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INFORMATION

From:	General Secretariat of the Council
To:	Working Party on the Environment
Subject:	ETS Review Package: WPE on 20 July 2026 - Commission presentation

Delegations will find attached the presentation given by the Commission at the WPE today 20 July 2026 on the three proposals of the ETS Review Package.

ETS Review

WPE 20th July 2026

DG CLIMA

Update of Climate and Energy Acquis

- ETS is the **first part of a package** updating EU climate and energy acquis to deliver the economy-wide 2040 climate target of –90% relative to 1990, support economic resilience, and strengthen competitiveness.
- These different proposals have been developed and form a cohesive whole using **common modelling** and assumptions. They take into account **all sectors of society** and ensure a **balance** between national and EU-level effort.
- **National targets** will receive an updated framework for 2040 with **enhanced and inherent flexibility and regulatory simplicity** guiding the transition towards climate neutrality in 2050.
- This will be combined with **better rewarding the bio-economy** while taking into account the provisions in the ECL regarding the forestry sector
- Finally, **upcoming act on international credits** will set the rules when and how high-quality credits can be integrated in the climate architecture, connecting climate diplomacy and domestic action through a new flexibility.

ETS Package

- **Main 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 (ETS and MSR) *-> WPE presentation 20 July*
- **Separate Regulation** of the European Parliament and of the Council **amending Regulation (EU) 2015/757 and Regulation (EU) 2023/1805** to simplify and streamline monitoring, reporting and verification and to align with revisions of the EU Emissions Trading System (Maritime MRV and FuelEU Maritime) – COM(2026) 620 *-> WPE presentation 20 July*
- **Separate Regulation** of the European Parliament and of the Council **amending Directive 2003/87/EC as regards revised benchmark values** for the heat and fuel benchmarks for the period from 2026 to 2030– COM(2026) 619 (Fallback Benchmarks) *-> WPE presentation 22 July*

European Commission

Directive amending the ETS Directive

and related amendments to Decision 2015/1814

Ambition

Cap – Article 9

- Linear Reduction Factor (LRF) in line with the net 90% target in 2040:
  - **3.7% from 2031 to 2035**
  - **1.7% from 2036 onwards** in accordance with up to 2% high-quality, high-integrity international credits from 2036
  - Safeguard: **automatic** LRF adjustment to 2.7% **in case** insufficient high-quality, high-integrity international credits available *(see next slide)*
- In addition:
  - Cap increase for small ships below 5 000 gross tonnage but not below 400 gross tonnage referred to in Annex I. Allowances resulting are attributed to Article 3gaa, on SMAP support.
  - Cap increase for waste, in line with the phase-in of the surrender obligations.

International credits – Article 9b

- 260Mt of allowances assigned to the purchase of high quality and high integrity international credits by the Facility to be established in the upcoming proposal
- Report by 31 January 2033 to assess the development of the market and their availability for the contribution to EU ETS.
- Subject to the report, if 260Mt high-quality and high-integrity, cost-effective international credits are not available, from 2036 the linear reduction factor will revert to a trajectory aligned with 90% (2.7%).

Removals – Article 9c

- Upfront creation of allowances corresponding to the equivalent amount of **250Mt domestic permanent carbon removals** that are planned to be purchased
- Only CRCF-certified **BioCCS and DACCS**
- Additional allowances set aside to cover the price difference
- Review clause to assess progress in December 2034
- Possibility for operators to **compensate their own fossil emissions** with CRCF-certified BioCCS removals that they themselves generate (Article 14(1a))
    - Does not allow to generate negative emissions and the obtention of EUAs
    - Adjustment mechanism to reduce increase of allowances and buy less removals based on the amount introduced through own use.
- **Review clause** on progress of purchasing, transition to full private-operator integration, and to examine possible role of nature-based removals

MSR

MSR Decision

- **End invalidation** of allowances in the reserve above 400m (separate proposal, in co-decision)
- Lower the **intake rate from 24% to 12%** and adjust accordingly the upper buffer from 1096m to 947m for smooth transition (Article 1(5))
- **New lower buffer** when the TNAC is between 300m and 400m, to ensure a more gradual release of allowances in case of market tightness (Article1(6)).
- **Dynamic adjustment of the parameters** (thresholds and quantity to be released) by a 4% annual reduction (Art. 1(5) and Art.1(6))
- **TNAC calculation** to include aviation allowances issued over 2012 - 2023, to reflect net aviation demand in that period (Article 1(4a))

Revenues and Investment Tools

Auction revenues – Article 10(3)

Strengthening of the requirements for Member States's auction-revenue spending:

- **50% minimum spending on priority purposes** related to decarbonisation of ETS sectors, including top-up of ETS support mechanisms
- Possible spending on other uses
- New requirements on spending:
    - no prolongation of reliance on fossil fuels in power generation
    - consistent with the transition to a safe and sustainable low-carbon economy, the 2040 climate and energy policy framework, and the climate-neutrality objective of the European Climate Law.
    - disbursement within 3 years
- Visibility (Art. 30m) made mandatory, including use of standardised label

Indirect cost compensation – Article 10(6)

- The proposal **retains a State aid-based approach**
  - whereby Member States can compensate electro-intensive industries for carbon leakage risk due to indirect carbon cost passed on through electricity bills.

- Recitals suggest further work
  - EC will assess how to incentivise economically viable decarbonisation when preparing post-2030 State aid guidelines for this compensation.
  - EC will propose streamlining Member States reporting on their use of ETS revenues for providing this compensation.
    - Currently a standalone reporting obligation. Instead, integrate into broader reporting on revenue use under Governance Regulation (2018/1999).

