10 June 2026

To the attention of: Heads of State or Government

CC: Council President Costa, Commission President von der Leyen, Executive Vice-Presidents and Commissioners

Investors call for a robust and predictable EU ETS

We, the undersigned 45 investors representing € 11.4 trillion in assets globally, see competitiveness, energy security, resilience and climate neutrality as mutually reinforcing goals for a strong European economy. In this time of global fragmentation, we recognise the significant challenges facing European countries, companies and citizens. We equally recognise the role investors have in managing risks and mobilising capital for Europe's competitive clean transition. In this context, one message is critical: **a robust and predictable EU Emissions Trading System (ETS) must remain the bedrock of Europe's clean industrial future**.

There is a clear financial case for action

The transition to a decarbonised economy and the realities of a changing climate present material financial risks and opportunities for investors – even more so in an environment of geopolitical uncertainty and energy insecurity. These must all be managed in the economic interests of clients and beneficiaries today and in the long term.

We recognise that addressing the systemic financial risks of climate change requires real economy action. Europe is the fastest-warming continent and cascading climate risks can lead to system-wide challenges, including threats to financial markets and stability.[1] The significant cost and negative competitiveness impacts from the EU's dependence on imported fossil fuels are also clear.[2]

Against this backdrop, the clean transition is already happening. It will be one of the defining investment trends over the next decade and beyond. A global race is underway between investors, companies and countries over the market opportunities and global leadership.

The EU ETS is an historically successful European asset needing targeted updates

The ETS is the world's most successful carbon market. Its cap-and-trade design drives cost-effective decarbonisation by cutting emissions wherever reductions are cheapest. It also ensures total emissions fall at the lowest overall cost via a long-term rising price signal. The ETS has played an important role in incentivising low-carbon innovation, creating

[1] European Climate Risk Assessment 2024 (European Environment Agency)
[2] As set out in AccelerateEU - Energy Union (European Commission), an additional €24 billion had already been spent on energy imports due to higher prices since the escalation of the conflict in the Middle East by the end of April.

investment opportunities across sectors. These are all critical benefits for institutional investors with diversified, economy-wide portfolios.

Since 2005, emissions from electricity generation and industry covered by the ETS have fallen by about 50%, and the system is on track for a 62% cut by 2030.[3] Most of the reductions so far have come from the power sector, where coal use has declined while wind and solar generation continue to grow. This reflects the durable investment incentives for clean power set by the ETS, alongside other complementary policies and the dramatic reduction in deployment costs driven by innovation. Importantly, this shift has already benefited EU energy security. The IEA concludes that the significant challenges of the 2022 energy crisis would have been much more severe without the increased penetration of renewables in the electricity mix.[4]

Decarbonisation progress in energy intensive sectors has been more modest to date. These industries, which currently receive an important share of free emission allowances, face a range of challenges in decarbonising.[5] These include longer investment cycles to replace manufacturing assets and decarbonisation options with high upfront capital costs. Their transition is therefore more challenging and more capital intensive. However, the most effective way to address the challenges they face is not to weaken Europe's carbon market. Instead, it requires a robust ETS accompanied by complementary measures that support cost-effective and commercially viable decarbonisation. Rather than being undermined, the ETS must be strengthened as an investment signal.

A robust and predictable ETS is essential for EU competitiveness and energy security

Europe's prosperity rests increasingly on becoming more economically competitive and resilient. Current wars in Ukraine and the Middle East have amplified how uniquely exposed to energy shocks Europe is and highlighted the imperative to better insulate our economies from future challenges. This means cutting reliance on volatile fossil fuel imports, unlocking clean energy and accelerating electrification. Over 150 companies have already made clear that European industry needs the predictability of a robust ETS to compete and invest.[6]

Similarly, investors rely on stable, rules-based ETS governance – bolstered by other supporting policies – to commit long-term capital. The ETS is a critical driver of commercially viable investment in clean technologies and related businesses, with investors and companies using its carbon price to inform key decisions. The upcoming ETS

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[3] EU Emissions Trading System has reduced emissions in the sectors covered by 50% since 2005 (European Commission)
[4] Renewables 2025 (International Energy Agency)
[5] Calculations based on EU ETS data from the European Environment Agency and the European Commission Carbon Market Report 2024 & 2025 indicate that free allocation has shielded around 90% of industrial emissions from direct carbon costs.
[6] OPEN LETTER - European Industry needs the predictability of a robust ETS to Compete and Invest

review must not undermine this long-term signal, erode confidence or penalise innovators already investing in the transition.

