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## Emissions regulation is one of the EU's trump cards, not a 'nice to have'



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### Introduction

In these times of major geopolitical turmoil, the question is not only how the EU responds in the short term but also how it prepares structurally for a more uncertain, unpredictable world.

Lacking the military might of other major powers, the EU has long relied on a different form of leverage: market size and regulation. This leverage has traditionally been justified based on norms and values, such as combating climate change and 'making polluters pay', rather than economic and strategic interests.

But in fact, regulation has helped the EU strengthen its security and geopolitical position. What is changing, therefore, is the function regulation is beginning to serve: as a key instrument in the EU's [geoeconomic toolbox](#). And emissions regulation now sits firmly at the heart of this toolbox.

## Linking decarbonisation to market power

For decades, the EU's global influence has rested – among other things – on the size of its internal market and the [regulatory standards](#) attached to it. Though sometimes [criticised](#) as overly prescriptive, the consistency and predictability of these rules have made the EU an attractive partner for trade cooperation with countries across the world.

This regulatory model is quickly evolving, underpinned by the challenges the Single Market is facing, as highlighted by [Letta](#) and [Draghi](#), and the rapidly deteriorating security environment Europe finds itself in. While most attention has been paid to sanctions regimes and defensive tools like foreign investment screening and the EU anti-coercion instrument, emissions reduction and decarbonisation now also play a geoeconomic role.

The EU's Carbon Border Adjustment Mechanism (CBAM), which came into force earlier this year, is perhaps the most visible example. It imposes a fee on imported carbon-intensive goods (e.g., steel, fertilisers), equivalent to the price paid by EU companies under the Emissions Trading System (ETS). By 'taxing' energy-intensive imports, the CBAM essentially acts as a market access condition to shield European industry from carbon leakage.

The EU Methane Regulation, adopted in 2024 with key provisions set to enter into force from 2027 onwards, adds another layer: it targets methane emissions embedded in imported fossil fuels, thereby requiring suppliers who want to continue selling gas, oil or coal to the EU to comply with its standards.

Together, these policies reflect a broader shift: though not intentionally designed as such, EU emissions regulation has increasingly come to function as a geoeconomic instrument due to its profound implications for trade and markets.

## Europe's energy import vulnerability persists

The shift is occurring against the backdrop of continued dependence on imported fossil fuels. The [phase-out of Russian gas](#) has forced the EU to quickly expand imports – especially of liquefied natural gas (LNG) – from elsewhere, with the United States (US) as its largest new supplier. While increased LNG purchases have been essential to ensure Europe's security of gas supply since Russia's invasion of Ukraine in 2022, they have also led to [new vulnerabilities](#).

In 2025, [nearly 60 per cent](#) of LNG imports came from the US, accounting for almost 40 per cent of total gas imports from outside the European Economic Area. Other suppliers such as Nigeria and Qatar provide additional volumes, yet supply flexibility remains limited. The ongoing war in Iran and disruptions in the Strait of Hormuz, a key route for LNG shipments from the Middle East, demonstrate how quickly tensions in energy-exporting regions can ripple through global markets.

This has revived calls from parts of the energy-intensive industry and Member States like [Germany](#) and [Italy](#) to [pause](#) or delay EU fossil fuel-related regulation to compensate for cost and supply pressures. On top of this, US President Trump explicitly [threatened](#) to leverage US LNG exports should Brussels refuse to meet his demands – including exempting US industry from EU methane rules.

This use of Europe's dependence on American gas for political coercion underscores the security imperative for the EU to double down on emissions reduction, which is setting decisive incentives to [lower reliance](#) on fossil fuel imports and their associated costs.

In fact, the war in Iran could mark a turning point for Europe in structurally shifting away from fossil fuel dependency. Renewable energy, electrification and efficiency improvements have helped [cushion](#) the current crisis, with Member States increasingly [recognising](#) their strategic role in energy security. While renewable

expansion and electrification create new geopolitical vulnerabilities that will need to be managed, dependencies on imported fossil fuels, raw materials and technologies are not symmetrical.

### Emissions regulation as a driver of competitiveness

Emissions regulation has already catalysed Europe’s energy transition through the ‘polluters pay’ principle, which is setting direct economic incentives for industry to adopt low-carbon energy sources and technologies. In the power sector, the ETS successfully helped to replace dirty coal with (less dirty) natural gas by pricing emissions. The [ETS 2](#) is set to extend this model to fuel suppliers and distributors, including gas and oil, in additional sectors such as heating.