Innovation Fund – Article 10cb

- The proposal updates the legal basis of the Innovation Fund to ensure continued and predictable support for **bringing innovation to market and scaling up low-carbon technologies that are not yet commercially viable**, with a priority on high technological readiness and strong contribution to EU climate and energy objectives
- Total size of **200 mio allowances for the period after 2031**, and **50 mio allowances made available before 2030**
- The Fund can provide support in different forms, including grants, competitive bidding and contributions through instruments such as InvestEU
- Allows MSs to use the IF "as a service" and for awarding the Competitiveness Seal to selected projects
- The proposal strengthens implementation principles with projects selection through transparent procedures, mainly open calls for proposals, and it is aimed to ensure a broad sectoral and geographical coverage, SME participation, and synergies with other EU programmes.

Industrial Decarbonisation Bank – Article 10cc

- Establishes **from 2028** the instrument aimed at accelerating EU's industrial decarbonisation via the scale up and deployment of commercially ready decarbonisation technologies in energy-intensive industries.
- Operates in two phases:
  - **1st phase: Investment Booster (IB) from 2028** it reserves **400 million allowances** from ETS phase 4 (includes 100 million allowances for low-income MSs)
  - **2nd phase from 2031** (with possibility of earlier start if IB is fully used) with **additional 400 million allowances** from the phase 5 cap
- Promotes synergies with the European Competitiveness Fund, including the award of the "Competitiveness Seal" for qualifying projects
- Empowerment to define the operational rules of the instrument

Industrial Decarbonisation Bank (IDB)

Phase 1: Investment Booster (2028–2030)

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 via '**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 across both phase 1 and phase 2

Work via **competitive bidding**

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

Possible **earlier start**

Solidarity Mechanisms in the EU ETS

Aim: To ensure a fair transition for MS with lower GDP

(1) Modernisation Fund (MF) : supports energy system modernisation, efficiency, and industrial decarbonisation (**new**; e.g., electrification, CCS, biogas) in lower-income MS.

- **Size**: **2% of ETS cap** (from currently 4.5%),
- **+0.5% extra** be used to support investments via IDB (“as-a-service”)
- **Eligibility**: Updated to **12 MS** (GDP <75% EU avg, 2022–24 data)
- **Priority Investments**: **95% minimum**
- No fossil fuels
- Rule-of-law conditionality (Article 10da) and transparency

(2) 10% Redistribution volume - "Solidarity Allowances" : Redistributes 10% of ETS auction revenues to 16 lower-income MS.

- **Mandatory Transfer:** 10% solidarity allowances **must** be spent under the Modernisation Fund for 12 MF-beneficiaries
- MS not benefitting from MF to spend on **priority areas** for spending of auction revenue

Solidarity Mechanisms in the EU ETS

(3) Investment Booster: ringfenced allowances for lower income MS

- 100 million allowances (of 400 million total) reserved exclusively for **12 lower-income MS**:
  - **Criteria**: GDP <75% EU average (2022–24 data)
  - **Eligible MS**: 10 Eastern MS + Greece & Portugal
  - Reserved for 18 months, reduced to 60 million allowances thereafter

- Why 100 million? **Proportional share**: 12 MS represent **25% of EU ETS industrial emissions**

- + access to other allowances

- What if the reserved allowances are not used by end 2030? Any remaining allowances of the 60 million to be used under the Modernisation Fund

DNSH – Article 10f

- Replacing the current provision from 2031

- Investments supported from:
    - Modernisation Fund pursuant to Article 10d,
    - Innovation Fund pursuant to Article 10cb and
    - Industrial Decarbonisation Bank pursuant to Article 10cc

  shall ‘do no significant harm’ referred to in Article 33(2), point (d) of Regulation of Regulation (EU, Euratom) 2024/2509.

Carbon leakage protection & decarbonisation incentives

Free allocation (FA)

- The validity of carbon leakage list is extended from 2030 to 2040 and all the non-CBAM sectors on the list get preliminary free allocation at 100% of the relevant BM value. - *Article 10b(1)*
- FA to district heat is maintained, starting at 30% of the heat BM value in 2030 and reducing to 0% in 2040 in equal annual increments. - *Article 10b(4)*
- All FA become conditional on the development and publication of "Invest in EU Decarbonisation Plans" and implementing in the EU investments that equal at least 100% of the economic value of the free allocation, which leads to significant emissions reduction. - *Article 10a(3a), (3b), (3c), (3d) & (3e).*
    - 80% of the FA will be disbursed annually following the publication of "Invest in EU Decarbonisation Plans"
    - The remaining 20% is disbursed when the required investments and significant emissions reductions are delivered.
    - Claw back mechanism in case of relocations outside the Union after receiving FA.
- FA conditionality is projected to unlock €130-170bn in investments in the EU.
- Installations funded by the IF, IB, IDB, top 10% best performers, zero/low carbon and small installations will be exempted from the conditionality.

Post-2030 benchmarks (BM)

- The proposal extends and updates the current methodology on the update of the FA benchmarks to the next two 5-yearly allocation periods: 2031-2035 and 2036-2040. – *Article 10a(2) third subparagraph, new points (f), (g), (h) and (i)*

