

Germany and the ETS: yes to softening, no to dismantling

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During the European Industry Summit in Antwerp, German Chancellor Friedrich Merz called for changes to the EU Emissions Trading System in unusually strong terms. His remarks resonated widely across Europe and were interpreted as calling the instrument itself into question. Shortly afterwards, however, he moderated his criticism and began to defend the ETS as the appropriate tool, albeit one that requires reform in light of the current crisis. In essence, Germany is not seeking to dismantle the system but rather to soften its impact and reduce costs for energy-intensive industries, primarily by extending the allocation of free allowances and postponing the complete phase-out of new allocations.

On 11 February in Antwerp, Merz called for changes to the ETS mechanism, stating: “This system is not the system to generate new revenues. This system is implemented to reduce CO2 emissions and, at the same time, to enable the companies to come to CO2-free production lines. So, if this is not achievable and if this is not the right instrument, we should be very open to revise it or at least to postpone it, as we did with ETS2 for consumers”.

The chancellor’s remarks reverberated widely across the EU, causing consternation, as their tone was unexpectedly sharp and critical for a German politician who had previously described the ETS on numerous occasions as a model instrument of the EU’s climate policy. His call to ‘postpone’ it appeared vague and open to broad interpretation. The scheme, which covers the energy sector and industry, has been operational for more than 20 years, unlike ETS2 (intended to apply to heating and transport), which has yet to take effect and has recently been delayed. Merz’s remarks sparked enthusiasm among opponents of the ETS, who saw them as a spectacular retreat by Germany from this instrument. Many interpreted his call to ‘postpone’ it as a demand to suspend the entire mechanism. By contrast, among supporters of decarbonisation, his speech caused surprise and provoked sharp criticism for calling into question a key instrument driving the energy transition.

Just one day later, at the informal meeting of EU leaders in Alden Biesen, Merz clearly shifted his tone and began to defend the ETS: “There are colleagues who are very critical of this system. I do not share this criticism in this form. The ETS, which has now existed for 20 years – President von der Leyen cited the relevant figures in our discussion today – is an effective instrument that we have implemented in Europe and that enables growth without generating additional CO2 emissions. On the contrary, CO2 emissions have fallen by almost 40%, while industry has grown by around 70% since the system was introduced. This shows that we have the right instrument. However, it must be constantly adjusted. There are significant differences across Europe. The Commission has committed to presenting a report on the reasons for these differences and on what we may need to adjust to ensure

that the system continues to function properly”. A few days later, appearing on the popular German political podcast ‘Machtwechsel’, Merz once again clearly defended the ETS when asked about his remarks in Antwerp, drawing on the traditional Christian Democratic narrative on this subject: “Creating incentives to become more climate-friendly through a market-based instrument – this is and remains the right path. The system is sound because it delivers precisely what we want, namely climate neutrality and technological development”.

What changes to the ETS does Germany want?

Merz’s remarks in Antwerp should be interpreted in the context of the domestic German debate on reforming the ETS and adjusting the energy transition known as the *Energiewende* (see [‘Leksykon niemiecki OSW’](#)). In Germany, the EU’s emissions trading mechanism is widely regarded, particularly among Christian Democrats, as a model instrument of climate policy, as it is market-based and technologically neutral. It has not faced any significant criticism regarding its application to the power sector, despite contributing to an increase in electricity prices from coal-fired plants (which accounted for 21% of electricity generation in 2025) and gas-fired plants (17%). However, there are growing concerns regarding energy-intensive industries, which have faced a serious crisis in recent years, reflected in declining manufacturing output, the closure of individual facilities and even entire plants, and job cuts. Sectors such as steel and chemicals continue to receive free emission allowances for the vast majority of their production, purchasing the remainder on the market. They also benefit from generous compensation for indirect emission costs. However, the ETS in its current form envisages a gradual reduction in these allocations beginning in 2026, leading to their complete phase-out by 2034. This would increasingly compel companies to purchase additional allowances. Moreover, the volume of certificates released onto the market decreases each year, with the final allocations scheduled for 2039. This mechanism ensures that allowance prices will increase, translating into higher costs for industry. In theory, the affected sectors could address this by transitioning from fossil fuels to low-emission production processes. However, new technologies remain significantly more expensive, insufficiently developed, and in many cases effectively unavailable due to a lack of infrastructure, particularly for carbon capture and storage, or limited access to alternative feedstocks such as low-emission hydrogen.

