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General Secretariat

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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 on the Impact Assessment

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

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Impact Assessment

Covering Directive amending ETS Directive, Regulation on fallback benchmarks and Regulation amending Maritime MRV and FuelEU

WPE 20th July 2026

DG CLIMA

European Commission

Process

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- ✓ **Stakeholder consultation**
  - Call for Evidence and Public Consultation (15 April – 8 July 2025), bilateral and multilateral meetings, topical workshops, High-Level Stakeholder Roundtable (12 May 2026) ...
- ✓ **Evaluation**
- ✓ **Impact Assessment**
  - Assessment of measures per thematic area (Annexes)
  - Design of policy options (Main Part)
- ✓ **Regulatory Scrutiny Board** (15 April 2026)
- ✓ **Interservice Consultation** (1–7 July 2026)

Documents

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- **Commission Staff Working Document - Impact Assessment Report** Accompanying the Document Directive of the European Parliament and of the Council amending Directive 2003/87/EC, Decision (EU) 2015/1814, Regulation (EU) 2015/757 and Regulation (EU) 2023/1805 as regards driving competitiveness and cost-effective decarbonisation - SWD(2026) 616
  - Main Report
  - Annexes (incl. Evaluation Report)
- **Executive Summary** - SWD(2026) 617
- **RSB opinion** - SEC(2026) 616

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Impact Assessment

Overview of Policy Options

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- **Baseline:** assumes full implementation of current regulatory framework (2030 climate package) and post-2030 EU ETS emissions reductions maintaining scope and linear reduction pathway in line with Directive 2023/959 (EU ETS) *(no integration of removals, waste, non-permanent CCU accounting, but maintaining the current framework on carbon leakage protection and free allocation)*
- **Policy Option 1 (PO1): Aligning ambition and improving incentives** – includes the measures that, overall, lead to least change compared to policies in place in 2026.
- **Policy Option 2 (PO2): Aligning ambition and extending scope and corresponding incentives** - includes measures that introduce moderate innovations or changes to the system.
- **Policy Option 3 (PO3): Aligning ambition and extending scope and incentives comprehensively** alters more substantially how the system works.

Overview of topics and impacts assessed

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Topics	Impacts

• Cap
• Removals
• Market Stability Reserve
• Instruments to support investments
• Aviation
• Maritime
• Carbon leakage protection
• Waste
• CCU
	• **Environmental impacts**
	  • Climate
	  • Other environmental impacts
	• **Economic impacts**
	  • Cost of compliance
	  • Administrative efforts
	  • Sectoral competitiveness, trade and investment flows
	  • Public authorities
	  • Impacts on the functioning of the internal market
	• **Social impacts**
	  • Impacts on employment and skills
	  • Impact on fundamental rights



Cap *(Annex 8)*

Cap options

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CAP1	“Linear” measure - it follows a linear trajectory from 2030 to 2040 towards and 85% consistent target in 2040
CAP2	Default modelled trajectory to 85%: it follows the 2031-2040 trajectory of GHGs currently under ETS towards the estimated cost-effective contribution of the EU ETS to a reduction of economy-wide net GHGs by 85% in 2040.
CAP3	Until 2035 it follows the trajectory of GHGs currently under ETS towards the estimated cost-effective contribution of the EU ETS to a reduction pathway for economy-wide net GHGs moving linearly towards 90% in 2040, but in the second half of the decade the trajectory flattens to move towards the estimated cost-effective contribution of the EU ETS to a reduction of economy-wide net GHGs by 85% in 2040.
CAP4	An accelerated version of CAP3, comparable to a non-linear pathway towards the 90% target in the first five years, then flattening to be compatible with an 85% target in 2040.
CAP5	“90% extended legal default”, extending the legal default LRF of 4.4.% until 2035, followed by a lower LRF to be compatible with the 90% target in 2040

Cap options

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Examples: Trajectories based on the POTEnCIA model, for current scope EU ETS, decomposed into LRFs and removals linked allowances.

The final proposal uses 250Mt removals linked allowances, based on an average of PRIMES and POTEnCIA modelling.

EEA Caps (Mt), LRF (%) and Carbon Budget (Mt)	CAP1: 85 linear trajectory	CAP2: 85 trajectory	CAP3: 90linear-85 pathway	CAP4: accelerated 90-85 pathway	CAP5: 90% extended legal default aiming at POTEnCIA in 2040
2030	847	847	847	847	847
2035	570	600	555	485	390
2040	290	290	285	285	185
LRF 2030-2035	-2.7%	-2.4%	-2.8%	-3.5%	-4.4%
LRF 2036-2040	-2.7%	-3.0%	-2.6%	-1.9%	-2.0%
Added removals-linked allowances	320	320	320	320	360Mt
Carbon Budget 2031-2040	5720	5885	5640	5290	4560

Cap options in relation to policy options

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- For the IA, modelling of the policy options (PO1, PO2, PO3) has been performed using CAP2, the default modelled trajectory constrained by the 2040 target.
- This allows the impact of the policy options to be comparatively assessed, without being affected by the changes in overall ambition level.
- The *relative* impacts of policy options, e.g. the advantages and disadvantages on policy measures on removals, carbon leakage or CCU, will remain similar irrespective of cap trajectory.
- The impacts are analysed per policy measure.
- The IA and Annex 8 on the Cap explain the impact of the different Cap options on, investment expenditures and energy system costs.