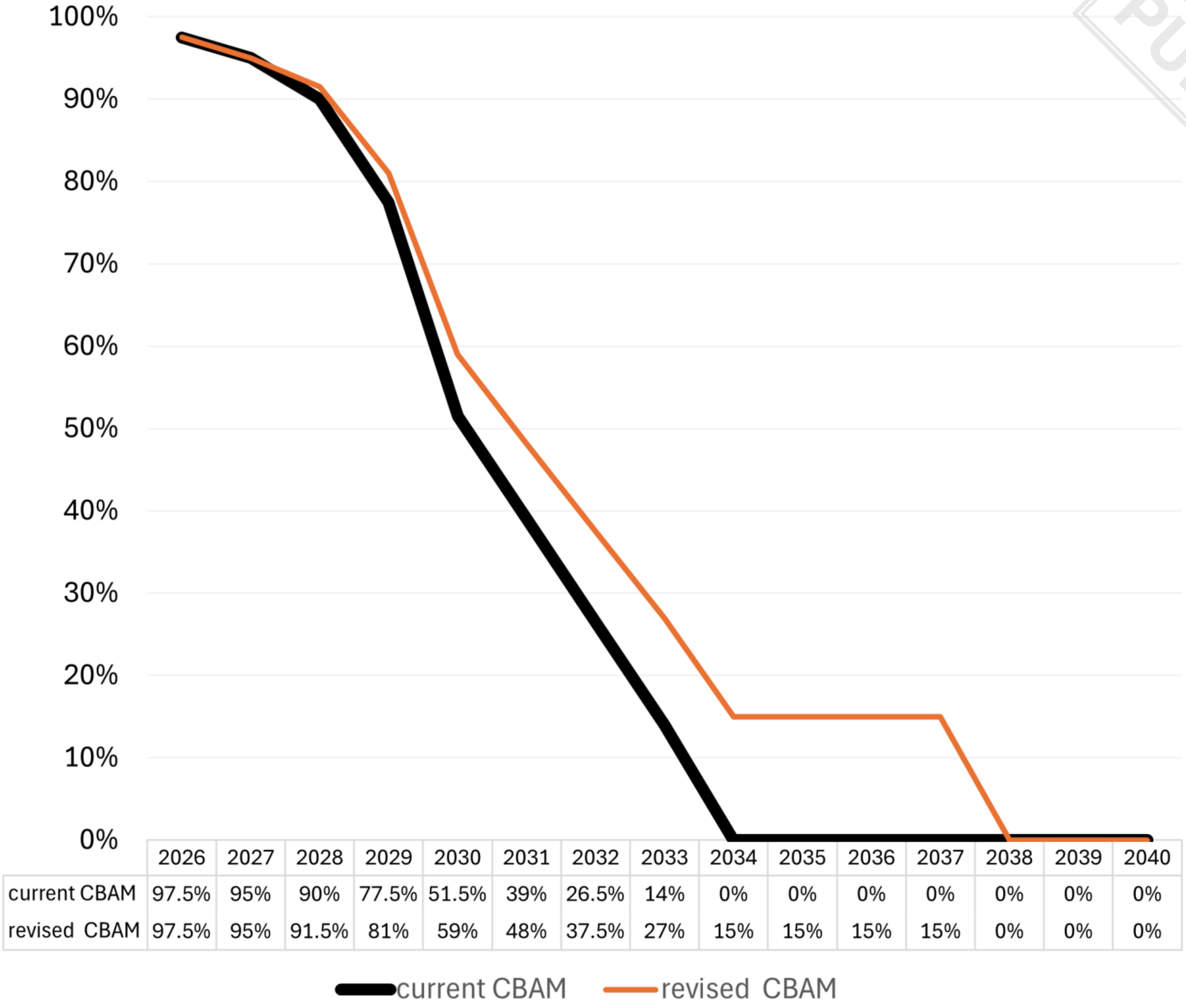
- For BM calculations, annual reduction rates will be applied between 2008 and 2033 and between 2008 and 2038 for each respective allocation period based on the performance of the 10% top performing installations or the min and max benchmark update rates.

- The minimum annual benchmark update (-0.3%) rate is maintained, and the maximum rate is adjusted to –2.0% down from –2.5%.

- The free allocation buffer has been increased from 3% of the cap to 4%.

- Commission empowerment to develop sector-specific fall-back benchmarks.

Revised CBAM factor reintroduces 15% of the reduced FA for 2028-2037



	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
current CBAM	97.5%	95%	90%	77.5%	51.5%	39%	26.5%	14%	0%	0%	0%	0%	0%	0%	0%
revised CBAM	97.5%	95%	91.5%	81%	59%	48%	37.5%	27%	15%	15%	15%	15%	0%	0%	0%

CBAM

- 15% of the FA phased out due to the CBAM factor is reintroduced from 2028 till the end of 2037 to soften CBAM phase-in and mitigate the remaining carbon leakage risk. - *Article 10a(1a)*

- FA reduction to newly-added CBAM sectors to start from the next allocation period with CBAM factor: 97.9% - first year, 95.8% - second year, and the default CBAM pace from third year onwards. - *Article 10a(1a) third subparagraph*

Aviation

Context and objectives

Directive 2023/958 (ETS Aviation) mandated the Commission to assess:

- the strengthening of the global scheme for international aviation CORSIA, both in terms in alignment with the Paris Agreement objectives and third country participation (ETS Directive Article 28b)
- the environmental and climate impacts of flights of less than 1 000 km, of business aviation, and the social impacts of the Directive and on the air connectivity of islands and remote territories (ETS Directive Article 30(8))

The proposal aims to support multilateralism and the sector's transition and competitiveness, while continuing climate action.

- **Apply an effective price signal** to the EU's immediate neighbourhood, providing level playing field for all operators with equal treatment on routes, and increasing climate action
- **Channel more revenues** back to the sector and **address competitiveness** and **hub leakage**
- **Support multilateralism:** Give CORSIA more time to improve (review in 2032) and avoid double payments for extra-European flights

Supporting multilateralism

- **The EU ETS covers aviation since 2012.** Compliance is very high, including by third country airlines. The scope is intra-EEA flights since the 'stop the clock' in 2012. The ETS also applies to flights to the UK and Switzerland. CORSIA applies for extra-European flights.
- **The EU supports CORSIA** and is a pioneer in its implementation in a legally binding manner. A global solution for aviation remains our ideal solution.
- The Commission's **assessment of CORSIA is negative** in terms of strengthening and 3rd country participation.
- In support of multilateralism, the **Commission proposes to extend the 'stop the clock' again** until 2032, giving CORSIA a chance to improve (*proposal: Article 25a(4)*)
- If it does, the scope returns to intra-EEA. Alternatively, it extends to cover the EU's fair share of emissions (all departing flights) (*proposal: Article 28b(4)*)

Supporting multilateralism (cont.)

