ETS review

17 July 2026

Key design principles

- ✓ Reconciling **triple objective**: climate (alignment with 2040 target), independence & competitiveness
- ✓ Mobilising **investment and innovation**, rewarding **frontrunners** and supporting catch-up
- ✓ More **flexibility through conditionality**:
    - ✓ Continue free allocation but with investment conditionality
    - ✓ More MS revenues should go back to ETS-paying sectors
- ✓ Scale up removals, incentivise circularity
- ✓ Open to international carbon credits
- ✓ Contribution by international aviation and maritime

Cap Trajectory

- The revised ETS will result in an **LRF in line with the net 90%** target in 2040, allowing a more manageable and gradual cap trajectory:
  - The cap will be reduced more slowly than is the case today and allowances auctioned well beyond 2040
  - This means the cap will be reduced annually with a **less steep linear reduction factor: 3.7% from 2031 to 2035 and 1.7% from 2036**
  - Up to 2% high-quality, **high-integrity international credits** are introduced for 2036-2040
  - Safeguard: Review on 1 January 2033
  - The integration of 250 Mt high-quality **permanent domestic carbon removals** in ETS will kickstart the market for removals

Market Stability Reserve (MSR)

- **On 1 April, the Commission proposed to end invalidation of allowances in the MSR (now in co-decision). This was the first step on the reform of the MSR** and can increase the reserve for future use

- **The ETS Review will propose a further revision of the MSR** to ensure it serves its role of providing stability in the (shrinking) carbon market of the next decade, by:
  - Adapting the MSR **parameters to the size of the market** post-2030, while a volume-based operation (and not price based) is maintained.
  - This include a **lower intake rate of 12% instead of 24%** meaning more allowances stay in the market for longer.
  - Ensuring it remains **rules-based** and predictable, independent from political influence (no carbon central bank)

Conditional Free Allocation

- FA to become a mechanism to encourage investment in Europe in decarbonisation in the next decade. **Free allowances to turn into investment allowances**:
  - **80%** will be given for free **after the publication of the company plans** for decarbonisation investments endorsed by the company board and published.
  - **20%** will be given **after the implementation** and publication of the investments and related emissions reductions.
  - The proposal will be as **simple** as possible:
    - Co-design with industrial stakeholders
    - Replaces three existing conditionalities
    - Existing compliance cycles and automation
    - Verification would be done primarily at Member State level, with spot checks at the EU level.
    - Pooled/corporate compliance allowed so that operators can invest where enabling infrastructure is ready (e.g. access to grids)
    - Exemptions for 10% best performers, Innovation Fund and IDB projects, low- and zero-carbon installations

Benchmarks

Industry concerns on free allocation benchmarks are addressed in the following ways:

- **Within the limits of existing legislation |**
  - To promote industrial electrification, the updated benchmarks cover indirect emissions from electricity use across 14 product benchmarks (mainly chemicals and refinery).
  - Additional financial benefit to the industry of **around €4 billion for the 2026-2030 period.**
  - *Entered into force on 1 July*

- **Separate proposal for 17 July |**
  - In line with request by the Member States, the Commission will propose less stringent updates of the fallback benchmarks for heat and fuel, without triggering the cross-sectoral correction factor **(additional flexibility worth around €6 billion)**
  - Fast-tracked proposal with retroactive application

- **ETS review proposal for 17 July |**
  - Sector-specific fallback benchmarks **post-2030** are explicitly included in the empowerment provision.
  - Maximum update rate for all benchmarks set at 2% and free allocation buffer increased to 4%.

Solidarity Mechanisms in the EU ETS

Aim: Fair burden sharing between Member States and financial support for the most affected Member States

Modernisation Fund (MF): supports energy system modernisation (including grids), efficiency, and industrial decarbonisation in lower-income MS.

- 280 million allowances for 12 Member States (10 Eastern MS + Greece & Portugal);
- No investment in fossil-fuel based energy generation and no fossil fuel infrastructure

10% redistribution (solidarity): enhances fairness by redistributing auction rights to 16 lower-income Member States.

- 12 MF beneficiaries to use the allowances under the Modernisation Fund
- Other MSs required to spend on priority areas for spending of auction revenue

Investment Booster (IB): Ringfenced allowances for lower income MS

- a fair share of allowances (of 400 million total) reserved for the 12 lower-income MS, in line with their proportional share in industrial emissions (25%) + access to the remainder of the 400 million allowances

Industrial Decarbonisation Bank (IDB)

Phase 1: Investment Booster (2027–2030)

Kickstart industrial decarbonisation with rapid, predictable support ('privilege speed')

Budget: 400 mio allowances (EUR 30 bn with 75EUR/t carbon price) from Phase 4

Work with '**First-in, First-served**' administrative schemes

Create a solid business case with (carbon) **fixed premium**

Stakeholder consultations to start in September 2026

Phase 2: IDB (2031–2040)

Cost-efficient, long-term decarbonisation via market-based mechanisms.