Carbon Removals *(Annex 8)*

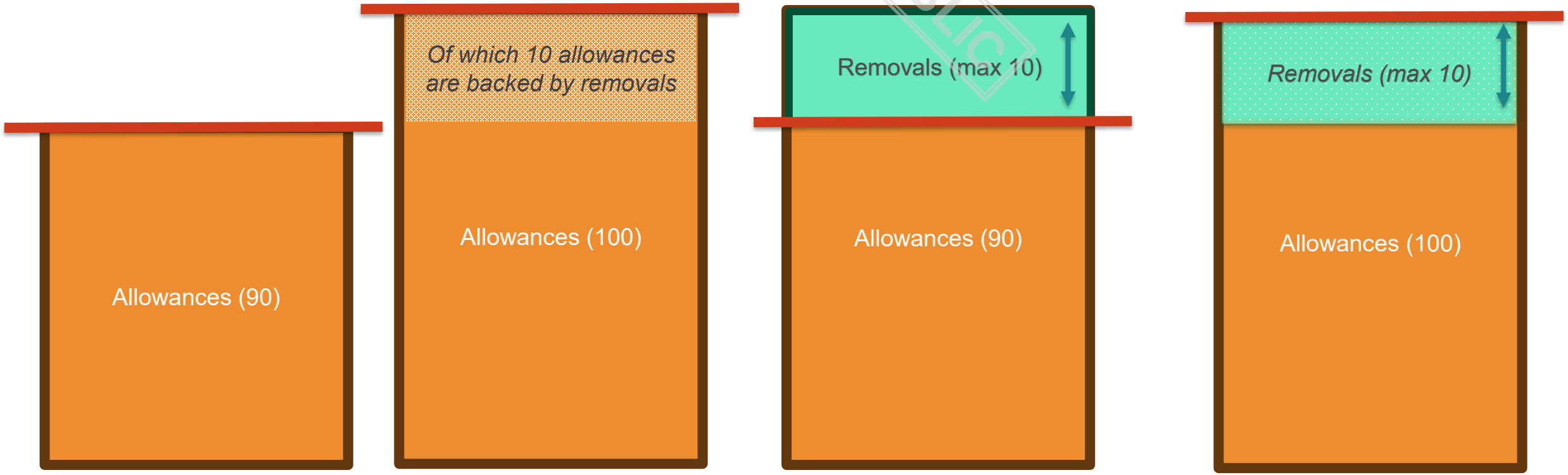
Policy options

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	Policy measure	PO1	PO2	PO3
Removals *(DACCS and BioCCS)*	CR1: Limited operator integration on top of the cap		X	
	CR3: Limited operator integration under the cap (one-in-one-out)			X
	CR4: Public authority integration through regular auctions on top of the cap	X		

Policy options – illustration

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Baseline: CR0 'no integration'

PO1: CR4 public authority

PO2: CR1 removals on top of the cap with a limit (also called net cap)

PO3: CR3 removals under the pre-increased cap with a limit (also called gross cap / 1-in-1-out)

Illustrations of the measures based on: (i) a net objective of 90 ; (ii) a gross objective of 100

Results

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- **Emissions:**
  - All options allow increase of emission space, but gross emissions are only certain in PO1 and PO3
  - Net emissions are certain in PO1 (conditional on sufficient budget to purchase all the removals) and PO2
- **Abatement deterrence:** initial reduction of abatement due to cap increase in PO1 and PO3. Limited in PO1 by lack of direct integration, and moderated in PO2 by clear gross cap limit. PO2 has no initial deterrence, moderate risk due to direct interplay with CDR, reduced by the limit. In PO2, lower cap + uncertainty incentivizes more abatement.
- **CDR:** highest incentivisation in PO1 due to public purchasing. Modelling show overachievement of the purchasing objective. PO2, low incentivisation: price difference with BioCCS until 2036-38 and with DACCS during entire phase. PO3 lowest, due to cap pre-increase price impact.
- **Cost of compliance:** PO1 and PO2 lower prices compared to the baseline
- **Administrative burden:** In PO1, lowest for operators who only purchase EUAs as usual and high for public authority. In PO2 and PO3, medium for operators that need to understand removals market; low for public authority if no CCfD support given.



