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Squaring the Circle: Integrating Climate and Trade Policies in Italy

by **Alessio Sangiorgio and Margherita Bianchi**

At a time when both the green agenda and the benefits of open markets are increasingly contested, climate and trade policies can be reconciled to strengthen industrial competitiveness and accelerate decarbonisation. Italy offers a compelling case, particularly in the steel sector. Its largely low-carbon production could benefit from EU measures that reward cleaner manufacturing, but existing instruments leave downstream producers exposed to higher input costs and competition from imported finished products. We recommend better coordination between carbon pricing and trade measures, along three main lines. First, the EU should close the gaps in its steel trade protection. Second, rather than expanding compensation schemes for carbon and energy costs, Italy should prioritise investment in cleaner technologies and make better use of Emissions Trading System revenues. Third, a coherent climate and trade strategy should also extend beyond heavy industry, particularly to agriculture, food and textiles.

Italy's industries, like those of other European countries, are struggling to balance multiple sets of objectives: competitiveness and decarbonisation, trade defense and openness, transition and resilience.[1] In an age when both the green agenda and the benefits of open markets are increasingly contested, squaring the circle between climate and trade policies may look challenging. However, it is possible not just to balance between them but to develop an integrated framework in which measures from both domains reinforce each other.

Italy is one of the leading manufacturing and exporting countries in the European Union. In 2025, Italy overtook Japan as the world's fourth-largest goods exporter. As of today, Italy's trade is strongly integrated with the rest of the European markets.[2] Being a resource-poor country, Italy relies heavily on imports of raw materials and inputs from the rest of the world. The preservation of the multilateral trade system is critical for the country – especially given the current global uncertainties.

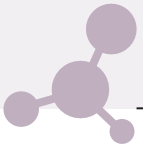
Alessio Sangiorgio *is Research Fellow at the University of Agder (UiA) and Associate Fellow at the Istituto Affari Internazionali (IAI).* **Margherita Bianchi** *is Head of the 'Energy, Climate and Resources' programme at IAI.*

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[1] Sangiorgio, Alessio and Pier Paolo Raimondi, *Steel Decarbonisation and Competitiveness: The Case for an Italian-German Dialogue*, Rome, IAI, November 2025, https://www.iai.it/en/node/21101.

[2] Cassa Depositi e Prestiti, "Italian Exports in the New International Geoeconomic Context", in *CDP Briefs*, 2 July 2026, https://www.cdp.it/pages/en/news/analisi-e-scenari/pubblicazioni/italian-exports-in-the-new-international-geoeconomic-context?contentId=TNK178538.



Italian industries face growing competition, both at home and in third markets, from producers operating under less stringent climate regulations

On the climate action side, Italy has reduced its emissions by 26 per cent since 1990 with a 64 per cent reduction in the power sector.[3] Yet Italian industries face growing competition, both at home and in third markets, from producers operating under less stringent climate regulations. The issue is becoming more and more politicised, as European industries are called to accelerate their decarbonisation efforts and investment plans in compliance with EU targets. Italy holds a competitive advantage in some energy-intensive sectors. For instance, it has a relatively low-carbon secondary steel production. So the country could benefit from cooperating with partner countries on developing more sustainable trade relationships.[4]

The EU has established a new web of initiatives to address different challenges: preventing carbon leakage (EU Carbon Border Adjustment Mechanism – CBAM – and the new Steel Regulation), accelerating domestic decarbonisation, and regaining competitiveness (Industrial Accelerator Act and the Emissions Trading System Review). The question is how to make them mutually reinforcing – focusing on the deep nexus between trade, climate and competitiveness.

The paper makes three main recommendations. First, close the gaps in EU steel trade protection. Italy's largely electric arc furnace (EAF)-based steel industry could benefit from policies that reward cleaner production. However, existing EU measures do not adequately protect downstream manufacturers from higher input costs and competition from imported finished products. Closing these gaps, while ensuring that energy cost relief does not undermine the competitive advantages of low-carbon producers, should be a priority.

Second, prioritise investment in decarbonisation over short-term measures to offset carbon costs and high energy prices. Italy and the EU should make better use of revenues from the Emissions Trading System (ETS) to finance cleaner technologies, energy efficiency and access to affordable low-carbon electricity. This would help reconcile climate objectives with long-term industrial competitiveness.

Third, extend a coherent climate and trade strategy beyond heavy industry. The EU Deforestation Regulation, the EU-Mercosur agreement and new ecodesign requirements illustrate how trade and environmental policies increasingly intersect in agriculture, food and textiles. Italy should approach these initiatives as part of a broader strategy that reconciles market openness, environmental objectives and industrial competitiveness.