Budget: 400 million allowances to deliver EUR 100 billion in funding

Work with **competitive bidding**

Maintain a **solid business** case by income stabilisation through **Carbon contracts for difference (CCfDs)**

EU ETS investment toolbox – externally assigned revenues

2020 — 2030 — 2040

International credits (2036-40)

Review on purchase of high quality international credits.

Carbon removals

Support purchase of permanent domestic carbon removals (e.g. BioCCS and DACCS removal units).

Maritime Allowances

Support the decarbonisation of the sector,

Investment Booster
IDB Phase 1

Rapid support to create a solid business case for industrial decarbonisation

Industrial Decarbonisation Bank (IDB)

Continue creating a solid business case for energy intensive sectors to invest in decarbonisation. Cost-efficiency via market-based mechanisms, including competitive bidding

"SAF" allowances

Support the uptake of sustainable aviation fuels. 20 mio allowances,

"SAF" allowances

mio allowances, dependent on ETS aviation scope

Modernisation Fund (2021-30)

Assist low-income Member States to accelerate and catch up in the energy transition (renewables, efficiency, grids, industry etc.)

Modernisation Fund (2031-40)

Expanded scope to include industrial decarbonisation (e.g. CCS), 12 beneficiary MS, addition of **Rule of Law conditionality**.

Innovation Fund (2021-30)

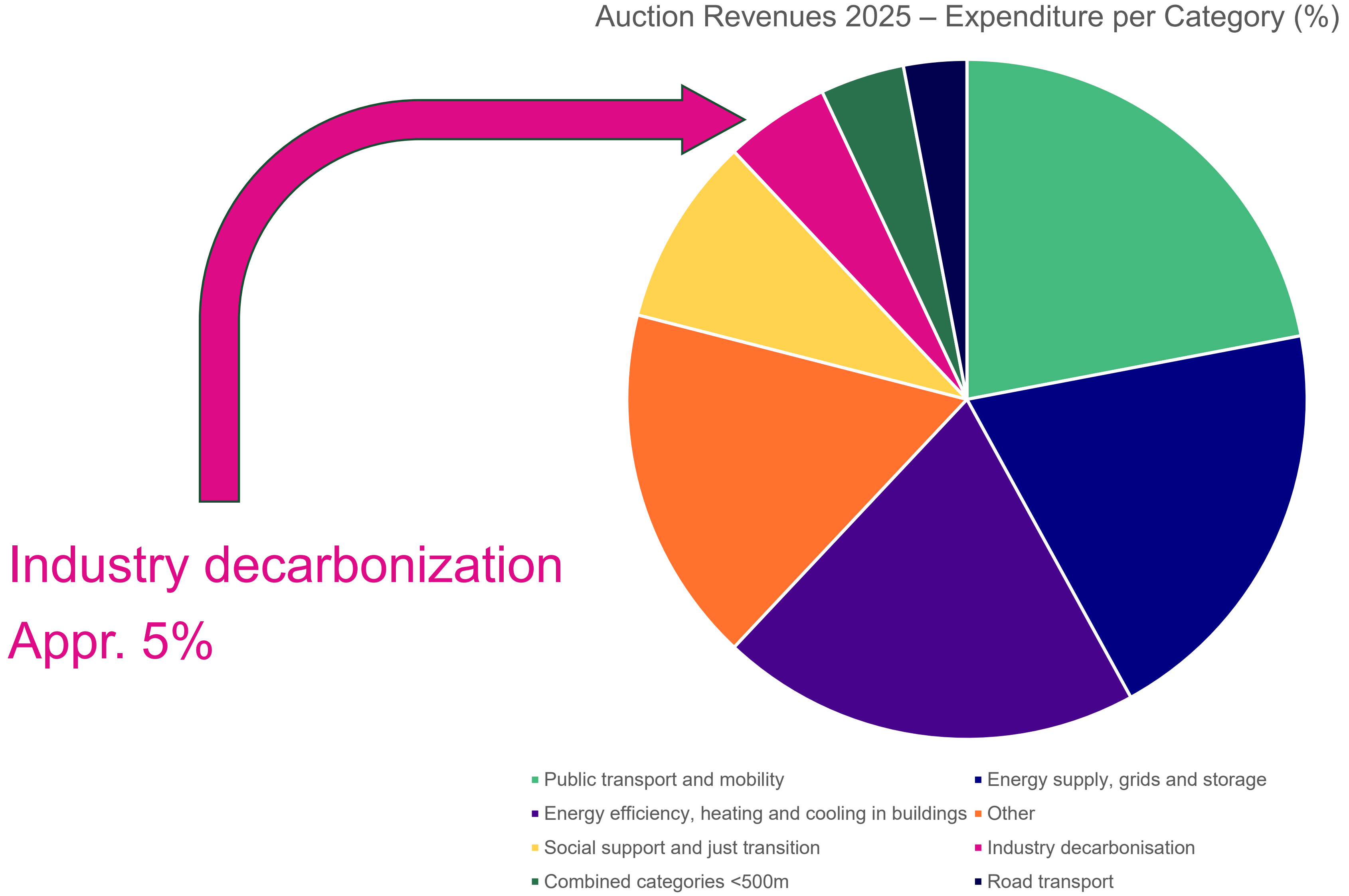
Help companies bring innovative technologies to market in a broad range of sectors. Total size of about 530 million allowances with around €15 billion awarded to 260 projects in 28 countries

