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PUBLIC

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MEETING DOCUMENT

From:	General Secretariat of the Council
To:	Working Party on the Environment
Subject:	ETS Review: follow-up of the WPE on 2 September 2026 - Commission presentation

Delegations will find attached the presentation given by the Commission at the WPE on 2 September 2026 on the three proposals of the ETS Review Package.

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ETS Review

WPE 2 September

DG CLIMA

European Commission

Introduction

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- Not all questions can be answered today
- The Commission has identified common concerns and bundled questions together
- In the Block-specific there will be space to go into more detail



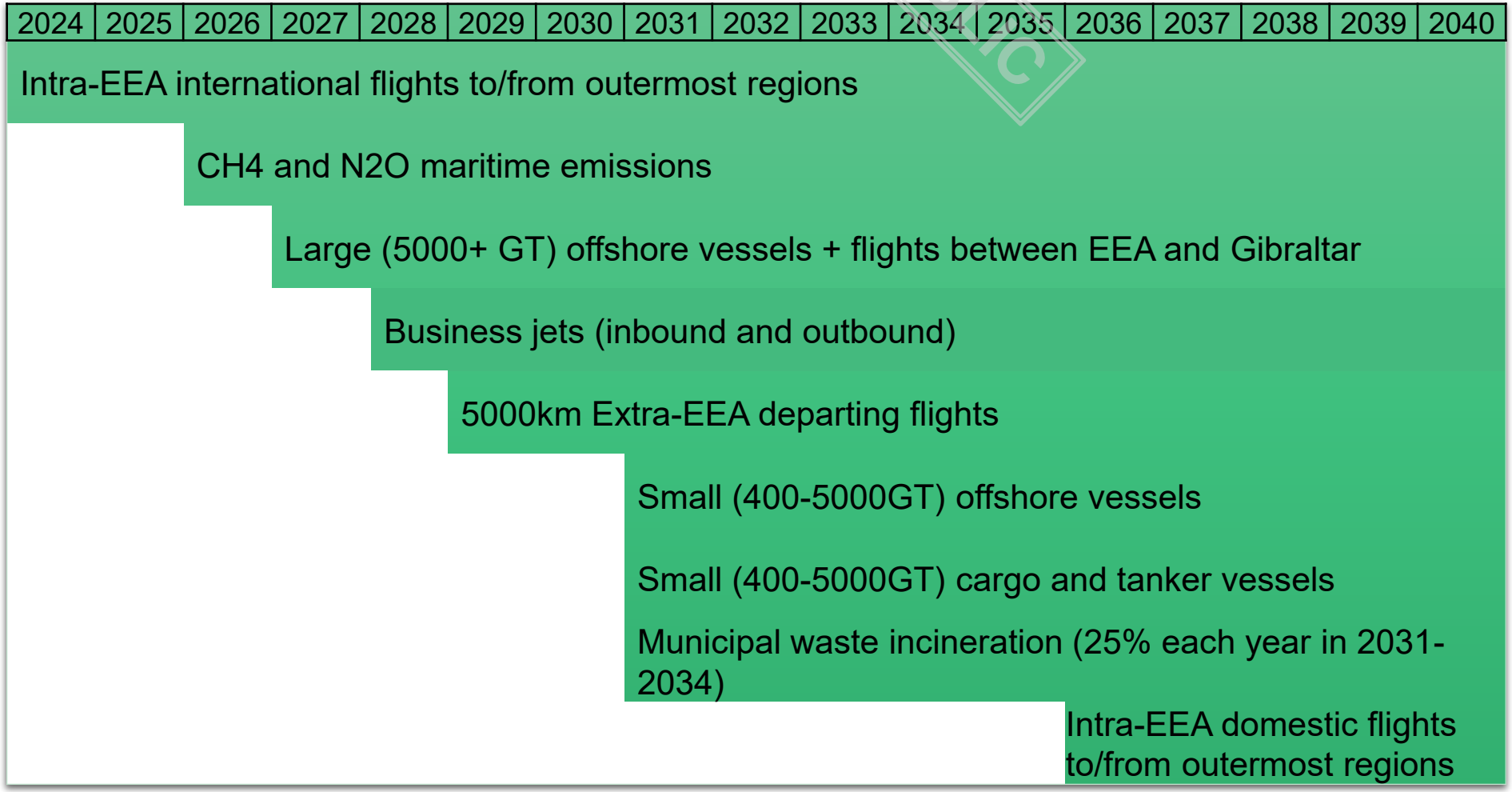
Block 1.A – Ambition, Cap, Removals, International Credits (B1)

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Ambition, Cap & LRF

How does ETS scope evolve over time?