[3] Bressa, Rudi et al., "CLEW Guide – Italy Moves on Green Transition, but Fossil Ties Remain Tight", in *Clean Energy Wire Factsheets*, 3 July 2026, https://www.cleanenergywire.org/node/12691.

[4] Bianchi, Margherita and Pier Paolo Raimondi, "Trading Green: How the EU Can Align Climate and Trade in a Fractured World", in *IAI Papers*, No. 26|08 (June 2026), https://www.iai.it/en/node/22394.

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1. Italian climate, trade and industrial positions

Key Italian officials have openly accused the climate agenda of being a major cause of Italy's declining industrial competitiveness

As a member state, Italy adheres to the broader EU climate targets. In July 2024, the government submitted its National Energy and Climate Plan, outlining its energy and climate targets and the pathway to reach them by 2030.[5] However, underneath the general commitment, since 2022 the Italian government led by Giorgia Meloni has increasingly criticised aspects of the EU green agenda. Rome is pushing for a 'change of approach' away from the so-called 'ideological environmentalism' of the European Green Deal.[6] Key Italian officials have openly accused the climate agenda of being a major cause of Italy's declining industrial competitiveness. As a result, Italy has called for a revision of key climate regulations and legislation, in particular the ban on new sales of cars with internal combustion engines (ICE) by 2035, in the spirit of the so-called 'technological neutrality'. In the early months of 2026, the government called for a suspension of the ETS to reduce energy prices in the aftermath of the Strait of Hormuz crisis.[7]

On the trade side, Italy ranked as the world's fourth-largest goods exporter in 2025 (643 billion euros) and twelfth-largest importer. Italy is strongly interconnected with the European markets, which account for almost 52 per cent of exports and around 60 per cent of imports. From a sectoral perspective, Italy exports mainly machinery, transport equipment, metals, fashion and food, while it imports energy, chemicals and metals. Italy's trade-oriented model means the country's exports are responsible for 0.5 per cent of global emissions embodied in trade (0.9 per cent including intra-EU trade). Meanwhile, its imports account for 1.6 per cent of global trade emissions, rising to 2.1 per cent if intra-EU trade is included.[8]

Italy is Europe's second-largest manufacturing country and, after Germany, its second-largest steel producer. Its energy-intensive industries employ around 1.25 million people generating 88 billion euros of gross value added.[9] The country depends on imports for flat steel, given the crisis of its primary steel production, and for primary aluminum. However, in both sectors, the country has gained leadership in recycling and secondary production.

[5] Italian Ministry of the Environment and Energy Security, *Piano nazionale integrato per l'energia e il clima*, June 2024, https://commission.europa.eu/node/32214_en.
[6] Perrone, Manuela, "Green Deal, 'No More Green Follies': Here Are Meloni's Stops and Three Stakes", in *Il Sole 24 Ore*, 23 October 2025, https://en.ilsole24ore.com/art/green-deal-no-more-green-follies-here-are-stops-and-three-stakes-meloni-AHUhg2ID; Ribezzo, Maria Elena, "EU, Meloni: 'Italy Will Not Support Climate Law Revision without a Change of Approach'", in *Eunews*, 22 October 2025, https://www.eunews.it/en/?p=438278.
[7] Munster, Ben et al., "Italy Calls for Suspension of Carbon Price in Major Attack on EU Climate Policy", in *PoliticoEU*, 26 February 2026, https://www.politico.eu/?p=8013375.
[8] European Climate Foundation, *Traded Emission Tracker*, https://emissions.netzerotrade.org.
[9] Raimondi, Pier Paolo, *Italy's Energy-Intensive Industries amid Competitiveness and Decarbonisation*, Rome, IAI, April 2025, p. 10, https://www.iai.it/en/node/19899.

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EU carbon pricing affects production costs in Italy's energy-intensive industries, although its impact on trade competitiveness varies across sectors

2. The ETS and energy intensive industries

EU carbon pricing affects production costs in Italy's energy-intensive industries, although its impact on trade competitiveness varies across sectors. The ETS price has grown over the years, from an average of just 5.4 euros per tonne of CO_2 in 2015 to a peak above 100 euros in 2023, settling then around 74 euros in 2026. The Italian body responsible for ETS auctions – Gestore dei Servizi Energetici (GSE) – reports that national ETS revenues reached 2.6 billion euros in 2025.[10] The revenues come mostly from the chemical, ceramics and steel sectors.

