

The current emissions trading system (ETS1) aims to reduce greenhouse gas emissions from industrial and energy installations, aircraft operators and maritime transport, by establishing a carbon price under a cap-and-trade system, while a separate emissions trading system for road transport, buildings and other sectors (ETS2) will enter into force in 2028.

As a reminder, under the “Fit for 55” package, the European Commission published a legislative proposal to revise the EU Emissions Trading System (EU ETS), in order to align it with the EU's target of a 55% reduction in net greenhouse gas (GHG) emissions by 2030, compared with 1990 levels.

The most recent revision of the Directive on the EU emissions trading system, adopted in 2018, sets the total quantity of allowances for Phase 4 (2021–2030), in line with the EU's previous emissions reduction target (a 40% reduction from 1990 levels by 2030).

In March 2026, the EU adopted amendments to the European Climate Law, introducing a new target of a 90% reduction in net GHG emissions by 2040, relative to 1990 levels.

The next step is setting an ETS target for 2040, which must be consistent with the new 90% net emissions reduction target. This new 2040 target is the central element of the EU ETS Directive revision, as it will determine the system's overall level of ambition and will influence all other aspects under discussion.

In addition, the European Climate Law, as amended, requires the Commission to address several aspects in the revision of the ETS Directive. These include:

- including permanent carbon removals carried out within EU territory, to offset hard-to-abate residual emissions;
- revising the ETS1 trajectory to allow for a limited volume of emissions after 2039;
- a slower phase-out of free allocations starting in 2028.

In this context, the Commission will assess possible adjustments to ensure that the EU ETS remains the most cost-effective instrument for achieving the EU's climate objectives.

The revision of the ETS Directive comes at a critical juncture. Analyses show that, over the next decade, under the current legislative framework, the number of available allowances will approach zero.

At that point, there is a risk that the carbon market will lose liquidity and become volatile, as participants may become reluctant to keep trading. This phenomenon is known as the "ETS endgame".

At the same time, the EU will continue to have residual emissions from hard-to-abate ETS1 sectors, as well as emissions from sectors that fail to decarbonise by 2040.

The Commission's proposal to amend Directive 2003/87/EC, currently under way during Phase 4 of the EU ETS (2021–2030), aims to address the following specific points during the month of July:

- including municipal waste incinerators and waste landfills;
- methods for accounting for negative emissions resulting from the capture of greenhouse gases from the atmosphere and their safe, permanent storage;
- extending ETS coverage to international aviation, depending on the assessment of the CORSIA scheme;
- **including combustion installations with a total rated thermal input below 20 MW;**
- accounting for carbon captured and used (CCU) in products that release the carbon back into the atmosphere after a certain time (non-permanent CCU).
- including GHG emissions from offshore vessels and medium-sized cargo ships;
- extending ETS coverage for international maritime transport beyond the current 50% threshold, if the IMO does not adopt a global market-based measure;
- assessing non-CO₂ effects in aviation.

Following the European Council meeting of 19 March 2026, the President of the Commission confirmed the intention to propose a revision of the MSR (Market Stability Reserve), with the aim of increasing its effectiveness and reducing carbon price volatility. The Commission has proposed a targeted legislative revision of the MSR, pending a broader review of the ETS and the MSR in the summer of 2026.

The Commission has revisited several key issues raised by Member States, as follows:

- it has announced that certain free allocations will be maintained beyond 2034 and that a level playing field will be ensured for the EU's maritime sector.
- it intends to propose an "ETS Investment Booster" of EUR 30 billion, financed through 400 million ETS allowances, with a focus on lower-income Member States.

The revision of the ETS Directive is expected to open up an intense debate on reducing carbon price volatility and making more effective use of ETS revenue, while preserving the ETS's fundamental role as the EU's principal decarbonisation instrument.