For many months, Germany’s energy-intensive industries – particularly the chemical sector, which is both vital to the German economy and politically influential – have been conducting an intensive campaign in favour of reforming the ETS along these lines. First, they have called for free allocations to be maintained at their current level for a longer period, followed by a more gradual phase-out extending well beyond 2034. Second, they have sought to slow the pace of reducing the volume of new certificates placed on the market and to postpone the complete phase-out of their allocation until as late as 2050, when the EU, in line with its climate policy objectives, is set to achieve climate neutrality. This would ease upward pressure on allowance prices and reduce the associated costs for energy-intensive sectors. Following the change of government in Germany last year, the CDU/CSU-SPD coalition adopted these demands and declared on various official occasions that it would lobby in Brussels for their inclusion in the ETS revision expected in mid-2026. Given the slower-than-expected development of low-emission technologies and the crisis affecting domestic energy-intensive industries, these proposals have not generated any significant controversy

in the German debate. In principle, they are supported by expert circles, including proponents of the *Energiewende*, with the notable exception of environmental organisations.

Suspending the ETS, let alone abolishing it entirely, has not been the subject of serious discussion within Germany's political and industrial circles. Such a move would shatter the consensus among the country's elites, undermine the interests of numerous sectors focused on developing green technologies and advancing the broader energy transition, and trigger a serious political conflict within the mainstream political establishment. Strong ties to businesses committed to continuing the transition exist not only among the Greens, who are currently in opposition, but also among politicians from the governing CDU/CSU and SPD. In fact, in Merz's cabinet, the Social Democrats have positioned themselves as defenders of the *Energiewende*. In shaping its policy, the German government must balance the interests of various stakeholders and also take into account the needs of this segment of the economy.

Merz's remarks in Antwerp, which went beyond this consensus in tone, could have been motivated by a number of factors. They may have been intended to exert additional pressure on the European Commission to make more far-reaching concessions in the ETS reform it is preparing to present this summer. In particular, German business is concerned about reports suggesting that the Commission could attach stringent conditions to any softening of the mechanism. In the domestic context – the audience in Antwerp consisted largely of German industrialists, and the chancellor was questioned by BASF CEO Markus Kamieth – Merz may also have sought to send a strong political signal demonstrating his concern for the crisis-stricken economy and the ongoing process of deindustrialisation. Finally, the vague nature of his message, which left room for broader interpretation, may have resulted from a degree of rhetorical carelessness that Merz has occasionally displayed, sparking domestic debate or even becoming the subject of satire.

The Merz government's adjustments to the *Energiewende*

There is little doubt that Germany is undergoing a shift in its approach to climate policy and the energy transition, driven primarily by the ongoing economic crisis. Opinion polls clearly show that climate protection has fallen down the list of public concerns. In 2021, respondents identified these issues as the country's most pressing problem by a wide margin. Today, they regard the economic situation, pensions, and immigration as more important. This trend is visible not only in surveys measuring public attitudes but also in polls tracking support for political parties. The Greens, the staunchest proponents of the *Energiewende*, have lost support in recent years, while the Alternative for Germany (AfD) has gained considerable ground, standing out as the only major party to reject the energy transition outright. Although as many as four in five Germans continue to support the concept of this transition, it has increasingly become a culture war issue.

The priorities of those in power have also shifted. Whereas Olaf Scholz's government, largely due to the priorities of Vice-Chancellor Robert Habeck and the Greens, worked to accelerate the energy transition across all areas, Merz's cabinet clearly places greater emphasis on limiting the budgetary, economic, political, and social costs of this process. In some areas, this has translated into a slower implementation of the *Energiewende*, although without altering its core principles (see '[More continuity than change: the Merz government's *Energiewende*](#)'). The current German government also intends to shape changes in the EU's

climate policy in this spirit.