The chemical sector reports CO_2 costs exceeding 600 million euros annually.[11] Over the same period, the sector's exports have also declined by roughly 0.5 per cent a year in value between 2022 and 2026. This trend alone, however, cannot establish how much of the decline is attributable to carbon pricing rather than energy costs, demand or other factors.[12] In the ceramics sector, producers faced an estimated ETS cost of around 130 million euros annually between 2021 and 2025.[13] Although ceramic saw a 2.8 per cent increase in sales in export markets, value generated by export fell by 0.1 per cent.[14] The steel sector – with around 85 per cent of national output produced via scrap-fed EAFs – shows comparatively lower direct emissions, yet remains exposed to ETS costs embedded in power prices, given the continued predominance of gas-fired generation in Italy's electricity mix (at around 40 per cent). In fact, Italy's electricity generation mix remains quite carbon-intensive at 192 grams of CO_2 equivalent per kilowatt-hour (gCO_2e/KWh) in 2025, in comparison to an EU average of 178 gCO_2e/KWh.[15] Industrial estimates say that ETS costs represent 30 euros per megawatt-hour (MWh) of the wholesale power price during the hours when prices are set by gas-fired plants.[16]

[10] Gestore dei Servizi Energetici, *Rapporto sulle aste di quote europee di emissione 2025*, 19 March 2026, p. 31, https://www.gse.it/servizi-per-te/mercati-energetici/aste-co2/rapporti.
[11] Federchimica, *Situation and Outlook for the Chemical Industry*, 26 October 2026, p. 4, https://www.federchimica.it/docs/default-source/scenari-e-tendenze/situation-and-outlook-chemical-industry-in-italy_feb2025.pdf.
[12] Ibid., p. 3.
[13] Confindustria Ceramica, *Conferenza stampa di fine anno*, 17 December 2025, https://confindustriaceramica.it/w/conferenza-stampa-17-dicembre.
[14] Giacomini, Paola, "Italian Ceramic Industry: Energy and ETS Charges Squeeze Margins", in *Ceramic World Web*, 16 June 2026, https://ceramicworldweb.com/en/economics-and-markets/italian-ceramic-industry-energy-and-ets-charges-squeeze-margins.
[15] European Environment Agency, *Greenhouse Gas Emission Intensity of Electricity Generation*, 9 November 2026, https://www.eea.europa.eu/en/analysis/indicators/greenhouse-gas-emission-intensity-of-1.
[16] Massacci, Chiara, "Confindustria Calls for Pragmatic EU ETS Reform to Protect Industrial Competitiveness", in *SteelOrbis*, 9 June 2026, https://www.steelorbis.com/steel-news/latest-news/confindustria-calls-for-pragmatic-eu-ets-reform-to-protect-industrial-competitiveness-1457779.htm.

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3. Underinvesting of ETS funds toward decarbonisation

Italy has consistently shown a low utilisation rate of the national quota of ETS revenues to support its own industrial decarbonisation

The ETS has proven an effective incentive to decarbonise. Between the scheme's entry into force in 2006 and 2023, industrial emissions have fallen by 46.8 per cent.[17] Yet Italy has consistently shown a low utilisation rate of the national quota of ETS revenues to support its own industrial decarbonisation. Since 2012, the country has spent approximately just 1.6 billion euros – around 9 per cent of the total 18 billion euros in revenue – on decarbonisation measures. National legislation earmarks half of these revenues for the fund used to pay down Italian public debt, while the remainder is allocated to ministries for broader climate and energy purposes rather than specifically to industrial transformation.[18] Recent measures have attempted to target more of these funds towards decarbonisation: Decree-Law No. 208 of 31 December 2024 earmarked up to 45 million euros annually from ETS auction revenues for 2025-2027 to support the role of GSE as a guarantor of last resort for power purchase agreements (PPAs).[19]

However, other developments point in the opposite direction, with ETS revenues increasingly used to compensate energy intensive industries for their carbon costs rather than to finance investments in decarbonisation. In July 2026, the Commission approved an expansion of Italy's state aid scheme compensating energy-intensive companies for higher electricity costs tied to EU ETS carbon pricing. The total budget for this compensation scheme increased from 1.5 to 3.6 billion euros, and the maximum annual budget from 140 to 600 million euros – funded directly by the national EU ETS auction revenues.[20] Under the revised terms, eligibility was extended to companies in additional sectors considered at risk of relocating outside the EU, and the maximum aid intensity rose from 75 to 80 per cent of indirect emission costs for sectors already covered by the scheme.