- In support of ICAO/CORSIA, the Commission proposes the continued implementation in law of CORSIA for 2027-2035 (Phase 2) (*proposal: Article 12a(9)*)
- The Commission proposes **to only extends the ETS scope to flights** departing from the EU and **landing in the EU's immediate neighbourhood (5,000km from Frankfurt) from 2029** (*proposal: Article 28a(1)(e)*)
    - This **allows to finance a significant increase in SAF support** and to **reduce risks of unlevel playing field** for EU airlines and hubs (business and carbon leakage).
- **There is no double payment.** The reform introduces a mechanism to deduct CORSIA offsetting costs from ETS compliance cost (*proposal: Article 12(3)(b)*)
- **The Commission also proposes to reduce the maximum legal ETS scope for aviation,** from all departing and incoming flights to only departing flights. (*proposal: Annex I*)

Strengthening our industry

The proposal secures industrial support for made-in-Europe SAF, by offering SAF support on full departing flights and allowing for ‘book & claim’

- **Significant increase of SAF support**: a **tenfold** increase in value from 20 million allowances today to **110 million allowances**. This is more than **twice as much in proportion to the aviation cap** compared to the current support (*proposal: Article 28a(6)*)

- For **made-in-Europe SAF** only. Additional bonus for made-in Europe feedstocks. (*proposal: Article 3c(6)*)

- Extended **electrification**: same support level as for drop-in e-SAF (*proposal: Article 3c(6)*)

- **New incentives on contrails** (non-CO_2): up to 420k allowances per year and 3M in total until end of 2033 (*proposal: Article 3c(6)*)

- By July 2032, the Commission will carry out an **assessment of the SAF support mechanism** (*proposal: Article 3c(6)*)

Simplifying rules

Book and claim

- It simplifies airlines’ work when claiming ETS support for sustainable aviation fuels (*proposal: Article 28a(6)*)
- Our proposal makes ‘book-and-claim’ a reality for ETS SAF support.

Small emitters

- More than a tripling of the threshold for use of the small emitters tool and simplified reporting (from 3 000 from 10 000 tonnes of annual CO2 emissions) (*proposal: Article 28a(4)*)

Aircraft operator types

- Removing the distinction between commercial and non-commercial status and clarifying who is the operator of an aircraft, reducing the administrative burden on airlines and authorities (*proposal: Article XX*)

Ensuring fairness and connectivity

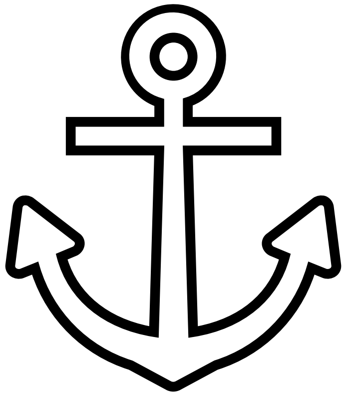
Business jets

- The proposal brings in more emissions from private and business jets under the ETS scope, by lowering the exclusion threshold and from 2028 extending the coverage to both incoming and departing flights for airlines not covered by CORSIA (*proposal: Article 28a(1)(a)*)

Outermost regions

- The Commission proposes to continue the exemption of domestic flights by 5 years, until the end of 2035 compared with the end of 2030 currently (*proposal: Article28a(1)(a)*)

Maritime



ETS Maritime Review

- Accelerate decarbonisation through ETS support
- Cutting red tape – simplification
- Addressing risk of evasion and potential lack of level-playing field
- Reflecting specific circumstances
- Coherence with global regulation

ETS Maritime Review

- **Accelerate decarbonisation through ETS support**
  - Sustainable Maritime Alternative Propulsion (SMAP) mechanism
    - 110 million allowances until 2040
    - For ETS shipping companies
    - For sustainable maritime fuels and zero-emission propulsion technologies
    - Origin requirements with some exemptions (green shipping corridors)
    - Specific bonuses (origin of feedstock, islands, EU shipyards)
- **Cutting red tape – simplification**
  - Single monitoring, reporting and verification system for ETS/MRV and FuelEU Maritime

ETS Maritime Review

- **Addressing risk of evasion and potential lack of level-playing field**
  - Additional safeguards against the risk of evasion for container ships
    - Extended list of neighbouring container transhipment ports (new criteria)
    - Targeted derogation from full surrender obligation for large containerships involved in Non-EU/Non-EU transhipment activities at EU ports.
  - Inclusion of small vessels of certain ship types (MRV as from 2029/ ETS as from 2031)
  - New definition of 'port of call' for ships performing / supporting offshore operations

- **Reflecting specific circumstances**
  - Prolonging derogations until 2035 for:
    - small islands
    - outermost regions
    - transnational PSO/PSC
    - ice-class vessels
  - Prolongation of the temporary redistribution mechanism until 2038

ETS Maritime Review

- **Coherence with global regulation**
  - Review clause: avoiding double payment and any significant double burden
  - Concept of a possible deduction mechanism
  - Support for SIDS an LDCs (0,9 m allowances per year to support shipping decarbonisation)
  - "ETS as a Service"

ETS Maritime Review

- **Accelerate decarbonisation through ETS support**
  - Sustainable Maritime Alternative Propulsion (SMAP) mechanism
- **Addressing risk of evasion and potential lack of level-playing field**
  - Additional safeguards against the risk of evasion for container ships
  - New definition of ‘port of call’ for ships performing/supporting offshore operations
  - Inclusion of small vessels of certain ship types
- **Reflecting specific circumstances**
  - Prolonging derogations for small islands, outermost regions, transnational PSO/PSC and ice-class vessels
  - Prolongation of temporary redistribution mechanism
- **Cutting red tape – simplification**
  - Single monitoring, reporting and verification system for ETS and FuelEU Maritime
- **Coherence with global regulation**
  - Review clause to avoid double payments, support for SIDS an LDCs, ETS as a Service