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Questions from CZ, DK, DE, ES, FI, LV, PL, SE, SI, SK

What is the ETS cap trajectory and target?

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- The ETS net-cap represents an emission reduction of 85% compared to 2005.
- With (i) the proposed LRF of 3.7/1.7, (ii) the proposed scope and (iii) the increase of the cap linked to removals, the ETS1 cap is close to 550 MtCO2 in 2035 and **390** MtCO2 in 2040: the estimated reduction between 2005 and 2040 is 83%.
- With an LRF of 3.7/2.7 (in the absence of availability of international credits), the ETS1 cap is close to **280** MtCO2 in 2040: the estimated reduction between 2005 and 2040 is 87%.
- Removals: if not considering the increase of the cap linked to removals, the reduction of the resulting reductions under ETS1 would be 85% in 2040 compared to 2005 (90% in the absence of availability of international credits)
- Current scope: reduction of emissions under *current scope* would be 2-3 pp higher than under *proposed scope*.

Questions from CZ, DK, DE, ES, FI, LV, PL, SE, SI, SK

What will be the ETS-share of total emissions?

PUBLIC

- The comparison of the ETS cap with the remaining net GHGs under the ECL can be misleading due to different definitions, the question of the role of overall removals and the international credits
- The ratio of the ETS1 cap to remaining (gross) GHG emissions in 2040 will depend in particular on the overall contribution of carbon removals
- This will be addressed in the upcoming initiative on national GHG targets

Questions from CZ, DK, DE, ES, FI, LV, PL, SE, SI, SK

What is the exact LRF? How many emissions remain in 2040? When can we expect the “endgame”

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- LRF 3.7 for the period 2031-2035: 77 Mt/year (current scope)
- LRF 1.7 for the period 2036-2040: 35 Mt/year (current scope)
- This compares to the current LRFs of 4.3 and 4.4 represent reductions of 87Mt and 90Mt annually
- The revised LRF continues post-2040, and can be amended. Decisions on international credits and removals will also be relevant.

PL, DK, CZ, SK

Why no LRF changes before 2030?

PUBLIC

- ETS Trading Phase IV runs from 2021-2030 in order to reach 2030-target.
- Except for aviation's contribution, the current review concerns Phase V: 2031-2040 and concerns the question how the Climate Law's 2040-target can be met.
- Changing the cap now for the remaining years of Phase IV would harm predictability for market participants and credibility of the carbon market.
- However, the Review does acknowledge urgent needs *within* the current cap, by redirecting allowances to Free Allocation, to the Investment Booster, to supporting maritime decarbonisation.

IT, PL

Why is the LRF high until 2035 and low after 2035?

PUBLIC

- Following Climate Law: on a 90-trajectory until 2035 and after that international credits come in
- Our Impact Assessment identifies benefits of frontloading: a lower carbon budget, quicker learning by doing, faster electrification and energy independence.
- However, this logic only holds to a limited extent. More action in earlier years indeed requires more investment in emerging technologies needed to decarbonise ETS-sectors
- Too much effort in the short run creates an over-reliance on immature and expensive technologies or an overly accelerated roll-out of infrastructure.
- The LRF trajectory proposed reflects the Commission's assessment of a balanced approach to these two competing forces.

ES, BE

PUBLIC

International Credits

Is partial adjustment of LRF proposed in case less than 260 Mt international credits are available?

PUBLIC

- No, the system is designed in a ‘binary’ way: either the LRF is 1.7 or it is 2.7, depending on the outcome of the 2033 assessment report.
- The reason behind this design is to limit uncertainty for the market and create long-term visibility/ certainty on the cap trajectory.