4. Consequences for the steel sector

Underutilisation of ETS revenues carries particular weight for the steel sector: directing more resources towards energy efficiency and low-carbon production could help narrow some of the cost

[17] Erbach, Gregor, "Italy's Climate Action Strategy", in *EPRS Briefings*, December 2024, https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2024)767178.
[18] Italy, Legislative decree No. 47 of 9 June 2020: *Attuazione delle direttive (UE) 2018/410, (UE) 2023/958 e (UE) 2023/959*, https://www.normattiva.it/uri-res/N2Ls?urn:nir:stato:decreto.legislativo:2020-06-09;47.
[19] "Ets, First Quarter 2025 Revenue up to 655 million for Italy", in *Il Sole 24 Ore*, 27 May 2025, https://en.ilsole24ore.com/art/ets-first-quarter-2025-revenue-growth-655-million-l-italy-AHbjv9x.
[20] "EU Approves Italy's €3.6b Energy Aid Plan amid Fears of Industry Exodus", in *The Brussels Times*, 20 July 2026, https://www.brusselstimes.com/2238735/eu-approves-italys-e3-6b-energy-aid-plan-amid-fears-of-industry-exodus.

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The whole European steel sector is in distress, but Italian producers have proven particularly vulnerable to the combination of global overcapacity and protectionist pressures

disadvantages facing Italian producers. The price gap they face in comparison to external competitors weighs heavily on the sector's trade performance. This is not only an Italian issue: the whole European steel sector is in distress, but Italian producers have proven particularly vulnerable to the combination of global overcapacity and protectionist pressures – especially from giant steel players such as China, India and the US. Italy's steel trade balance has been in deficit since 2018. In 2024, annual exports of semi-finished and finished steel products totalled 14.9 million tonnes, a decline of 5.7 per cent in comparison to the previous year and plummeting to a ten-year low.[21] The country is growing increasingly reliant on imports – in particular from China and India, which together supply over a third of Italy's iron and steel imports from outside the EU, primarily flat-rolled products and semi-finished steel.[22] These imports carry substantially higher embodied emissions than comparable Italian output: China's steel industry carbon intensity amounts to approximately 2.33 tonnes CO_2 per tonne (CO_2/t), compared to just 0.7 tonne CO_2/t for Italy's largely EAF-based production.[23] India's steel production is even more carbon-intensive, emitting about 20-25 per cent more CO_2/t than China.[24]

The full operationalisation of CBAM from 2026 is meant to address this gap. However, its protection is not yet distributed across the entire value chain. As CBAM covers semi-finished steel, Italy's large downstream re-rolling and transformation sector faces rising input costs.[25] Downstream firms therefore bear the cost, since Italy's predominantly EAF-based steelmakers do not produce the volumes of primary steel that many processors require. At the same time, as raw material costs increase, domestic foundries may be exposed to increased competition shifted downstream. Until steel-intensive finished products are brought within CBAM's scope, many external suppliers may be able to shift their own output and exports from raw

[21] Capra, Natalia, "Italy Steel Exports Decline to Ten-Year Low", in *Eurometal Latest News*, 27 November 2025, https://eurometal.net/?p=36657.
[22] Carriero, Alberto et al., "The Italian Steel Industry across National and European Challenges: What Prospects for Development?", in *CDP Briefs*, 6 November 2024, p. 6-7, https://www.cdp.it/pages/en/news/analisi-e-scenari/pubblicazioni/the-italian-steel-industry-among-national-and-european-challenges-what-prospects-for-development?contentId=TNK49235.
[23] Song, Xiaocong et al., "Carbon Emissions in China's Steel Industry from a Life Cycle Perspective: Carbon Footprint Insights", in *Journal of Environmental Sciences*, Vol. 148 (February 2025), p. 650-664, https://doi.org/10.1016/j.jes.2023.04.027.
[24] Grigsby-Schulte, Astrid et al., "Pedal to the Metal 2025. Evaluating Progress Toward 2030 Iron and Steel Decarbonization Goals", in *Global Energy Monitor Reports*, May 2025, https://globalenergymonitor.org/node/1389; Qi, Qin and Lauri Myllyvirta, "Guest Post: Why China Is Still Building New Coal - and When It Might Stop", in *Carbon Brief*, 12 August 2025, https://www.carbonbrief.org/?p=58741.
[25] Assofond, *CBAM Threatens Foundry Operations. Assofond Calls for Urgent Corrective Measures*, 3 February 2026, https://www.assofond.it/en/-/cbam-le-fonderie-a-rischio-paralisi-assofond-servono-correttivi-urgenti-o-rischiamo-stop-produttivo-.