SMAP (I) - Overview

Duration of support

- From [2028/first year after entry into force of ETS amendments]
- To 2040

Available budget

- **110** million allowances
- estimated €15 billion (subject to carbon price assumption)

Beneficiaries

- ETS shipping companies, on an annual basis

Support for

Sustainable Maritime Fuels (SMF)

- Biogas and advanced biofuels that are zero-rated under EU ETS
- RFNBOs that are zero-rated under EU ETS
- Low-carbon hydrogen and fuels

Technologies for the use of these fuels, subject to verified operation on such fuels (via tiered support)

Support for

Zero-Emission Propulsion Technologies (ZEPT)

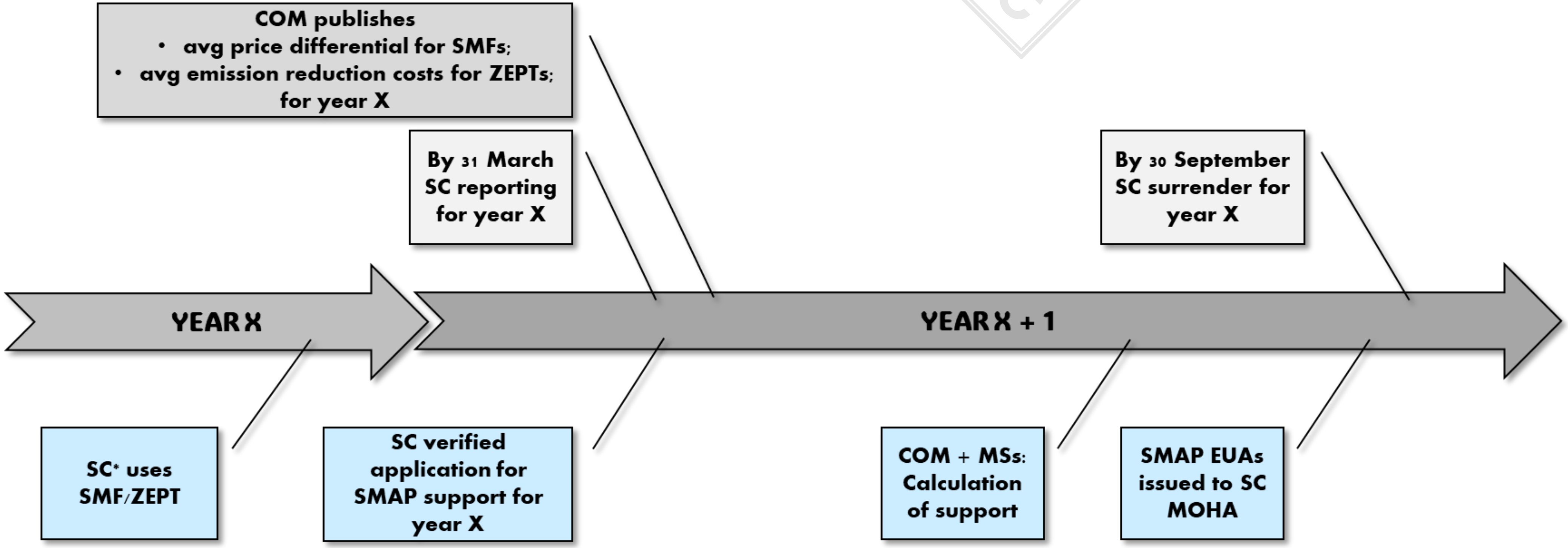
- Including electric and wind-assisted propulsion technologies

SMAP (II) - Elements

Origin requirements	• SMFs produced and ZEPTs manufactured in
	  • EU, or
	  • 3rd country with ETS linked to EU ETS, or
	  • 3rd country benefitting from ETS-as-a-service

Exemption from origin requirements	• SMFs used on voyages on green shipping corridors connecting EU ↔ non-EU port(s)
Narrowing the price gap: applicable support rates	• **55%** for biogas and advanced biofuels • **90%** for RFNBOs • **80%** for low-carbon hydrogen and fuels • **90%** for zero-emission propulsion technologies
Additional bonuses	• **+ 5%** points for SMFs/ZEPTs used between MS port and MS island port • **+ 10%** points for SMFs produced from feedstock sourced in EU, or 3rd country with ETS linked to EU ETS, or 3rd country benefitting from ETS-as-a-service • **+ 5%** points for ZEPTs fitted in EU shipyards
Allocation	• On a first-come-first-served basis • If demand is greater than availability of allowances in a given year = uniform reduction of allocation for all benefitting shipping companies concerned

SMAP III - Process



*SC: Shipping Company

Addressing risk of evasion

Larger list of neighbouring container transhipment ports: - Adjusted criteria

- Retain 300nm distance criterion
- **Transhipment rate** lowered to **50%** (from current 65%)

