A statement on the EU ETS reform proposal and the EU Electrification Action Plan

Press Release

Agora views today's Commission proposals on the EU Emissions Trading System and the Electrification Action Plan as sending mixed signals for Europe's transformation. The action plan's welcome electrification push needs strong policy to deliver, while steeper emission cuts under the carbon market would be feasible and ensure investment certainty.

Brussels | Berlin, 17 July 2026. Today, the European Commission published its EU Emissions Trading System (ETS) reform proposal. It includes slowing the pace of emission reductions annually from the current 4.4 percent to 3.7 percent for 2031–2035 and 1.7 percent for 2036–2040. It also extends free allocation of emission allowances to industry, with allocation conditional on clean investments from 2031. Furthermore, it proposes that governments dedicate 50 percent of their national ETS revenues to industrial decarbonisation investments.

At the same time, the Commission unveiled the Electrification Action Plan. Among other elements, it includes a proposal for an electrification target of 46 percent by 2040 and commitments to explore a Clean Heat Market Mechanism until 2027 and provide guidance for social leasing schemes to make clean heating more accessible.

Below are statements from Agora Energiewende and Agora Industry.

Frauke Thies, Director Europe, Agora Energiewende said:
"The Electrification Action Plan is a positive signal of the EU's commitment to putting electrification at the centre of Europe's energy transition. The announced electrification target can help, provided it is complemented by a strong renewable energy target and backed by clear national and sectoral data. Two further elements stand out: the Clean Heat Market Mechanism, to be explored until 2027, could become a key EU policy to accelerate heat pump roll-out by incentivising manufacturers and installers to switch from boilers to heat pumps. Guidance on social leasing schemes gives member states a concrete tool to bring clean and affordable heating to vulnerable households – which is particularly important at a time of high energy costs and with ETS2 on the horizon. This is a strong announcement; it must now be matched with equally strong policy action.

The same forward momentum is needed for Europe's carbon market. Instead, today's proposal weakens the EU's central climate and industrial policy by sending conflicting messages. Above all, slowing down the pace of emission reductions sooner and more sharply than necessary jeopardises clean investments and increases the risk of an oversupplied carbon market. It would also mean that other sectors – such as agriculture – will need to deliver much steeper and faster emission reductions for the EU to meet its climate targets. The extension of free allowances further weakens investment incentives, not least because additional free allocation means less revenue available to support the transformation through vehicles such as the Industrial Decarbonisation Bank. On the positive side, the proposal to dedicate half of auctioning revenues to support the transition is a step in the right direction, as is the proposal to make free allocation conditional on decarbonisation investments. These positive elements should be strengthened in the ensuing negotiations."

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Julia Metz, Director, Agora Industry said:
"Carbon pricing and electrification are mutually reinforcing pillars of a successful industrial transformation. Clear electrification targets set the direction and thus accelerate electrification of industrial processes which – as our analysis has shown – can enhance European industry's competitiveness. A reliable and robust carbon price is crucial to give industry the confidence to invest in clean technology at scale. If that signal is missing, governments need to resort more on subsidies to further the necessary transformation.

With the EU ETS reform proposal, the Commission falls short of providing this confidence, at a time when it is clearer than ever that quickly moving away from fossil fuel dependence is the best strategy for Europe's industry and economy. Our recent modelling shows that with decisive investment in clean production methods, EU heavy industry can reduce emissions in line with keeping the current emission reduction trajectory until 2035 and then lowering it to two percent per year. Staying the course would therefore be critical to provide certainty for those who have already invested in clean production or are planning to do so – and it is important to revise the proposed trajectory in the next steps.

The Electrification Action Plan rightly reiterates that electrifying industrial processes is the preferred pathway for many sectors – it offers significant potential for security of supply, competitiveness and emission cuts. While the plan sets the direction, further work is required to translate it into concrete results. Those include, for example, measures to drive down the electricity-to-fossil-gas price ratio and accelerate grid connection. In addition, carbon pricing revenues from the EU ETS need to play an important role in de-risking investment. With market-ready technologies already available, it's crucial to swiftly get the policy framework right to ensure their deployment at scale."

About Agora Energiewende and Agora Industry

Agora Energiewende and Agora Industry develop scientifically sound and politically feasible strategies for a successful pathway to climate neutrality – in Germany, Europe and internationally. The organisations which are part of the Agora Think Tanks work independently of economic and partisan interests. Their only commitment is to climate action.

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