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materials toward finished products. This is particularly true for China, which benefits from strong vertical integration and tighter control over its supply chains. As a consequence, the Italian government has pushed in Brussels to accelerate CBAM's extension to downstream, steel-intensive finished products, arguing that the currently proposed 2028 start date is too distant.[26]

5. The contradictions of EU climate and trade policies

The steel sector illustrates how carbon pricing, border measures and industrial support can produce different effects along the same value chain

The steel sector illustrates how carbon pricing, border measures and industrial support can produce different effects along the same value chain. Looking into it helps understand Italy's position within the EU carbon regime. The EU has developed several policy tools to shield its market and promote demand for low carbon commodities, most recently new tariffs and quotas for steel imports, the Industrial Accelerator Act (IAA) and the Temporary Decarbonisation Fund.[27] However, these tools have not always been coordinated in an integrated climate and trade framework.

The new steel tariffs aim to address volume overcapacity, but the regulation introducing them also states that "the decarbonisation path of the steel sector in the Union should be one of the elements that can be taken into account by the Commission when amending the volumes of tariff quotas".[28] However, these rules do not seem designed with CBAM's own gaps in mind. As a result, they reinforce its loopholes – namely the lack of protection for downstream steel-intensive finished products – rather than closing them. The rules entered into force on 1 July 2026. They cut duty-free import quotas by 47 per cent (to 18.3 million tonnes/year) and double the out-of-quota tariff to 50 per cent, while introducing a "melt-and-pour" traceability rule to curb circumvention.[29] Quotas and duties apply only at the primary and semi-finished steel stage. As a result, downstream processors face rising input costs without receiving any offsetting protection from imported finished goods. In other words, this

[26] Capra, Natalia, "Italy Calls for Faster CBAM Extension", in *Kallanish Market Reports*, 3 February 2026, https://www.kallanish.com/en/news/steel/market-reports/article-details/italy-calls-for-faster-cbam-extension-to-downstream-products-0226.
[27] European Commission, *Proposal for a Regulation on Establishing a Framework of Measures for the Acceleration of Industrial Capacity and Decarbonisation in Strategic Sectors* (COM/2026/100), 4 March 2026, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52026PC0100; and *Proposal for a Regulation Establishing the Temporary Decarbonisation Fund* (COM/2025/990), 17 December 2025, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52025PC0990.
[28] European Parliament and Council of the EU, *Regulation (EU) 2026/1384 of 17 June 2026 Addressing the Negative Trade-Related Effects of Global Overcapacity on the Union Steel Market*, point 7, https://eur-lex.europa.eu/eli/reg/2026/1384/oj/eng.
[29] European Commission, *New Rules to Protect EU Steel Industry from Damaging Impacts of Global Overcapacity Enter into Application*, 30 June 2026, https://ec.europa.eu/commission/presscorner/detail/en/ip_26_1484.

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mechanism lacks a broader value-chain logic and leaves downstream segments without protection.

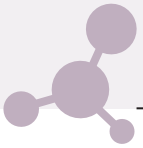
Early market responses suggest these measures have favoured Italian steel producers by pushing up domestic prices. By mid-July 2026, hot-rolled coil produced in Italy was priced at 695 euros per tonne – up 145 euros since the measures were first proposed in October 2025. Over the same period, the price of imported coil rose by only 95 euros, to 580 euros per tonne.[30] Although other factors, including global steel prices and CBAM costs, also contributed to these developments, the new import restrictions appear to have played a significant role.

A further instrument intended to align industrial competitiveness and decarbonisation is the Industrial Accelerator Act

A further instrument intended to align industrial competitiveness and decarbonisation is the IAA. The Act was presented on 4 March 2026, and it seeks to build lead markets for low-carbon industrial products through low-carbon and, for some materials, Union-origin requirements in public procurement. The Commission notes that public procurement accounts for roughly 15 per cent of EU GDP.[31] In the original text of the Act, however, steel is subject only to low-carbon requirements, without any preference for EU-made products. The Commission argues that such a preference is unnecessary, as the new steel import quotas and tariffs already protect European producers from global overcapacity.[32] This has drawn criticism from Italian steelmakers, who argue that shielding the domestic market from unfair competition is not sufficient on its own and that demand-side measures are needed to stimulate uptake of low-carbon steel.[33] The debate on whether to include steel in the local content provisions is still ongoing: a compromise text submitted by the Irish Presidency of the Council of the EU in July 2026 proposes to align steel with other sectors covered by the IAA.[34] Additionally, while the IAA low-carbon criteria require that 25 per cent of the steel used in buildings, infrastructure and transport projects be low carbon, the definition of "low-carbon steel" remains unresolved. The Commission's proposal envisages rewarding the use of scrap in steel products that would normally require primary steel, as this can reduce their carbon footprint. However, the precise criteria for classifying steel