Larger list of neighbouring container transhipment ports: - NEW criteria

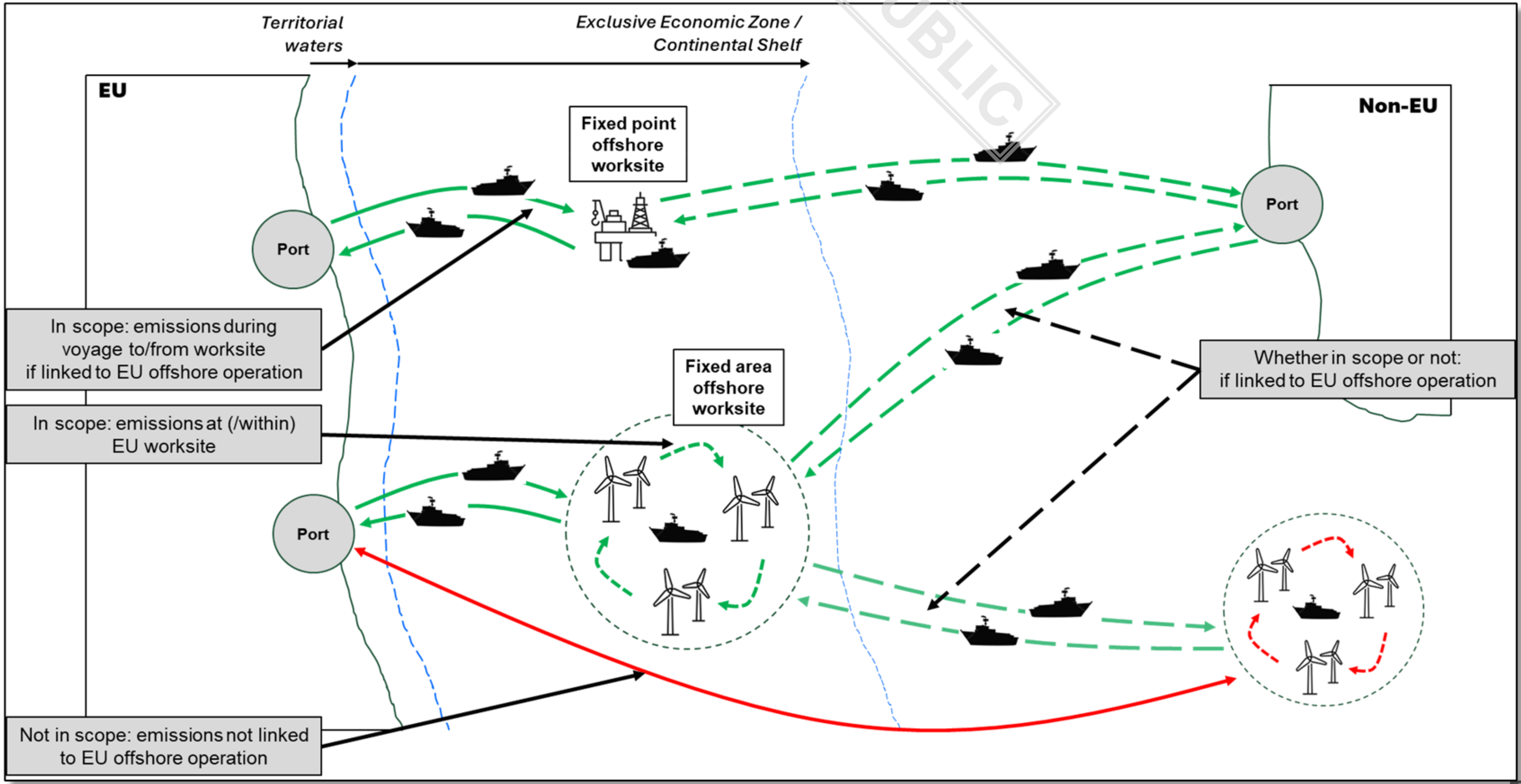
- Non-EU port located **less that 150nm from an EU port**, and
- **Draught > 11m and berth length > 250m**, and
- Ship-to-shore cranes suitable for transhipment operations

Derogation from full surrender obligation for large containerships

- For voyages **non-EU port → EU port**
- Non-EU → EU port voyage distance greater than 300 nm
- Containerships of capacity 10 000 TEUs or more
- **Surrender obligation reduced** proportionally to the

number of containers unloaded at the EU port with the next destination being a non-EU port

Offshore ships - overview



Offshore ships

Coverage: vessels	• **Any vessel** performing an offshore operation at an **offshore worksite in EU waters** • No more reference to category "offshore ship"
"offshore operation"	• Activity performed in connection with the exploration, appraisal or exploitation of resources of the seabed and subsoil, or activity performed in connection with offshore installation or offshore infrastructure • *But not* maritime transport of oil and gas
"offshore worksite"	• Area in the territorial sea, exclusive economic zone, continental shelf or continental shelf sea of a Member State • Area covered by an authorisation for offshore operations delivered by the appropriate MS authority
Coverage: emissions	• Emissions during voyages between EU ports and EU worksites and between EU worksites • Emissions at/within EU worksites • [*Only if* for purpose of offshore activity at EU worksite, emissions between non-EU port and EU worksite or between EU worksite and non-EU worksite]

Reflecting specific circumstances

Existing derogations extended from 2030 until 2035

Ice-Class Ships
(5% for design)
- Currently 2030
- Now 2035

Voyages between a port of MS and its **OMR** port
- Currently 2030
- Now 2035

Transnational Public Service Contract/Obligation

Voyages for passengers for **small island** ports with less than 200,000 permanent residents and no connection by rail or road

Also prolongation of the temporary redistribution mechanism for the MS with a high ratio of shipping companies - Article 3ga(3)

Temporary redistribution mechanism Art. 3ga(3)

Duration

Until
31 December 2038

Which MSs?