MSR (Annex 8)

Policy options

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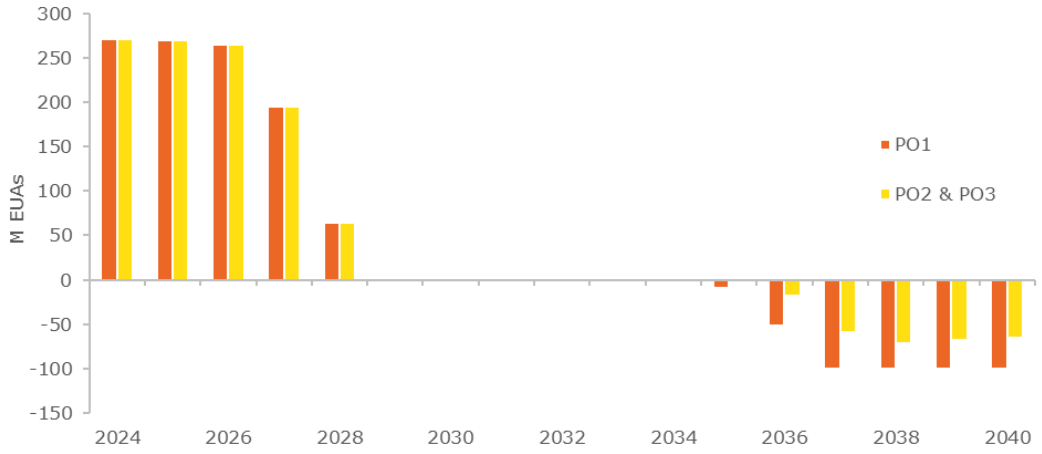
	Policy measure	PO1	PO2	PO3
MSR	MSR1: New thresholds as of 2028 (650 million for upper threshold, 310 million for lower threshold), release rate maintained at 100 million. All kept constant	X		
	MSR3: New upper threshold as of 2028 (650 million), 400 million maintained for lower threshold, release rate starting at 100 million. All declining at a fixed %		X	X

Results

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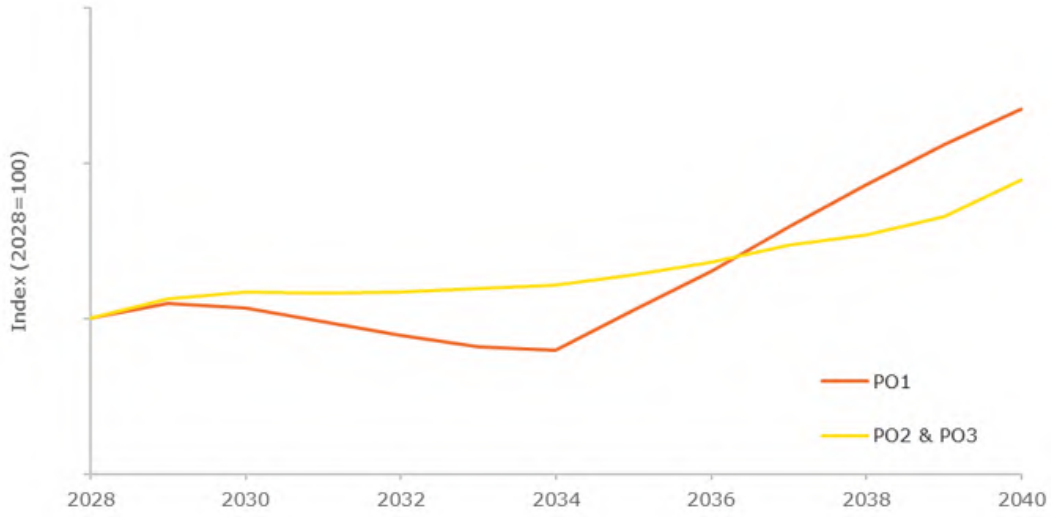
MSR Operations

- All POs have the same amount of intakes until 2028.
- **PO1 releases earlier than PO2/PO3 in 2035**, though with higher amounts of releases from 2037 due to a constant release amount of 100m allowances.
- **PO2/PO3 start the releases as of 2036**, with release being triggered dynamically and constantly below 100m per year until 2040.



Price trends

- PO1 shows an indexed price that decreases until 2034, followed by a rapid price increase after 2034
- PO2/PO3 shows a monotonic and steady increase in the price throughout the period up, indicative of a healthy supply-demand balance on the market.