The main issues under debate among Member States include the following:

- Adjusting the Linear Reduction Factor (LRF), which entails a sharp annual decline in emissions and is considered highly ambitious;
- Free allocations, with a slower pace of phase-out;
- Reducing carbon price volatility;
- Use of international carbon credits;
- Rules for negative emissions (permanent capture and storage);
- Integration of negative emissions (CCS/CCU);
- Inclusion of the waste incineration sector in the ETS from 2028.

In order to align the ETS Directive with the higher GHG emissions reduction targets set out in the European Climate Law, the Commission has proposed reducing emissions from sectors covered by the ETS (including the extension to the maritime sector) by 62% by 2030, compared with 2005 levels. To achieve this objective, Directive 87/2003 raises the linear emissions reduction factor from 2.2% per year to 4.3% from 2024, and to 4.4% from 2028 (Article 9).

Another aspect to consider in this analysis concerns the number of free allocations, which will be gradually reduced as the emissions cap decreases and the Carbon Border Adjustment Mechanism ("CBAM") is fully implemented.

Taking into account:

- the opportunities Romania could promote at European level — decarbonising the energy system using all zero- or low-carbon energy solutions (including renewables, nuclear energy, energy efficiency, storage, CCS, CCU, carbon capture and removal, geothermal energy and hydropower, as well as all other current and future net-zero energy technologies);
- the process of adopting the EU's target for reducing greenhouse gas emissions by 2040, in the context of the Commission's 2026 work programme, which provides for a package of climate measures (including the ETS system update, expected in July 2026);

we support the entire green transition process, recognising the importance of decarbonisation measures in a society undergoing profound change, but we believe this must be achieved in a balanced manner, without undermining the competitiveness of major industries currently operating at European level (see also, in this regard, the proposed Industrial Accelerator Act).

2. Key Points

In support of the point made above, we set out below the key points that should be taken into account, considering an integrated, cross-sectoral approach to these topics — covering the sub-areas of electricity, gas, hydrogen, CCS, etc. — and their correlation with the full set of legislative acts being implemented or due to be implemented at national/European level, which entail significant compliance costs — i.e. ETS2, CBAM, the amendments to ETS 1, etc.

1. **Clarifying the rules** for accounting for carbon capture, storage and use (CCS/CCU), together with a rigorous assessment of the impact of extending the ETS to new sectors and categories of emissions.

2. It is essential to establish stable and predictable mechanisms for compensating the indirect costs generated by the ETS, including through the use of revenue from allowance auctioning, in order to support industrial investment. Access to financing instruments dedicated to decarbonisation must be simplified, to reduce technological risks and support the retooling process, without distorting the single market.
3. **The feasibility of including installations with a total rated thermal input of less than 20 MW** within the scope of the ETS1 system — in this regard, the Commission is expected to issue a legislative proposal to integrate these small-scale installations into the ETS starting in 2031. Pending analysis of the feasibility of this proposal, a detailed study is needed at national level, evaluating the exposure of economic sectors, including SMEs with small combustion installations (production, food processing, manufacturing). Alongside the technical assessment, it is necessary to identify measures to support the transition of newly included installations (adaptation periods, retooling instruments, etc.)
4. **State aid and compensation for carbon emissions**, through broader use of the Crisis and Transition State Aid Framework (CISAF). The Commission will consider granting compensation of up to 80% of the indirect costs of the emissions trading system (ETS).
5. **Support for industrial decarbonisation** — the Industrial Decarbonisation Bank, currently at project stage, and bridge instruments financed through the emissions trading system (ETS); managing risks related to fossil fuels (particularly gas); and stabilising electricity prices through interventions and subsidies, including instruments dedicated to energy-intensive SMEs not covered by the ETS.
6. **Aligning the target** to be proposed/adopted with the full set of obligations arising from the implementation of other relevant European acts.
7. **The need to maintain free allocations beyond 2034**, together with an analysis allowing the linear reduction factor to decrease in line with technological progress and the technical possibilities for reducing emissions.
8. **Firm, easily applicable measures to reduce carbon price volatility**, so that the market can be supplied with additional allowances when the price rises by 30% over a 3-month period compared with the average of the previous 6 months. The current mechanism has not been applied because it operates over too wide a time horizon, and the price can vary by more than (-40%, +40%)³, a level of volatility that is difficult for companies to manage. This intervention threshold is all the more important given that ETS 1 volatility feeds through into the energy prices borne by industries and economic sectors outside the system, meaning that stabilising the carbon price brings direct benefits for their competitiveness, including for SMEs.
9. **Adjusting the price stability mechanism** — the Market Stability Reserve (MSR) — with multiple intervention thresholds based on market liquidity, and ending the cancellation of allowances above the 400 million threshold. Retaining, rather than cancelling, these allowances would create a safety buffer for the future.
10. According to the latest version of the National Integrated Energy and Climate Plan (NIECP), all coal-fired power plants, with a combined installed capacity of 4,920 MW, are to be progressively decommissioned by 31 December 2031. Natural gas-fired power plants (CCGT, CHP) will be adapted, to the extent of 50%, to run on gaseous fuels from renewable sources and/or with reduced carbon dioxide emissions, including renewable hydrogen, by 2036. **However, achieving this target appears unlikely, given the commissioning, by 2040, of large-scale CCGT and CHP projects such as the Iernut power plant with a capacity of 430 MW, at least 600 MW — with**