Innovation Fund "2.0"

Continued support for companies to bring innovative clean technologies to market.

Total size of **200 million allowances**

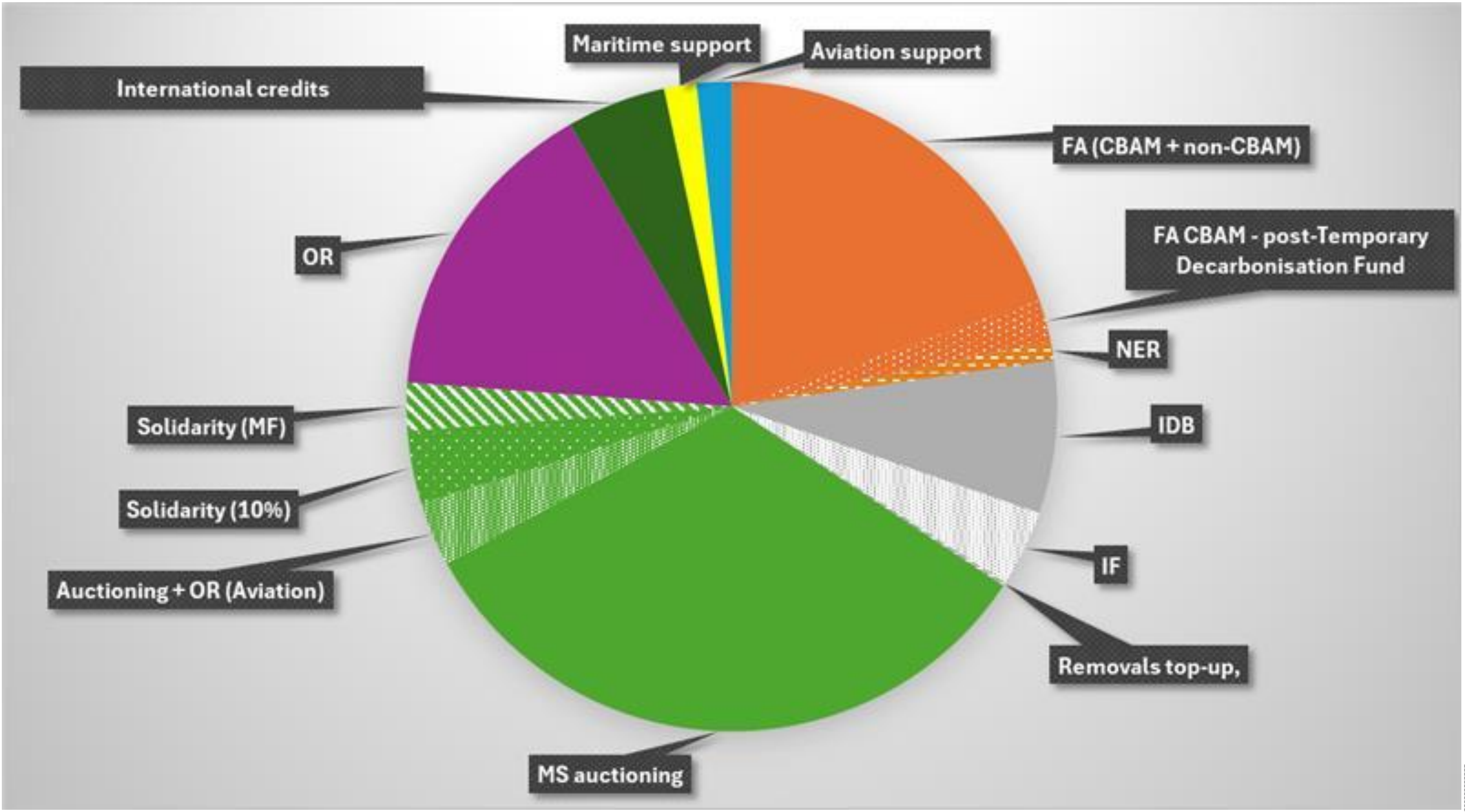
Member States need to use ETS revenues better