Industrial Decarbonisation Bank (Annex 9)

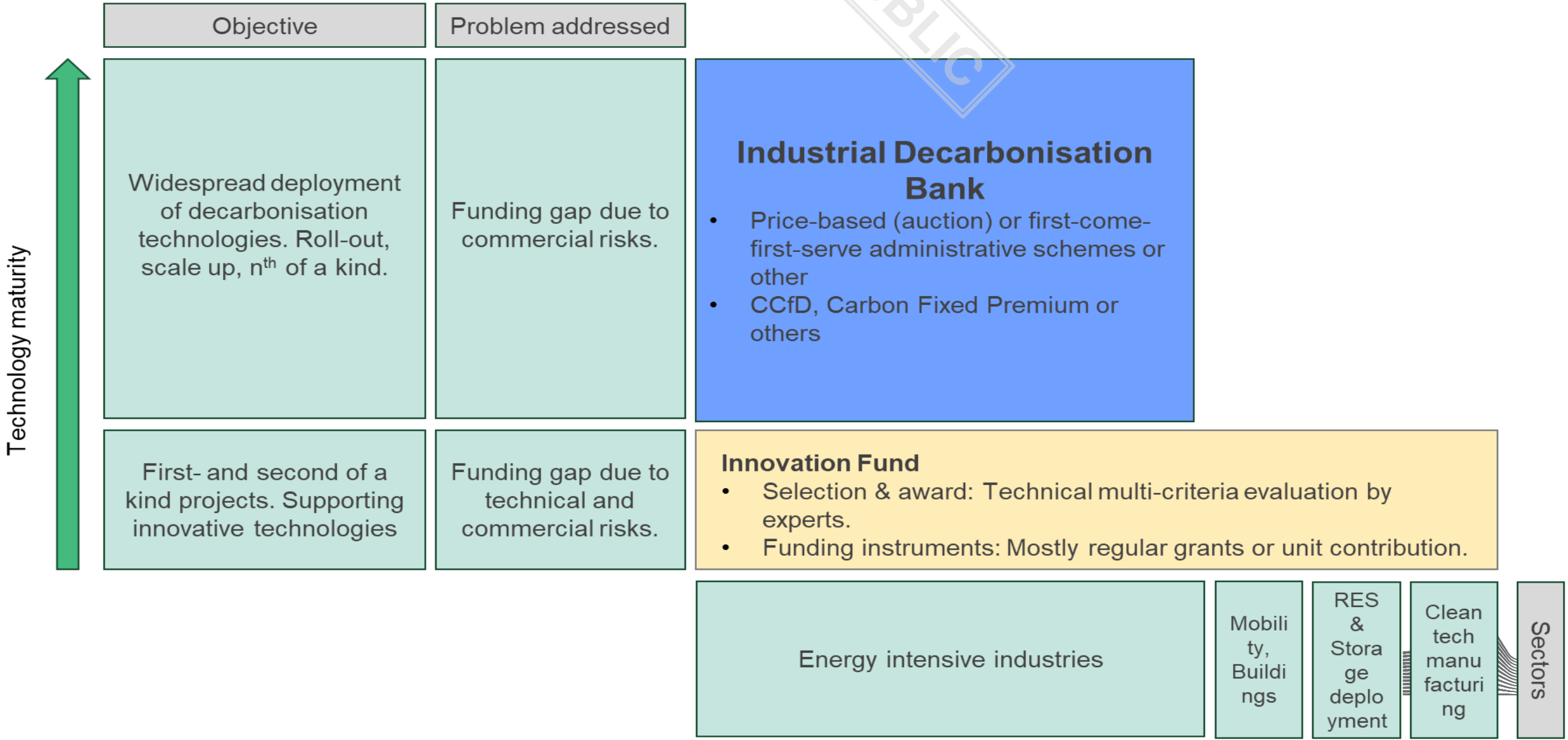
IDB: policy options

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Policy Option (1)	Policy Option (2)	Policy Option (3)
1.'Regular' multi-criteria calls for proposals 2.'Regular' grants covering the funding gap 3.EU-level competition and soft measures on geographical balance	1.Administrative schemes 2.Fixed premium, 3.Balance between national envelopes and EU-level competition	1.Auctions, 2.Carbon Contracts for Difference, 3.Strong national envelopes