³ https://mmediu.ro/app/webroot/uploads/files/Livrabil_proгноza_costuri_implementare.pdf

potential expansion up to 1.7 GW — at Mintia (January 2027), and 1,325 MW at Ișalnița and Turceni (by 2029). These come on top of large-scale expansion projects for cogeneration plants, including Rompetrol Năvodari CHP, CTE Constanța, CTE Craiova, CTE Progresu, CTE Grozăvești and CTE Sud Vitan, as well as the annual increase in biogas-based and CCGT cogeneration capacity projected through 2050.

3. Technological Neutrality

A flexible, technology-neutral approach that delivers high cost-effectiveness should prevail over the forced obligation to adopt and develop technologies with a low level of readiness. Countries and companies should have the flexibility to decide which technologies help them reduce emissions in a cost-effective way (the merit-order logic for carbon reduction), and should be able to ensure effective access to these solutions through a range of instruments tailored, among other things, to the specific needs of SMEs (for example, PPAs, regional hubs for aggregated energy procurement, etc.).

The role of alternative fuels — including advanced biofuels, biomethane and synthetic fuels — in reducing emissions needs to be recognised. The ETS framework must avoid penalising these solutions through disproportionate compliance costs and must ensure a level playing field for their development, including by expanding the feedstock base and clarifying sustainability criteria.

Supporting the development of markets for emerging technologies

The ETS should actively contribute to developing markets for technologies such as synthetic fuels, low-carbon hydrogen, or recycled-carbon-based solutions. To this end, support mechanisms, grants and risk-reduction instruments are needed to facilitate the scaling-up of these technologies.

Developing the framework for biomethane and its integration into the energy system

Biomethane is an efficient and scalable decarbonisation solution, with the advantage of being directly integrated into existing natural gas infrastructure. A regulatory framework is needed to facilitate its production, grid injection and use, as well as its alignment with national and European renewable energy objectives.

4. The Role of Natural Gas

Supporting domestic natural gas production/recognising it as an energy transition fuel and a contributor to the EU's energy security, and defining/promoting the Black Sea as a strategic area.

According to the Strategy published by the European Commission, it is recognised at European level that the Black Sea is an area of significant geostrategic importance, forming a link between Europe and Asia, with untapped potential for economic development and strategic transit routes, in particular for access to energy resources and critical raw materials.

We would also point out that Romania is on the verge of becoming, from 2027, the European Union's leading gas producer, through the sector's flagship project — Neptun Deep — reinforcing Europe's ability to secure its energy supply in the manner consistently pursued. As a strategic area, the Black Sea has the potential to make a significant contribution to the EU's energy security.