Same rules

Conditions - Additional revenue to be used for:

Measures to **support decarbonisation** investments in maritime sector

Top-up of SMAP mechanism

To cover administrative expenses for the implementation of EU ETS

ETS extension to small ships

Ship types (400 GT – 5000 GT)	2025	2026	2027	2028	2029	2030	2031	2032
➢ Offshore ➢ General Cargo	MRV	MRV	MRV	MRV	MRV	MRV	ETS	ETS
➢ oil tankers ➢ chemical tankers ➢ gas carriers ➢ LNG carriers					MRV	MRV	ETS	ETS
➢ ro-pax ships ➢ passenger ships					MRV	MRV	MRV	MRV

Coherence with global regulation

Review clause (Art 3gg)	Recital 17 – deduction mechanism	Impact Assessment	Support of SIDS and LDC (Art 3gab)
• Environmental integrity and effectiveness of Union climate action • Coherence between the global measure and the EU ETS • Avoiding double payment and any significant double burden	• Surrender less allowances than their verified emissions if those emissions are also effectively priced under the IMO measure	• Analysis of options how to design a deduction mechanism	• 0.9m allowances (ca 140 mln/year) • Delegated acts to lay down the rules • Possibility to support IMO

IMO

Municipal Waste Incineration

Activity

- New activity covering disposal or recovery in **waste incineration (new) and co-incineration (already covered) plants for non-hazardous waste**, excluding hazardous waste incineration (Annex I)
- Threshold: capacity exceeding **3 tonnes per hour** as laid out in Directive 2010/75/EU (Annex I)
- Start in **2031**, with **gradual phase-in** of surrender obligation until **2034** (Article 12a and corresponding cap adjustments Article 9)
  - 25% of verified emissions 2031
  - 50% of verified emissions 2032
  - 75% of verified emissions 2033
  - 100% of verified emissions 2034 onwards

Enabling framework

- **ETS revenues used for**
  - **local authorities** implementing waste management via eligible priority uses of auction revenues (Article 10(3)(g))
  - **carbon capture** via IDB/IB (Article 10cc), IF (Article 10cb) and MF (Article 10d(2(e))
  - **waste heat recovery** from incineration for district heating in MF(Article 10d(2)(b)))
- Eligible to **free allocation under the provisions on district heating**, extended beyond 2030 (Article 10b(4))
- **Derogations:**
  - National opt-out possibility until 31 December 2035 if meeting at least 2 out of 3 conditions (national carbon tax / on track for recycling targets / on track for landfill targets) (Article 12b)
  - Outermost Regions until 31 December 2035 (Article 12a)
- **MRV for landfill emissions** by 2031/2034 (Annex I): 2031 if landfill registries in place and Best Available Techniques concluded, if not: 2034

CCUS

Improvements and clarifications

- Provision on the competent authority for the **permitting of cross-border CO_2 transport**
  - To reduce the number of permits required, the cross-border transport of CO_2 should be permitted by the Member States where the CO_2 originates
- **Scope extension to cover in the ETS the full CCUS value chain**
  - The activities of carbon capture and transport are expanded to include also the capture and transport for utilization.
  - Processing, purification, liquefaction, gasification or other ‘ancillary’ of CO2 are explicitly included in the scope of the ETS
- **Storage outside of the EU/EEA recognized under certain conditions**
- **Clarified empowerment for the accounting of mix-streams of CO_2**

Accounting of non-permanent CCU

- **Non-surrender obligation for emissions captured and utilized in a way that is not permanently chemically bound to the extent those emissions will be later released in the ETS (during normal use or end-of-life treatment)**

    - It addresses the risk of double counting due to the inclusion of waste incineration
    - It allows installations that capture CO2 to deduct it from their reported emissions regardless if for storage or for utilisation
    - The accounting of emissions is done 'downstream' when and where the emissions actually takes place (as long as it is in the ETS)
    - Direct CO2 applications, such as CO2 for greenhouses, beverages, etc. are excluded
    - In the case of synthetic fuels (e-fuels), the surrender obligation is placed 'midstream' when fuels are released for consumption
    - Implemented via an additional derogation in the provisions of Article 12(3b), as well added empowerment to supplement the rules and requirements.

Entry into force and application

Transposition and application general rules

- Several provisions of the ETS Directive are **not** subject to transposition.
  - They apply from entry into force, unless specific application rules apply
  - Entry into force 20 days after publication
- Provisions **subject to transposition** apply from **1 January 2029** - the day after the general transposition deadline of **31 December 2028**

Deferred application for provisions subject to transposition

General deadline (31 December 2028) for transposition but delayed application:

- **From 1 January 2031**:
    - Article 1, point (5), as regards the new second paragraph of Article 3ga(1) of Directive 2003/87/EC
    - Changes to the activities on capture of carbon dioxide, transport of carbon dioxide, utilisation of carbon dioxide, processing of carbon dioxide and distribution of synthetic fuels
- **From 1 January 2029**: Annex I, point (1)(c)(vi), as regards the entry ‘Maritime transport’ in the table in Annex I to Directive 2003/87/EC;
- **From 30 September 2029 [Conditions for free allocation]**: Article 1, point (17)(d), regarding Article 10a(3b), Article 10a(3c), Article 10a(3d) of Directive 2003/87/EC as regards the five-year period for free allocation starting in 2031.
- **From 1 January 2032:** Article 1, point (3)(e), as regards Article 3, point (z) ‘port of call’ of Directive 2003/87/EC.

Anticipated transposition deadline

- By **31 December 2027** for the following Articles of Directive 2003/87/EC, to apply from 1 January 2028:
  - Amendment to Article 3(h): amendment to the definition of 'new entrant' to ensure full coordination with the definition of an 'incumbent installation' contained in Article 2(1) of Commission Delegated Regulation (EU) 2019/331, resolving the issue that, for 18 months, neither of the two definitions applied.
  - Introduction of Article 6(4): clarifying the treatment of installations to which a greenhouse emissions permit is successively granted for the first time, withdrawn and a new permit is granted during the same five-year period.
  - Introduction of Article 10a(3f): regarding returning excess allowances – clarifying obligations on Member States to require the return.

Anticipated start of application (where no transposition is required)

- Application from 30 September 2027:
  - Changes to the CBAM factors in general and for future CBAM scope extensions (Article 10a(1a))
  - Changes on the increase of the free allocation buffer and the new entrant's reserve (Article 10a(5b) and 10a(7))
  - Introduction of the Industrial Decarbonisation Bank and the Investment Booster (Articles 10cc , 10cd and 10ce)
  - Empowerment covering financing of the management of the ETS (Article 19) in the Union Registry article
  - Empowering provision for the Commission to propose sector-specific fallback benchmarks (new subparagraph after Article 10a(2), second subparagraph).