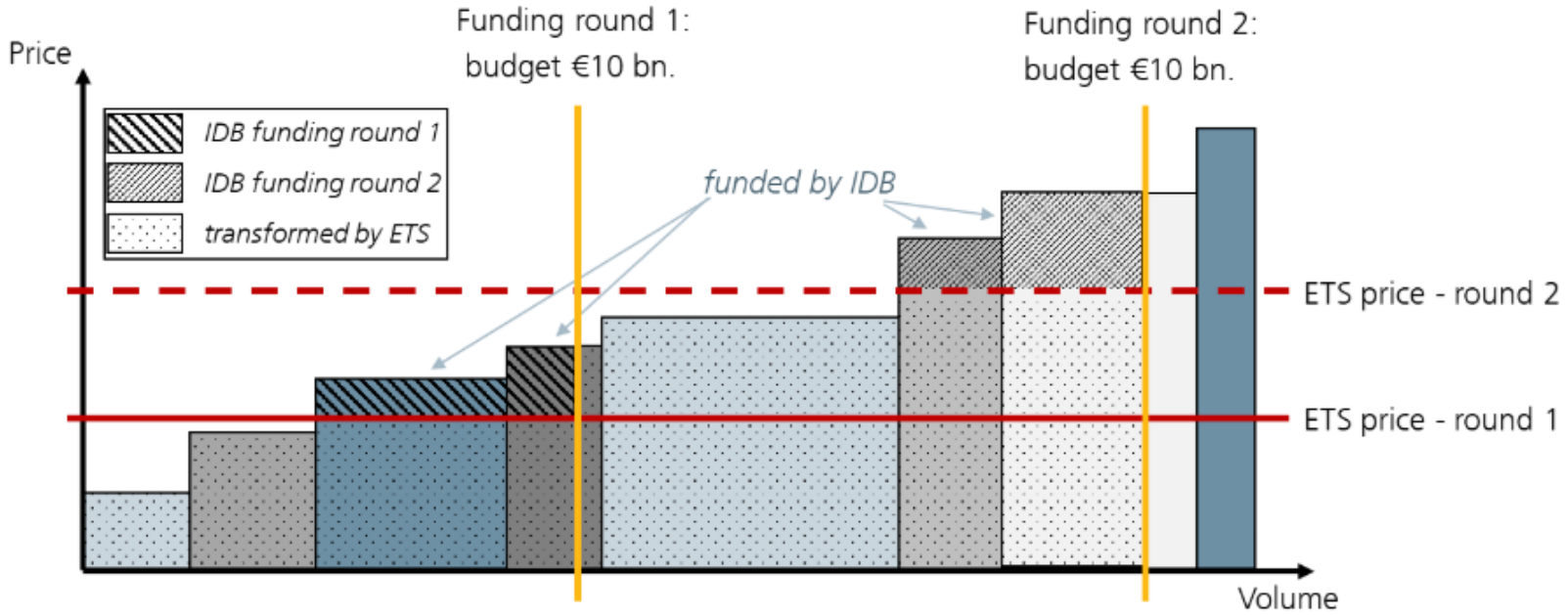
IDB: proposed scope

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IDB: Results

- Assessment of impacts limited to the size of the IDB (EUR 100 bn).
- The differences among IDB options would only have marginal bearing on the impacts.
- A cumulative GHG emission abatement of 1,630 MtCO2 over a ten-year period is calculated. The resulting weighted average awarded support amounts to EUR 60/tCO2.
- Direct investment leverage effect could be expected between 5% and 75%, depending on the sector and technology, with a weighted average of 45% across all projects



Note: Each bar represents the GHG emission abatement costs for each relevant industrial sector in one particular Member State.

Illustration of simulation of the IDB impacts performed by contractors (Fraunhofer)



Modernisation Fund

Modernisation Fund: Policy Options

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	Policy measure	PO1	PO2	PO3
Eligibility of gas/Waste- to-energy	GAS/WtE1: PI: Exclusion. NPI: Status quo	X		
	GAS/WtE2: PI: Exclusion. NPI: Allowed under conditions.		X	
	GAS/WtE3: PI/NPI: Exclusion			X
Respective shares of Priority/Non-Priority investments	PI/NPI0: NPI share = 10%	X		
	PI/NPI1: NPI share = 5%		X	
	PI/NPI2: No NPI			X
Governance of the confirmation process of PI investments	GOV0: on rolling basis	X		
	GOV1: Status quo (as in current MF)		X	
	GOV2: vetting by Investment Committee			X
Stable design elements across Policy options:	- Ban of gas / Waste to Energy under priority area - Opening-up scope of priority area to more decarbonation options (such as direct industrial electrification)			

Modernisation Fund: Results

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- All policy options support GHG reduction, power sector modernisation and energy efficiency. Extending the Fund to CCS and industrial electrification would further strengthen emissions cuts.
- PO2 has the lowest administrative costs due to tighter limits on non-priority investments and no extra role for the Investment Committee.
- Modernisation Fund investments are focused on lower-income Member States and high-impact sectors, delivering structural, economy-wide emission reductions.
- For 2030–2040, current beneficiary Member States are estimated to need around EUR 90 billion per year in relevant investment.



Aviation (Annex 10)

Policy options

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	Policy measure	PO1	PO2	PO3
Aviation - Geographic Scope	AS1: clean cut	X		
	AS2: departing flights		X	X
Aviation - SAF support	SAF0: status quo	X		
	SAF1: medium extension		X	
	SAF2: larger extension			X

Design elements — *Private jets, Outermost Regions, Least Developed Countries and Small Island Developing States*

Results - Aviation

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- **Global aviation CO_2 emissions** (Europe: domestic & non-domestic ; outside Europe: only non-domestic) decrease the most under PO2 and PO3, compared with PO1/clean cut scope where ETS geographic scope is smallest.