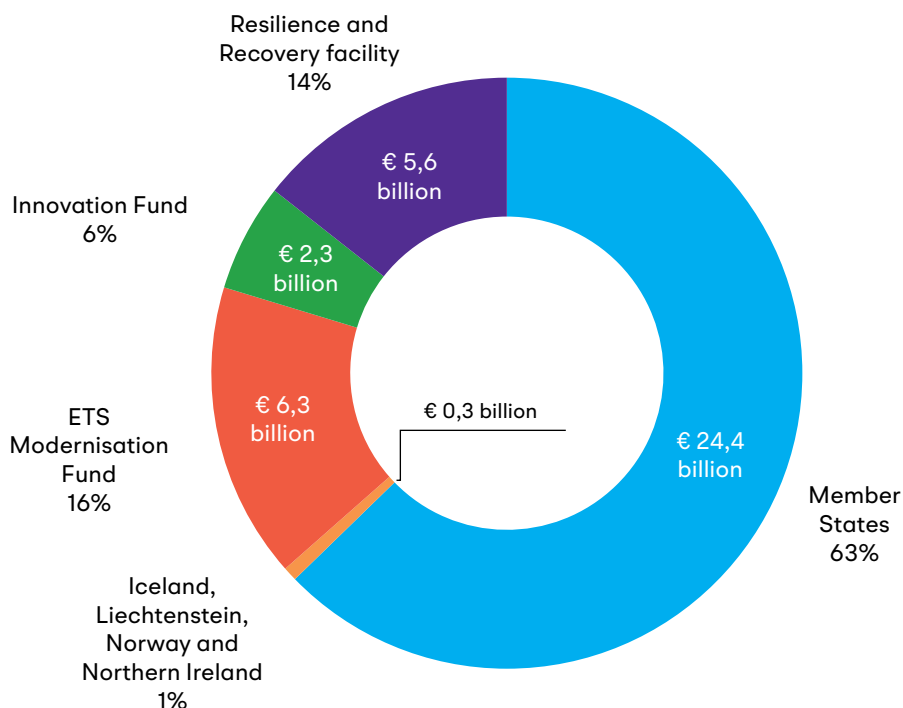
Those slow to adjust face rising costs and are, unsurprisingly, among the loudest voices now pushing against EU emissions regulation, including [methane](#) rules. European industry’s concern over high prices must be taken very seriously. Yet compensating for them by delaying or weakening key incentives to curb the demand for imported oil and gas would offer only fleeting

relief, addressing the symptom rather than the underlying problem: the EU’s heavy reliance on [imported fossil supplies](#), ultimately leading to higher long-term economic costs.

Instead, compensation should be derived from improvements in areas such as energy taxation and [revenue use](#). In this respect, ETS revenues have been a [key source of funding](#) – already exceeding €250 billion to date – for transition efforts. In 2024, almost €39 billion was raised, feeding national and EU-level investments in innovation, grid and storage infrastructure, energy efficiency and industrial decarbonisation (Figure 1). Likewise, revenue streams from CBAM will be a key resource in the next [EU budget](#), starting from 2028.

In a context of constrained public finances and high debt levels across Europe, such revenue streams are crucial to support energy and economic resilience in the long run. The politicised nature of recent attacks – both from within and outside the EU – against the ETS, CBAM and Methane Regulation sideline more sober discussions about their [critical role](#) for market predictability, competitiveness and investment stability.

Figure 1. Distribution of the 2024 ETS auction revenue. Source: [European Commission, 2025](#).



## The geoeconomics of methane regulation

The EU Methane Regulation, at its core, introduces monitoring, reporting and verification (MRV) requirements for methane emissions associated with fossil fuels consumed in the EU, including imports from 2027 onwards.

As with CBAM, the formal burden falls on EU importers. In practice, the signal travels up the supply chain. Producers that want to maintain access to the high-value EU market must demonstrate how methane emissions are measured and managed. While the Methane Regulation already contains compliance flexibilities, recent concerns over [supply security](#) have prompted the European Commission to expand them further. A critical question is whether excessive flexibility risks weakening the regulation's incentive: that methane reduction offers a competitive edge to those who adapt.