Member States need to use ETS revenues better

- Introduce the principle that **‘revenues flow back to ETS-paying sectors’**:
  - MS **shall spend at least 50%** of revenues for investments in the decarbonisation of **ETS sectors** in the EU (energy (incl. electrification, grids, RES, storage), industry (incl. chemicals, fertilizers) & clean tech, aviation and maritime
- Introduce stronger **safeguards** to ensure Member States fund right projects and avoid greenwashing:
  - **prohibit fossil fuel** lock in investments
- Increased **visibility** and **transparency**

Distribution of ETS allowances



Waste incineration

We propose **gradual inclusion of municipal waste incineration, with additional flexibilities** and in close **coherence with Circular Economy Act**:

- ✓ **Later & gradual phase-in**, over 2031-2034
- ✓ **Possibility for national opt-out until 2035**, if at least two out of three conditions met *(equivalent national carbon tax; on track for recycling targets; on track for landfill target)*
- ✓ **Free allocation** for district heating extended beyond 2030 *(~70% of waste-to-energy plants)*
- ✓ **Support** for **local authorities** (priority national auction revenue spending) and for operators notably for **carbon capture** (IDB/IB, IF, MF)
- ✓ Link with carbon removal integration: enhances business case for carbon capture
- ✓ Link with carbon capture and use: allows to incentivize CCU upstream
- ✓ **Landfill:** convergence to 2035 landfill target, monitoring and reporting of landfill emissions, reinforced policies in upcoming Circular Economy Act

Aviation

Instead of extension to full departing flights, we propose a **more tailored solution**. It addresses level playing field while encouraging CORSIA:

- ✓ **Continue the "stop the clock" on full extension** to departing flights, with review clause for CORSIA's assessment in 2032, hence encouraging CORSIA
- ✓ **Provide industrial support for made-in-Europe SAF,** by offering SAF support on full departing flights (110 mio allowances) and allowing for book & claim
- ✓ **Improve the level playing field for EU airlines with regional scope extension,** by bringing flights *landing* in countries within 5000 km into the ETS from 2029 (addresses 'hub leakage' risk)
- ✓ Continue exemption of domestic flights for **outermost regions** until end of 2035.

Maritime

We propose to **continue and strengthen maritime ETS**:

- ✓ Channel **more revenues to the sector** (inspired by SAF support in aviation => “SMAP” – Sustainable Maritime Alternative Propulsion – support mechanism)
  - 110m allowances for the period **2028-2040** and tech neutral (advanced biofuels, e-fuels, electrification, wind...).
- ✓ **Address the risk of evasion:**
  - by broadening the existing list of neighbouring ports at risk; and,
  - with a targeted discount for large containerships coming from non-EU ports to EU ports, based on the share of transhipped containers moving between two non-EU countries.
- ✓ **Simplify reporting** for shipping companies: reporting only once for both FuelEU and ETS purposes (this corresponds to the separate proposal to amend the MRV Regulation).
- ✓ **Ensuring level playing field for EU-based offshore sector operators**
- ✓ **Targeted extension to most emitting smaller ships** (below 5000 gross tonnage but above 400 gross tonnage)
- ✓ **IMO deduction mechanism subject to review clause.**
- ✓ **Support for SIDS and LDCs to decarbonise shipping**
- ✓ **Extension of derogations** (ice-class; small islands; PSO/OSC services; Outermost regions), **till 2035.**
- ✓ Extension of **top-up of auctioning rights** to certain MSs with significantly high administrative burden, **till 2038**.

Timeline & Scope

Ongoing preparatory work

NB: timeframes remain subject to changes

17 JULY 2026	-> 2026	2027	2028

Review scope:
Stationary installations;
Aviation; Maritime.

Adoption by College of Commissioners & start of negotiations

Co-decision

Implementation

- Council, Parliament and Commission set **Q1 2027 as target for agreement** (One Europe, One Market Roadmap, 23 April 2026)
- Clear priority file for Irish Presidency

BY