- On extra-European international flights, PO1 has the smallest **impact on carbon costs* compared to overall operating costs**, as only CORSIA applies (no impact after 2035). PO2 has the largest impact, due to ETS extension to departing flights and lower SAF support (compared to PO3)

- **Passenger demand and employment in EEA airlines grows under all policy options** on EEA departing flights between 2024 and 2040 (demand: +31% for PO1, +30% for PO2 and PO3; employment: +28% for PO1, +26% for PO2 and PO3)

*Carbon costs = ETS + CORSIA offsetting costs



Maritime (Annex 11)

Policy options

	Policy measure	PO1	PO2	PO3
Maritime -Evasion Risk	RE0: Current measures on evasion	X		
	RE1: Revise the list of neighbouring container transshipment ports		X	X
	RE2: Ensure that offshore activities by ships operating in EU waters are covered, independently from their port of origin		X	X
Maritime - Smaller Ships	MSS0: The existing scope of the ship categories and sizes remains unchanged	X		
	MSS1: Targeted extension of the scope of the EU ETS to emissions from smaller ships, by including ship categories emitting the most among small ship categories		X	
	MSS2: Extension of the scope of the EU ETS to all vessel types non-exempt from MRV, plus fishing vessels and non-commercial yachts			X

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Policy options

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	Policy measure	PO1	PO2	PO3
Support for emission reduction in the shipping sector	LCF0: No dedicated ETS support mechanism	X		
	LCF1: EU ETS support mechanism for Sustainable Maritime Propulsion (SMAP)		X	X
Simplification in Maritime	SI1: Simplification, and targeted enhancement measures	X	X	X
Maritime - Derogations	DE0: no extension of derogations	X		
	DE1: Extension of derogations for limited time		X	X
IMO Adjustments	IMO0: No adjustment	X		
	IMO1: Deduction from the ETS surrendering obligations of emissions subject to pricing by IMO		X	X

Maritime EU ETS- KEY RESULTS

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- **Extension to small ships** is 11.3 MtCO2e i.e. +13% of maritime (PO2) and by 14.6 $MtCO_2e$ (+17%) in PO3. The extension is reduced further by the prolongation of the derogations (by some 5 $MtCO_2e$ per year).
- **Cumulative GHG emissions (2030–2050):** +4,8 $MtCO_2e$/year in ETS scope/ +5%/ +6% (PO1 | PO2 | PO3).
- **Residual emissions (2050):** 20 | 12 | 11 $MtCO_2e$ (PO1 | PO2 | PO3).
- **Renewable fuels (2050):** 87% | 92% | 93% (PO1 | PO2 | PO3).
- **Shipping costs (NPV, 2030–2050):** EUR 2,473 bn, +1.1% (+EUR 392 m admin costs) , +1.3% (+EUR 774 m admin costs) (PO1 | PO2 | PO3).
- **Simplification savings:** Up to EUR 9 million/year (all options).
- **Macroeconomic impact**: Marginal GDP impact (PO2 & PO3).
- **Competitiveness:** Stronger EU transhipment ports and a level playing field for offshore companies and small/large ships (PO2 & PO3).



Carbon leakage protection (Annex 12)

Policy options

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	Policy measure	PO1	PO2	PO3
Stationary installations - Carbon Leakage	CL1: Improved current approach	X		
	CL2: Conditional Free allocation for investments		X	
	CL3: No free allocation and partial surrender of allowances until 2034			X
ICC	ICC1: Continue state aid encouragement	X	X	
	ICC2: Harmonised ICC			X

Results – Free allocation post-2030 for non-CBAM sectors

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- The impact of free allocation on carbon leakage, competitiveness, etc assessed via GEM-E3 model
- Positive impact on conduct of business and competitiveness in all scenarios (compared to the baseline), primarily due to the less stringent cap trajectory and the scope extension (PO2 and PO3) => more free allocation available compared to baseline, especially post 2035
- No carbon leakage identified by the model (compared to the baseline) due to higher FA
- Making part of free allocation conditional on investments (PO2) results in tens of billions of investments
- However, due to the limits on the benchmark update rates, the cross sectorial correction factor likely to be triggered early on in all scenarios.
- Average administrative cost for free allocation estimated (based on survey responses) to EUR 0.02 per tonne of CO2, insignificant in relation to the estimated value of free allocation.

Results – Indirect Cost Compensation

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- Higher carbon price and greater industrial electricity consumption could cause ICC costs to more than double in the 2030s compared to 2021-2023 average - and more than double again if all Member States choose to provide maximum State aid permitted.
- Many of the ICC cost parameters are determined in State aid guidelines (emission factor, sectoral scope, electricity consumption benchmarks).

- Option ICC1: ICC continues to be delivered through State aid.
- Option ICC2: harmonised ICC Fund offers 'baseload' compensation EU-wide. MS can top up with State aid.