Contrary to the political rhetoric emerging from the White House, major US oil and gas producers recognise this reality. Having already invested in MRV and mitigation technologies to meet EU methane standards and retain market access, regulatory uncertainty would undermine investment certainty and increase strand capital and economic risks for these companies. In a [letter](#), Members of the US Congress recently urged the EU not to succumb to the pressures of the Trump administration.

Most importantly, EU requirements will enhance transparency in a market that has historically lacked it. Methane emissions from fossil fuel production are still poorly traced and measured, and are linked to leakage and [inefficient practices](#) such as flaring. In 2024, more than 150 billion cubic meters of gas was [flared](#) at upstream oil and gas facilities and LNG liquefaction plants. Addressing these emissions is therefore a matter of resource efficiency and resource security.

Methane regulation is also among the most [cost-effective](#) emission reduction tools available. Compared with CBAM, the cost burden of methane reduction is not only [remarkably low](#) but potentially net-negative: captured gas from reducing leakage and flaring can be sold, generating additional revenues and economic value. [IEA](#) and [World Bank](#) estimates show that these available volumes are substantial – roughly twice the annual exports of Qatar.

## Long-term goals over short-term pressure

Using these levers would accelerate a transformation process that is already well underway. Postponing or diluting emissions regulation would merely slow down the ongoing energy transition, creating significantly more fiscal and political discomfort for the EU in the long run.

This matters beyond Europe: the current geopolitical climate offers the EU an opportunity to position itself as a reliable and predictable economic power and trade partner. Yielding to pressure to weaken its rules would send the wrong signal – particularly to emerging economies that have invested in the energy transition. With the ongoing crisis already [jeopardising](#) stability across Asia-Pacific and Africa, policy consistency is as much a geopolitical necessity as it is an economic one.

Put differently: there is a risk that emission reduction will be treated as a tradeable luxury in times of high energy prices and political pressures. But weakening it would come at the expense of long-term resilience. Ultimately, the strategic value of EU regulation lies precisely in its *structural* implications. The most recent geopolitical crisis should only reinforce this logic.

Annex 1. Overview of the EU ETS, CBAM and Methane Regulation

EU Emissions Regulation			
Dimension	Emissions Trading System	Carbon Border Adjustment Mechanism	Methane Regulation
<b>Objective</b>	Directive (market-based system); designed to <b>reduce carbon emissions</b>	Regulation (border measure); designed to <b>limit carbon leakage</b>	Regulation (sectoral standards); designed to <b>reduce methane emissions</b>
<b>Adopted / in force since</b>	2003 Directive / operational since 2005 (reformed in 2018, 2023 with ETS2 > due in 2028)	2023 Regulation / reporting obligations since 2023-2025, certificate obligations since 2026	2024 Regulation / entered into force in 2024, phased obligations throughout 2025-2030+
<b>Who pays</b>	<b>EU carbon-intensive producers</b> (energy, industry, maritime, part of the aviation sector; ETS2 will extend to additional sectors)	<b>EU importers of carbon-intensive goods</b> (steel, cement, fertilizers, electricity etc.) + indirectly <b>non-EU suppliers</b>	<b>EU fossil fuel producers/importers</b> (oil, gas, coal) + indirectly <b>non-EU producers/suppliers</b>
<b>How it works</b>	<b>EU producers</b> pay for allowance that covers their CO <sub>2</sub> emissions (€/tCO <sub>2</sub> ). Cap-and-trade system where firms must surrender one allowance per tCO <sub>2</sub> emitted; emission allowances are tradable	<b>EU importers</b> must purchase and surrender carbon certificates reflecting the emissions embedded in their imports; priced according to the EU ETS auction price average	<b>EU producers/importers</b> must monitor, report and verify (MRV) methane emissions along their supply chains and mitigate emissions through leak detection and repair (LDAR). Max. intensity value for imports from 2030+
<b>Compliance</b>	Compliance cost depends on carbon price (€/tCO <sub>2</sub> ), determined by supply and demand under a declining emissions cap; non-compliance penalised (100€ per tonne of excess CO <sub>2</sub> emissions / per missing allowance)	Compliance costs mirror the EU ETS carbon price for imported goods, with additional administrative costs for MRV; non-compliance penalised (100€ per tonne of unreported CO <sub>2</sub> emissions / per missing certificate)	Compliance costs depend on implementing MRV systems; could be offset by selling captured gas from reduced leakage; non-compliance penalised through proportionality regimes established by national authorities

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