[30] Waters, Riley, "EU Steel Safeguards Set to Buoy Domestic Flat Steel Market in H2", in *Eurometal Latest News*, 17 July 2026, https://eurometal.net/?p=42128.
[31] European Commission, *Proposal for a Regulation on Establishing a Framework of Measures for the Acceleration of Industrial Capacity and Decarbonisation in Strategic Sectors*, cit.
[32] Ibid.
[33] Massacci, Chiara, "Federacciai: EU industrial Accelerator Act falls Short of Made in Europe Rules for Steel", in *SteelOrbis*, 5 March 2026, https://www.steelorbis.com/steel-news/latest-news/federacciai-eu-industrial-accelerator-act-falls-short-on-made-in-europe-rules-for-steel-1439419.htm.
[34] Council of the EU, *Proposal for a Regulation on Establishing a Framework of Measures for Accelerating Industrial Capacity and Decarbonisation in Strategic Sectors (Industrial Accelerator Act) - Second Presidency Compromise Text*, 30 July 2026, https://data.consilium.europa.eu/doc/document/ST-12236-2026-INIT/en/pdf.

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In July 2026, the European Commission proposed a review of the ETS

as low carbon will be established through upcoming delegated acts. Italian EAF steelmakers have strongly defended the principle that scrap should be treated as having zero embedded emissions. They oppose proposals to grant steelmakers using more carbon-intensive blast furnaces partial credit for incorporating some scrap into their production processes. Furthermore, the ongoing discussion over the IAA evolution is focusing on how to replace the "Made in Europe" concept proposed by the Commission with a more legally precise system based on product-specific market access.[35]

In July 2026, the European Commission proposed a review of the ETS, which confirms the role of carbon pricing in driving industrial decarbonisation beyond 2030 and envisages a 100-billion-euro Industrial Decarbonisation Bank.[36] However, the EU has also developed responses that contradict the polluter-pays principle and partially offset the ETS's intended impact. In December 2025, the European Commission proposed a Temporary Decarbonisation Fund to compensate EU energy-intensive exporters for part of their carbon costs[37] as free ETS allowances are progressively phased out under CBAM. The Fund would be financed by member states through 25 per cent of revenues collected at national level from the sale of CBAM certificates for embedded emissions, for the years 2026 and 2027. This compensation narrows the cost gap between high- and low-carbon producers that the ETS is designed to create, by offsetting the indirect costs that would otherwise reward switching to low-carbon processes. This weakens the price signal driving decarbonisation investment, while leaving low-carbon producers – who receive no equivalent compensation – at a relative competitive disadvantage. Italy has been a vocal supporter of similar measures – which echo its own state-aid scheme for compensating high electricity prices for energy intensive industries. The Italian government has even criticised the Fund for not being large enough, pushing for even stronger compensation for exporters at risk of carbon leakage.[38]

6. Beyond heavy industry

The climate-trade nexus in Italy extends well beyond energy-intensive industries. Agricultural and food products represent a

[35] Micheletti, Francesca, "EU Countries Recast 'Made in Europe' around Products, not Countries", in *PoliticoEU*, 3 August 2026, https://www.politico.eu/?p=8838553.
[36] European Commission, *Commission Boosts Europe's Competitiveness, Decarbonisation and Independence with Electrification Action Plan and ETS Review*, 17 July 2026, https://ec.europa.eu/commission/presscorner/detail/en/ip_26_1596.
[37] European Commission, *Proposal for a Regulation Establishing the Temporary Decarbonisation Fund*, cit.
[38] Gualandi, Rebecca, "Italy, France Criticise Proposed EU Decarbonisation Fund, Call for Stable ETS Prices", in *Carbon Pulse*, 4 March 2026, https://carbon-pulse.com/489297.

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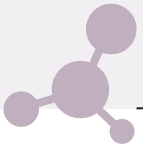
The climate-trade nexus in Italy extends well beyond energy-intensive industries

further, largely underexplored dimension of the debate, most directly through the EU Deforestation Regulation (EUDR).[39] The regulation covers commodities – coffee, cocoa, palm oil, soy, rubber, wood and cattle – that feature prominently in Italy's import basket. Italy is the EU's second-largest coffee importer after Germany, accounting for around 23 per cent of the bloc's extra-EU coffee imports, sourced primarily from Brazil and Vietnam.[40] Cocoa and its derivatives similarly underpin a domestic chocolate and confectionery industry with a strong export performance. Following two postponements, the EUDR's core obligations will apply to medium and large operators from 30 December 2026. Micro and small operators will follow in the second half of 2027.[41] This will make deforestation-related requirements an immediate concern for Italian importers and their supply chains. While CBAM targets embedded carbon in industrial goods, the EUDR targets embedded land-use change in agricultural commodities. This illustrates further how the EU is increasingly using trade-related measures to address the environmental impact of imports, extending this approach well beyond industrial emissions.