Waste (Annex 13)

Policy options

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	Policy measure	PO1	PO2	PO3
Stationary Installations - Waste	No inclusion of additional waste management processes in the EU ETS. Improving legal clarity on current scope.	X		
	W1: Inclusion of municipal waste incineration installations in the EU ETS		X	
	W3: Inclusion of all waste incineration installations and landfills of non-hazardous waste in the EU ETS			X

Results

- PO1: no significant changes compared to baseline.
- **PO2 drives higher emission reductions from incineration than PO3.** PO3 sees higher overall emission reductions (broader scope), mainly driven by parallel regulatory framework (Landfill Directive). No added value impacts for hazardous waste incineration (PO3).
- PO2 and PO3 have **positive impact on other environmental aspects** (pollution) and **circular economy** (carbon price making prevention, recycling and reuse more financially competitive).
- Environmental risk of **landfill diversion in all policy options dependent on (enforcement of) regulatory and fiscal policies** – PO3 primarily affects methane/organics, not plastics, in landfills.
- Both **costs** (carbon cost) **and opportunities** (notably carbon removals for incineration) of compliance under PO2 and PO3.
- PO2 has low (already in place) versus **PO3 high MRV cost and complexity**
- Both PO2 and PO3 positively contribute to **harmonise level playing field** between sectors (industrial co-incineration; power sector) and Member States (currently diffuse set of policies)



CCUS (Annex 13)

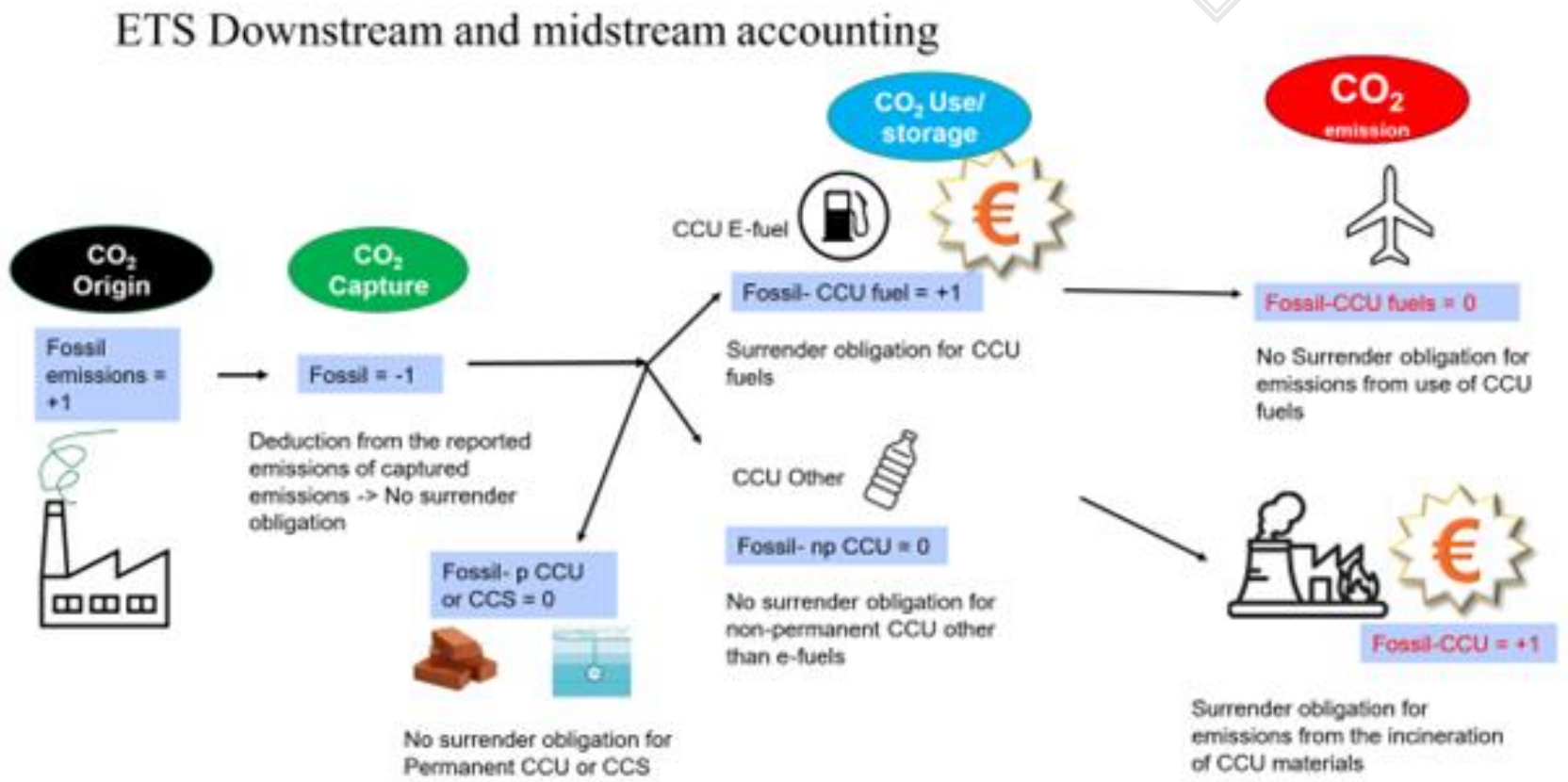
Policy options

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	Policy measure	PO1	PO2	PO3
	CCU0: 'Upstream accounting' (with no inclusion of waste incineration)	X		
Stationary installations - CCU	CCU1: 'Upstream accounting' (with inclusion of waste incineration)			
	CCU2: 'Downstream accounting'			
	CCU3 'Hybrid Downstream & Midstream accounting'		X	X

