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A Cautionary Tale: Europe’s Carbon Market Is Cracking—and America Should Pay Attention

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For years, policymakers and climate advocates have celebrated the European Union's carbon markets as the global gold standard for climate policy, holding it up as proof that ambitious regulation can drive decarbonization while keeping economies competitive. That narrative and the policy underlying it now face stiff headwinds. The EU built its carbon market in a distinctly different world, one defined by friendlier energy prices, political consensus around decarbonization, and relatively congenial relationships with its allies abroad. We are quickly finding out that those policies are not as durable as originally thought. Europe's cap-and-trade framework, the backbone of the European Green Deal, is facing hurdles that are not incidental but structural. Russia's illegal invasion of Ukraine sent energy prices skyrocketing, causing concerns about industrial competitiveness that have only intensified under aggressive policy pushes from the United States and China. The result is a growing political backlash.

The EU's system was designed to do three things at once 1) force emissions down 2) raise money for clean energy innovation, and 3) protect European industry from dirtier foreign competitors. In practice, it is doing none of those reliably. Costs are increasingly rising faster than voters will tolerate on top of a consistent push back from the manufacturing industry. The EU is changing course and finding ways to make the rule flexible, delay implementation, and search for off-ramps.

What matters most in the democratic world is affordability. When groceries, housing, and energy bills are eating up paychecks, climate policy stops feeling visionary and starts feeling like another expense. For American climate advocates, this should set off serious alarm bells. Importing a model that is already strained is not pragmatism. It is wishful thinking. The US is far more polarized under Trump and fragmented state policies on climate positions America as an increasingly unfavorable region for the carbon market models.

The Carbon Market, In Brief

The EU's Emissions Trading System (ETS) sets limits on emissions from certain sectors like electricity and heat generation, industrial manufacturing, and maritime and aviation sectors. Companies are expected to monitor and report their emissions and may trade allowances if they stay within the designated caps. A newer system, (ETS II) is designed to expand that model to buildings, transportation and additional small industry sectors.

In a similar vein, carbon costs are imposed to certain carbon-intensive goods entering the EU, like iron, steel, aluminum, cement, fertilizers, etc. under the Carbon Border Adjustment Mechanism (CBAM). Together, these measures are regarded as some of the most ambitious carbon-pricing policies in the world.

The Illusion of Success

While the ETS' success seems significant, with emissions in covered industries falling since 2005, those wins are hiding deeper problems. Recent reforms have driven the price of carbon permits to almost eight times higher than it was 2010. This sharp rise combined with precarious energy security, affordability crisis and an increased strain on industry is reshaping European politics. Across the continent, governments are facing voter dissent over higher energy, heating, and transportation costs in precisely the sectors targeted by ETS II. Far-right parties have seized on the issue, framing climate policy as economic self-harm.

This messaging is resonant with working-class voters who might still believe, albeit skeptically, in climate policies but not at the cost of their own wages.

Europe's Legislative Retreat

The EU's carbon pricing mechanisms are undergoing significant changes, all while lawmakers in Brussels have set a goal of cutting emissions 90 percent by 2040. This sits at the center of growing backlash for climate politics and ETS in Europe.

Set for release in late 2026, the European Commission is now preparing a comprehensive review of the ETS amid mounting pressure from Member States during a 2025 consultation process. Member States are calling to soften the system, allow international carbon credits, and suspend key elements like maritime coverage until a global IMO framework is agreed, fearing ships will divert to non-EU ports to avoid carbon costs. ETS II has already been delayed until 2028, and new "safety valves" are being discussed to prevent consumer price spikes.

CBAM, meanwhile, has just entered its operational phase and is already generating backlash, primarily from trading partners accusing Europe of protectionism, and from European manufacturers caught between rising domestic costs and more expensive imported inputs. Even Brussels now acknowledges the need for temporary subsidies to prevent industrial flight.

The Political Reality

Europe's challenges should be treated as a political warning for most who lauded its ambitious policies at first but are now bracing for a more uncertain landscape. The push for reform and change of course will continue from Member States as industry struggles to keep up with the global competition. With 27 member states, each with a distinct economic

model and energy profile, the effects of these ambitious climate policies are deeply unique. What once appeared to be a cohesive technocratic framework is now simply crumbling under raw political pressures.

Most recently, Italy has called for the suspension of carbon pricing policies in Europe as it confronts a contracting domestic industry and almost 30% higher energy prices than the EU average. Italy is not alone here, Poland, the Czech Republic and Germany are amongst some of the other nations calling for aggressive reform, mainly due to their heavy reliance on energy-incentives industries like steel, chemicals and manufacturing. There is no doubt that the revenue from ETS is amongst the most powerful tools towards Europe's clean industrial transformation. But growing economic concerns should invite a deeper political reflection for policymakers in Brussels. Climate policy that directly raises prices is becoming toxic in democratic systems under economic strain, not just in Europe but worldwide.

Europe will not be inclined to abandon decarbonization entirely. But its recent course-correct should be taken seriously by those in America who advocate for demand similar policy on this side of the Atlantic.

What This Means for the United States

The uncomfortable reality of economic momentum shifting eastward towards our strategic competitors sits at the center of today's energy debates in the West. Europe's experience can be understood as part of a difficult transition, but mistaking its level of ambition for admiration would be a misstep.

As we in the US learn from these events, we are seeing how quickly climate policy becomes politically vulnerable when it is linked to higher costs. Considering any sort of national carbon market, such as a broad cap-and-trade system, would hand those on the far right a ready-made attack line and risk undoing hard-won progress on clean energy and industrial policy.

America has taken a different path so far. Rather than pricing carbon economy-wide, U.S. policy has focused on incentives like tax credits, public investment, demand creation, and innovation funding. More of these actually survived Trump and MAGA's assault on the Inflation Reduction Act than generally acknowledged, and these incentives continue to drive deployment, which in turn, helps keep down energy costs. These incentive-based policies reinforce clean energy action with growth and affordability instead of sacrifice. They would be even more effective with ambitious permitting and market reform.

That doesn't mean the U.S. should ignore cap-and-trade or industrial emissions. A narrowly tailored border mechanism *could* make sense, so long as it reflects American political realities. But the lesson remains the same. Climate ambition alone does not yield durable policy. Affordability must be at the core of any policy to reduce emissions.

The Warning

Europe's carbon market is not collapsing, but it is bending under pressure. And systems that bend too far eventually break.

For U.S. policymakers and climate advocates, this is the moment to learn, not imitate. Climate progress depends on design *and* durability. Policies that cannot withstand price shocks and electoral turnover rarely deliver on their original promise. The future of decarbonization will be decided as much by voters and prices as by models and targets. Ignore that reality, and the backlash may slow progress, or worse reverse it.

The EU is showing us what happens when climate policy outruns political consent. America should take note before making the same mistake.