Deferred start of application (where no transposition is required)

- From 1 January 2029:
  - Amendments to Article 10(3)
  - Methodology for updating the benchmarks values after 2031 in the third subparagraph of Article 10a(2)
- From 1 January 2031:
  - Change in the use of the allowances resulting from the reduction of free allocation due to the application of the CBAM factor (amendment to Article 10a(1a), fourth subparagraph)
  - replacement of Article 10a(5a)
  - Regarding the deletion of the Innovation Fund in Article 10a(8) and 10a(8a) and its replacement Article 10cb from 2031
  - Amendments to DNSH rules in Article 10f
  - Amendments regarding the Modernisation Fund (Article 10d) and the eligible Member States listed in Annex IIb

European Commission

Regulation amending Maritime MRV and FuelEU

Thank you

ETS Review – self-standing benchmark proposal

WPE 22nd July 2026

DG CLIMA

European Commission

European Commission

Regulation on fallback benchmarks

Current framework for Benchmarks 2026-30

Clear binding framework in EU ETS Directive. Article 10a(2) sets:

- An obligation to adopt updated EU ETS benchmark values for 2026-2030
- Clear framing of the methodology and dataset to be considered for the update of the benchmark values for the period 2026-2030:
  - **Reference period: 2021-2022**, data submitted by Member States through the **NIMs** exercise (Art. 11 ETS Directive)
  - **Compared with ex-ante benchmarks** (Annex I to Free Allocation Regulation)
  - Maximum (-2.5%) and minimum (-0.3%) **annual reduction rates** determined by co-legislators (**Article 10a(2), third subparagraph, points (c) and (d)** ETS Directive)

Benchmarks 2026-30 – fall-backs

- During the extensive consultation process, stakeholders raised concerns around the maximal reduction of the fallback benchmarks of heat and fuel, which in their view do not reflect the true availability of emission reduction technologies faced by some of the sectors affected.
- Commission Implementing Regulation (EU) 2026/1412 was adopted on 26 June 2026 with a commitment to present a standalone proposal for said benchmarks. In recital (16):

*To address concerns expressed by some industrial sectors, the Commission will propose at the same time as the upcoming ETS revision a separate proposal aimed at **increasing the free allocation determined on the basis of the fallback benchmarks to better take into account the emission reduction potential, while at the same time avoiding the application of the cross-sectoral correction factor**. The revised benchmark values should cover allocations relating to the period from **1 January 2026 to 31 December 2030**. In order to ensure timely and effective support to the sectors concerned, the revised fallback benchmarks should become applicable as early as possible. To this end, the Commission will work to facilitate an early agreement between co-legislator on this proposal.*

Self-standing proposal to amend fallback benchmarks 2026-30 (1/2)

In Article 10a, the following paragraphs 2a and 2b are inserted after paragraph 2:

2a. By way of derogation from paragraph 2, third subparagraph, point (d), of this Article, the maximum annual reduction rate to be applied for the update of the benchmark values for heat and fuel benchmarks for the period from 2027 to 2030 shall be reduced to a percentage rate value that makes full use of the additional amount referred to in Article 10a(5a) and ensures that no reduction pursuant to Article 10a(5) applies.

By applying new benchmarks only in 2027, legal retroactivity is avoided. In practice, the same amount of remaining allowances from Article 10a(5a) (around 80 million EUA) is available to these sectors for the whole period of 2026-30.

Self-standing proposal to amend fallback benchmarks 2026-30 (2/2)

Concerning the update of the benchmark values for heat and fuel benchmarks for the year 2027, the maximum annual reduction rate to be applied shall be reduced to a percentage rate value that makes use of 40 % of the of the adjustment pursuant to the first subparagraph and ensures that no reduction pursuant to Article 10a(5) applies.

By frontloading part of the adjustment in 2027, operators are quickly compensated for the lower free allocation they received in 2026.

2b. Paragraph 2a shall not apply to free allocations for installations carrying out economic activities covered by NACE codes 0610, 0620, 1920 and 4950 set out in Annex I to Regulation (EC) No 1893/2006 of the European Parliament and the Council.

By excluding the oil and gas sectors from the increase, more allowances are available for the other sectors.

Benchmark proposal in practice (1/2)

Free allocation left in the buffer	=	FA budget (43% cap)	+	Buffer (3% cap)	-	Preliminary Allocation (BM*HAL*CL)

- If FA left in the buffer < 0, cross-sectoral correction factor (CSCF) is triggered, reducing allocation to **all** so that Allocation never exceeds FA budget + Buffer
- Currently, for all benchmarks (including heat and fuel):
  - Max. annual update rate: -2.5%
  - Total free allocation for fall-backs: 330 M EUA
  - FA left in the buffer: **~80 million EUA** (no CSCF)

Cap: Max allowances (EUA) available in the ETS market
BM: benchmark
HAL: historical activity level
CL: carbon leakage factor

Benchmark proposal in practice (2/2)

- Estimated values with the new proposal:

	2026	2027	2028-2030	Total 2026-2030
Max annual update rate	-2.5%	-1.31%	-1.90%	-
Heat benchmark (tCO_2/TJ)	31.2	46.0 (+47%)	38.6 (+24%)	-
Fuel benchmark (tCO_2/TJ)	28.1	41.4 (+47%)	34.8 (+24%)	-
Free allocation (EUA)	68 M	100 M (68+32 M, i.e. 40% of 80 M)	81 M/y	410 M (330+80 M)

Next steps

- Co-decision on stand-alone proposal (amending Regulation)
- Amendment to Benchmark Regulation 2026/1412 : launch of formal process after entry into force of amending Regulation
    - Presentation and discussion in CCEG
    - Vote in Climate Change Committee
    - Adoption
- Amendment to NIMs Decision (using amended benchmark values)

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