In light of the above, we believe the energy transition should be carried out gradually, by adopting timelines adapted to the reality on the ground in the Member States, **where natural gas continues to**

play an essential role in ensuring the EU's energy security, covering a significant share of total energy consumption.

Recognising **natural gas produced in the EU as a relevant and strategic transition fuel until 2040** contributes significantly to ensuring an affordable, orderly and competitive transition. This also entails recognising the EU's need to prioritise the diversification and development of non-Russian gas sources, particularly domestic gas, which can help secure the EU's energy independence and supply security.

Recognising the critical role of local natural gas as a **transition fuel**:

- i. Natural gas: represents an alternative with far lower carbon emissions than coal in industry and electricity generation, providing energy security and affordability until more complex low-carbon solutions reach large scale (e.g. green H2 and its derivatives).
- ii. Domestic gas: pipeline-delivered gas has lower costs and emissions compared with energy-intensive LNG (liquefaction, transport), and supports the competitiveness and resilience of EU industries, e.g. the chemical industry and fertiliser production.
- iii. The balancing and flexibility needed as intermittent and variable renewable energy grows to dominate electricity generation.
- iv. Gas acting as a bridge fuel, given the still-low competitiveness of alternative low-carbon solutions (immature value chains, limited affordability for industry).

Given current geopolitical tensions and the lessons learned from the energy crisis of the 2020s, we must ensure that any accelerated phase-out of traditional energy sources, such as natural gas, does not compromise energy security.

We therefore propose **including protective measures that unlock the potential of the EU's domestic gas and investment in gas as a transition technology** that helps maintain the stability of the electricity grid and supports the decarbonisation of industry.

5. Support for Adopting Low-Carbon Solutions

As a complement to the ETS 1 system, the EU and Member States must continue to support industry in adopting low-carbon technological solutions, in order to deliver a medium- and long-term impact on emissions reduction targets and objectives, while also supporting the competitiveness of European companies:

- Simplifying the permitting conditions for decarbonisation projects and helping SMEs access approval and permitting instruments, including through dedicated access windows.
- Simplifying CBAM-related reporting and compliance through standardised tools, digital templates and free assistance for SMEs.
- A dedicated allocation for SMEs from the ETS Investment Booster to feed the already-designed SME guarantee/retooling instrument.

6. Conclusions

Without an adequate degree of flexibility, implementing a revision that does not take into account the position of each EU Member State risks affecting the competitiveness of European industry.

Implementing the various proposed solutions in a manner that does not account for all potential risks (in the absence of comprehensive feasibility analyses) is probably an option capable of limiting GHG emissions, but we would stress that, in our view, it is also liable to generate heightened risks of destabilising the economy as a whole and, specifically, the energy market.

Finally, we stress that achieving these climate objectives must be constantly aligned with ensuring social stability. We highlight that a balanced and realistic pace of decarbonisation is crucial to maintaining public support and to ensuring that our climate ambitions are achievable in a practical way, calibrated against potential economic development scenarios that also support the industrial mix. We support robust social protection measures, including reskilling programmes and transition funds, to help workers and communities adapt, in coordination with the future Cohesion Policy and the Just Transition Fund, including territorial equity and social inclusion indicators that support regional, social and economic equity.

It is essential that the ETS revision be adapted to global competitive realities, in order to avoid the relocation of certain industries outside the EU without any real benefit for reducing emissions at global level.

Last but not least, we consider it necessary to organise a dedicated dialogue with business representatives, in order to assess the specific impact on activities across all relevant economic sectors and to identify solutions that ensure a just transition without compromising their economic viability.

Concordia Employers' Confederation is the legitimate, common voice of Romania's business community, at home and abroad. We are a cross-sectoral organisation established as a nationally representative social partner under the Social Dialogue Law.

We represent over 4,200 companies with Romanian and foreign capital across more than 20 key industries, which together produce over 30% of Romania's GDP and employ 500,000 people.

We are the only organisation in Romania that is part of [BusinessEurope](#), [Business at OECD \(BIAC\)](#) and the [International Organisation of Employers \(IOE\)](#).