Fundamentally, investors see the ETS as the bedrock on which to build the Clean Industrial Deal. Many of the pressures facing industry – including high electricity prices, grid bottlenecks and limited access to affordable clean power – require structural solutions like faster grid deployment and targeted sectoral support. To scale electrification and accelerate the rollout of strategic technologies, the EU needs to deploy a package of complementary policies around its successful carbon pricing regime. For example, recently proposed demand-side measures to create lead markets for clean industrial products can be an important addition to the policy mix. But they will only influence investment decisions if built upon a credible and predictable ETS price signal.

The ETS revision presents an opportunity for evolution – not dilution – and to drive further cost-effective and commercially viable decarbonisation across different sectors. For institutional investors, regulatory stability and visibility on the likely future carbon price path help manage risk and enable long-term capital deployment into the real economy. There are six essential principles for the ETS in the 2030s:

1. A clear and credible long-term trajectory for the ETS cap that is aligned with the EU's 2040 and 2050 climate goals.

2. Transparent rules-based market governance mechanisms that maintain sufficient allowance supply and scarcity, limit price volatility, provide a predictable long-term upward price signal and ensure market liquidity. These should also support a continued, gradual and credible phase-out of free allocation.

3. An effectively functioning carbon border adjustment mechanism (CBAM) to both mitigate carbon leakage risks and further accelerate the uptake of carbon pricing internationally.[7] CBAM should be phased, expanded where justified, WTO-compatible, evidence-based, and explicitly coordinated with the phase-out of free allocation. It should seek to avoid double carbon costs and support EU industrial competitiveness, particularly for export-exposed sectors.

4. ETS revenues to be used to greater effect to support investment in industrial decarbonisation and related energy system transformation, and to minimise any negative distributional impacts in the context of a just transition. This includes a strong

[7] The World Bank estimates that carbon taxes and ETSs now covering 24% of global emissions compared with 7% a decade ago. Bruegel finds that trading partners more exposed to CBAM have sharply increased carbon-pricing announcements since the EU first outlined the mechanism in 2019.

role for the Industrial Decarbonisation Bank to channel funding at scale across Europe.[8] Blended finance and other instruments that de-risk early deployment, crowd in long-term capital, accelerate technology maturity, and restore Europe's first-mover advantage in key clean and strategic technologies have a critical role to play.

5. A more consistent approach that links supportive measures for companies with meaningful company-level decarbonisation investments.

6. Additional targeted sectoral policies to address specific investment barriers and drivers of competitiveness pressures in energy-intensive industries. This includes deploying clean energy infrastructure more quickly, ensuring electricity is taxed less than fossil fuels, and developing effective lead markets. National-level fossil fuel subsidies for industry that undermine the pan-European carbon price should also be removed in a way that avoids price shocks and effectively manages transition risks.[9]

We look ahead to the ETS review in July and to the planned climate and energy packages later this year. While approaches must evolve in the face of today's challenges, in uncertain times policy stability is the cheapest investment stimulus available to the EU. **We urge the European Council to adopt a clear statement at its meeting of 18-19 June in support of a robust and predictable EU ETS that is strengthened as an investment signal**.

Yours sincerely,

[8] Data published by the European Environment Agency shows that in 2024 Members States reported spending well under half of their retained EUR 24.4 billion of ETS revenues on industrial decarbonisation and energy systems transformation, with the former accounting for less than 10%.
[9] The measures set out recently by the European Commission in AccelerateEU provide a useful toolbox for the management of the transition to clean, secure and affordable energy.

Aberdeen Investments

Achmea Investment Management

AkademikerPension

Allianz SE

AP3

AP7 (Sjunde AP-fonden)

Avon Pension Fund

BarmeniaGothaer Asset Management AG

CCLA Investment Management

Church of England Pensions Board

Church of Sweden

CNP Assurances

EOS at Federated Hermes Ltd

Erste Asset Management

ESG-AM

Ethos Engagement Pool

Ethos Engagement Services Clients

Ethos Foundation

Etica Funds - Responsible Investment

Generation Investment Management LLP

Inyova AG

Ircantec

L&G Asset Management

LBP AM

Lombard Odier Investment Managers

M&G plc

MN, on behalf of PMT

Momentum Metropolitan Life Ltd

MozaiC Asset Management

Net-Zero Asset Owner Alliance (NZAOA)

NN Group

Nordea Asset Management

Nordea Life & Pension

North East Scotland Pension Fund

Oxfordshire Pension Fund

PFA Pension

PGGM Investment Management

Pictet Group

Planet A

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Royal London Asset Management

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