Trade agreements under negotiation or ratification add a further layer, most saliently the EU-Mercosur agreement, signed in Asunción on 17 January 2026 after 25 years of negotiations and covering the elimination of tariffs on 92 per cent of bilateral trade.[42] The European Commission opted to implement its trade provisions on a provisional basis from 26 February 2026, through a stand-alone Interim Trade Agreement not requiring ratification by national parliaments. A broader Partnership Agreement remains subject to ratification by Mercosur states and a pending opinion from the Court of Justice of the EU requested by the European Parliament.[43] For Italy, the deal is a direct test of how trade liberalisation, embedded emissions and competitiveness interact outside the industrial sphere. The agreement opens a 99,000-tonne beef quota at a reduced 7.5 per cent duty and up to 650,000 tonnes of Mercosur ethanol on preferential terms,[44] both raising questions about how imported products meet environmental

[39] European Parliament and Council of the EU, *Regulation (EU) 2023/1115 of 31 May 2023 on the Making Available on the Union Market and the Export from the Union of Certain Commodities and Products Associated with Deforestation and Forest Degradation*, https://eur-lex.europa.eu/eli/reg/2023/1115/oj/eng.
[40] Eurostat, *Happy International Coffee Day!*, 1 October 2024, https://ec.europa.eu/eurostat/web/products-eurostat-news/w/edn-20241001-1.
[41] European Parliament and Council of the EU, *Regulation (EU) 2025/2650 of 19 December 2025 Amending Regulation (EU) 2023/1115 as Regards Certain Obligations of Operators and Traders*, https://eur-lex.europa.eu/eli/reg/2025/2650/oj/eng.
[42] European Commission DG for Trade website: *EU-Mercosur Agreement*, https://policy.trade.ec.europa.eu/node/667_en.
[43] European Commission, *EU and Mercosur Sign Historic and Ambitious Partnership*, 17 January 2026, https://ec.europa.eu/commission/presscorner/detail/en/ip_26_113.
[44] European Commission DG for Trade, *Factsheet: Opening Opportunities for European Farmers*, January 2026, https://doi.org/10.2781/5514376.

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standards and how their impacts compare with those of competing EU production. At the same time, the trade deal protects over 350 EU geographical indications,[45] offering new export opportunities for precisely the kind of high-value, quality-differentiated agri-food products (wine, cheese, processed food) in which Italy specialises.

This explains why the agreement has sparked mixed reactions in Italy. The country is both an importer of higher-emission commodities and an exporter of protected-designation products. Major agricultural associations opposed the Mercosur deal, citing concerns over unfair competition and differences in environmental and production standards. By contrast, industrial exporters and parts of the agri-food sector welcomed the new market opportunities. The Meloni government ultimately supported the deal after securing additional safeguards for farmers. This makes Mercosur a valuable complementary case study to steel for examining how Italy navigates the trade-off between market openness, climate objectives and the defence of national quality standards.

Finally, the Ecodesign for Sustainable Products Regulation (ESPR) deserves brief mention. Its 2025-2030 working plan extends the same climate-trade logic to textiles and apparel, one of Italy's core export sectors. Product-specific requirements are expected in 2027 with application from the second half of 2028 at the earliest.[46]

7. Conclusion: How to integrate the climate and trade policy domains

Italy's challenge is to align three goals: preserving incentives to reduce emissions, maintaining access to competitive inputs, and preventing carbon-intensive production from relocating rather than decarbonising

Italy's challenge is to align three goals: preserving incentives to reduce emissions, maintaining access to competitive inputs, and preventing carbon-intensive production from relocating rather than decarbonising. Growing protectionist pressures and a push by industrial players to relax emission standards point to the need for better coordination not only between trade defence and carbon pricing measures, but across the wider set of instruments – from CBAM and the ETS to the EUDR, Ecodesign and trade agreements such as EU-Mercosur. Raising costs for emitters risks undermining the competitiveness of domestic producers, both at home and in export markets. To avoid this, carbon pricing must be accompanied by channelling revenue into industrial transformation and defensive trade measures that protect producers from unfair competition. An integrated climate-trade framework should foster trade measures that also advance climate objectives. In turn, climate policy should

[45] Ibid.
[46] European Commission DG for Environment, *Plan to Boost Circular and Efficient Products on the European Market*, 11 July 2025, https://green-forum.ec.europa.eu/node/650_en.

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reinforce trade competitiveness for less-emitting producers, incentivising industrial players to pursue decarbonisation.