Simplified illustration of hybrid downstream/midstream accounting

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Results

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- All accounting options analysed present trade-offs between integrity, flexibility and administrative complexity.
  - **CCU1** (upstream accounting) provides the most assurance that all emissions are subject to carbon pricing.
    - But (in case of inclusion of waste incineration) it will lead to double counting of emissions. As only CCS is rewarded, (non-permanent) CCU is effectively restricted.
  - **CCU3** (hybrid downstream/midstream accounting) addresses the issue of double counting, and it enables more investments in carbon capture in cases where capturing for storage is not feasible. It contributes to reduction in costs of CO2 feedstock and helps the business case for CCU products.
    - The midstream accounting applies to e-fuels only and addresses the need for flexibility and simplicity upstream (when capturing or transporting CO2), but maintaining the zero-rating of e-fuels for the end users.
    - However, some risks of potential loopholes (emissions stored in products) that evade the system. Some applications can be excluded, while monitoring and review the risk of loopholes as the CCU market develops



Preferred Option

Preferred option

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- All policy options achieve the same ETS emissions reduction target, although for variable scope / share of the economy-wide emission
- PO2 was considered to be the preferred policy option, as giving the best balance between the environmental effectiveness of the system, while maintaining proportionality, regulatory stability, and fairness across sectors
  - As an exception, for removals the measure included in PO1 is preferred (public authority integration)
  - for the cap no single option was preferred, but options with a sufficiently ambitious cap in the first half of the decade showed to have significant advantages

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Evaluation (Annex 15)

Structure of the Evaluation

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- **Point of comparison**: amendments to ETS Directive, MSR Decision and MRV Maritime Regulation adopted in 2018 *(with some exceptions for MRV maritime)*.
- Evaluation structured as an overall evaluation for the ETS Directive and focused, dedicated evaluations for the following topics:
  - Carbon leakage prevention
  - Monitoring, reporting, verification and accreditation (for stationary installations and aviation)
  - Monitoring, reporting and verification for maritime transport
  - the Market Stability Reserve
  - Auctioning
  - The Union Registry
- **Criteria assessment**: **effectiveness, efficiency, EU added value, relevance** and **coherence**

Results - ETS Evaluation

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Key conclusions :

- **Effectiveness:** In terms of emissions reductions, the ETS has overachieved its 2030 target set in 2018 already by 2024 with over 50% emissions reductions

  - Studies conclude that the EU ETS has been successful in reducing carbon emissions, and at the same time **did not impact negatively economic performance and output. Reductions take place where cost-effective.** So far, more pronounced in the energy sector. However, the **price signal has not been strong enough to drive transformational change**, particularly in sectors like steel, cement, or chemicals that require innovation and infrastructure change.

- **Effectiveness:** Cap and trade continues to be more efficient than alternatives. The 2018 revision of the EU ETS reinforced this by tightening the emissions cap, integrating the MSR to address surplus and price volatility, and further shifting from free allocation to auctioning and better targeting the allowances still allocated for free.

Results - ETS Evaluation

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Key conclusions :

- **Coherence:** The 2018 revision addressed overall coherence through the integrated modelling that underpinned the 2030 climate and energy framework
  - Introduction of the MSR in 2019 helped to address the long-criticised waterbed effect by allowing allowance supply to respond to changes in demand, including those induced by complementary policies and national measures.
  - The ETS balances the objective on emissions reductions with ensuring with competitiveness and fairness. A key example is free allocation, which, while a deviation from the polluter-pays principle, remains justified as a transitional measure to address the risk of carbon leakage.
- **Added value: Coordinated, EU-level implementation** has delivered greater effectiveness, efficiency, ensuring the integrity of the single market and a level playing field across the Member States and equity that would not have been possible through national action alone.

Results - MSR Evaluation

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Key conclusions of MSR evaluation:

- **Effectiveness:** The MSR was effective in reducing the historical demand-supply imbalance in the allowance market.
  - The MSR mitigated the build-up of a new imbalance from 2013 but did not fully absorb excess allowances. The demand-supply imbalance has been reduced,
  - The MSR credibly signalled the commitment of the EU to the EU ETS, thereby boosting confidence in the market.
- **Efficiency:** The operation of the MSR has few direct costs and large benefits.

Overall conclusion MSR evaluation:

- MSR has added some complexity to the EU ETS regarding the calculation of allowance supply in a given year, but it has had an overall positive effect of reducing demand-supply imbalances, on increasing overall confidence in the EU ETS and made the ETS more resilient to shocks.

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