In the steel sector, Italy has a particular interest in closing gaps in downstream CBAM coverage and strengthening anti-circumvention rules. Italy's steel industry, which already relies heavily on lower-emission production technologies and has absorbed the cost of the transition, would now benefit from a sustained EU climate trajectory. However, the pressure to abandon such trajectory remains. Italy is pushing Brussels to ease ETS obligations in order to contain short-term energy costs, and has even called for the total suspension of the ETS system.[47] An across-the-board weakening of carbon pricing could reduce the competitive value of the lower direct emissions achieved by many Italian EAF producers, even if it offered short-term relief on energy costs. Italy's strategy for its energy-intensive industries will increasingly hinge on how CBAM design, electricity-price relief and safeguard-style trade protection will interact with one another, rather than on any one of these policies in isolation.

Italy's largely EAF-based steel industry could gain a competitive advantage if EU trade policy increasingly rewards verified low-carbon production

Italy's largely EAF-based steel industry could gain a competitive advantage if EU trade policy increasingly rewards verified low-carbon production. Realising this advantage requires better coordination between CBAM, which addresses the imports' carbon content, and steel trade measures, which primarily address import volumes. Neither instrument by itself resolves the exposure of downstream firms to higher input costs or competition from finished imports. Therefore, greater coherence is needed across trade and climate instruments that currently operate on different logics. CBAM's downstream loopholes need to be closed – potentially through a temporary and targeted use of safeguard-style mechanisms that are tailored to the downstream segments left exposed. Downstream foundries are more vulnerable to input-cost shocks than the producers upstream and will need targeted support to prevent a two-speed industrial base from forming.

At the same time, indiscriminately using public funds to offset ETS costs without clear decarbonisation conditions – whether through EU-level funds or national aid schemes – risks blunting the incentives the ETS is designed to create. Rather than expanding compensation schemes, Italy and the EU should prioritise investment toward decarbonisation through ETS-linked funding instruments. While member states are already required to use all ETS auction revenues for climate and energy purposes, the Commission's July 2026 ETS review proposal would require them, from 2029, to dedicate at least 50 per cent of these revenues to defined priority areas, including

[47] Pacheco, Marta, "Italy Calls for Suspension of EU Carbon Market", in *Euronews*, 26 February 2026, https://www.euronews.com/my-europe/2026/02/26/italy-calls-for-suspension-of-eu-carbon-market.

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industrial decarbonisation.[48] The proposed ETS Investment Booster and the Industrial Decarbonisation Bank should make channelling these revenues toward decarbonisation projects easier.

The production costs gap facing Italian exporters should also be addressed structurally by expanding low-carbon electricity supply and improving access to long-term power contracts. This would reduce exposure both to gas-driven wholesale power prices and, where fossil-fuel generation sets the marginal price, to carbon costs passed through into electricity prices. PPAs could help energy-intensive users secure more predictable costs.

Italy should introduce a binding minimum share of national ETS auction revenues earmarked for industrial decarbonisation, rather than relying on discretionary annual budget allocations. Italy could align domestic legislation with this target by amending the national framework governing ETS revenue allocation to set a statutory floor – rather than a recommended ceiling – on the share reserved for decarbonisation spending, closing the gap between the roughly 9 per cent historically spent and the 50 per cent now expected at EU level. This earmarked revenue should be paired with transparent, sector-specific allocation criteria tied to measurable emissions-reduction potential, prioritising energy efficiency investment in the hardest-to-abate segments – which would translate into effective energy savings and reduced costs in the medium term.

Steel is the sector where this paper's recommendations are clearest. Other sectors require the same scrutiny of environmental outcomes, competitive effects and implementation costs, but not necessarily the same instruments. The EUDR will bring due diligence obligations to Italy's coffee, cocoa and broader agri-food imports from 2026; the EU-Mercosur agreement will test how far Italy can reconcile agricultural market opening with its interest in protecting quality-differentiated exports and containing embedded emissions in imported beef and ethanol; and the ESPR will eventually extend carbon and circularity requirements to sectors, including textiles, that sit outside the industrial core of the current debate. As these files move from negotiation to implementation over the coming years, Italy must address them as part of a coherent climate and trade strategy – rather than treating each as a separate negotiation. Only by bringing these policies together can Italy turn its strengths into a genuine strategic advantage, rather than responding piecemeal to each new EU initiative.

[48] European Commission, *Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC and Decision (EU) 2015/1814 as regards Driving Competitiveness and Cost-Effective Decarbonisation* (COM/2026/616), 17 July 2026, https://eur-lex.europa.eu/legal-content/en/TXT/?uri=celex:52026PC0616.

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Via dei Montecatini, 17
I-00186 Rome, Italy
T +39 06 6976831
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