LV, NL, PL, CZ, DE, FI, PL, SI, DE

What aspects will the 2033 assessment of credits consider (i.e. what does "availability" mean)?

PUBLIC

- The assessment of the availability of credits will consider several aspects mentioned in Article 9b(3) including criteria for high quality and high integrity, the development of the market for credits, as well as the implications for the ETS.
- The year 2033 for the report was chosen as a compromise between not making judgment on market readiness too early but same time well ahead of a possible LRF change to give market certainty.

PL, NL

When do we start buying credits? When are auctions held?

PUBLIC

- This has not been determined yet. Auctions would depend on aspects related to the design and functioning of the Purchasing Facility which will be defined in the international credits proposal still to come.
- However, Art 10(4) principles will be followed, i.e. the process shall be predictable, in particular as regards the timing and sequencing of auctions and the estimated amount of allowances to be made available.
- As per the Climate Law and Paris Agreement rules, credits contributing to 2040 target can only be used as from 2036. However, to guarantee that a sufficient volume of credits will be available by that date, contractual arrangements should be put in place earlier by the procurement facility. This will be detailed in the future credit related legislative proposal.

Volume of ETS contribution to credits

PUBLIC

- Volume of up to 260 Mt :
  - is based on the difference in gross GHGs under current ETS1 scope between economy-wide net GHG reduction of 85% and of 90%
  - this represents around 37% of total difference of net GHGs in 2040
  - which is then applied to 705 Mt of overall credits over the period (linear trajectory from 0 in 2035 to 5% of 1990 net GHGs in 2040)
  - In other words, the share is proportionate to the gross emissions benefit the ETS1 sectors receive in 2040 from the move from -90% domestic to -85% domestic target.
- How does it fit the rest of the package?
  - Link with LRF: LRF 1.7 and 2.7 in 2036-2040 apply to net GHGs under ETS
  - Credits: flexibility under the national targets is: [5 pp minus what is covered by ETS]

DE, IT, PL, SE

Amount of revenues going to credits, impact on auctioning, impact on price

PUBLIC

- Revenues from the auctioning of 260 million EUAs over the 2031-2040 period. The monetary value will be set by the market.
- Without international credits, the allowances would not exist as domestic effort would be needed to achieve -90%.
- The purchase of international credits enables the creation of additional allowances. More supply under normal market circumstances has a downward effect on price.

SK, LU, SE, FI

What if price of credits is higher or lower than EUA? Why money goes to IDB and not back to the cap?

PUBLIC

Cost-effectiveness is a central feature of international credits used towards the 2040 climate target according to the European Climate Law. The legal proposal proposes a fallback mechanism if '(...) cost-effective international credits are not available (...)'.

Remaining allowances in case of lower costs for international credits will be reverted to the IDB to support the industrial decarbonisation in the EU.

CZ, PL

Upcoming Commission proposal for international credits

PUBLIC

- Questions about the proposal on international credits will be addressed in the separate International Credits proposal, which is currently under preparation.
  - Relationship between the assessment criteria of the report and the upcoming credits proposal
  - What is high-quality and high-integrity? (DE, NL)
  - How is it guaranteed? (LV)
  - How will the facility work – links to other acts (PL, SE, SI, CZ, ES)
  - How will COM facilitate the development of credits before 2033? (DE, LU)
  - How about the pilot phase? (PL)
  - What is the assumed price of credits? (NL, DK, SE)
  - Link with Art 6 accounting of credits (SE)
  - Trajectory or averaging? (SE)

Upcoming Commission proposal for international credits

PUBLIC

- By the **end of the year the Commission will propose a legislative framework** to regulate the use of international credits towards the achievement of the Union's 2040 climate target **accompanied by an Impact Assessment**.
- The proposal will cover the use of international credits to achieve the 2040 target, complementing domestic efforts under the ETS or by Member States for non-ETS1 emissions.
- In line with the ECL, the legislative proposal will provide a consistent approach to determining credit quality, compliance with strategic criteria (e.g. EU interest), requirements for establishment of cooperation with partner countries and authorisation for use towards the EU NDC.

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Removals

Link between removals and the cap (CZ, DE, EE)

PUBLIC

- Permanent carbon removals are integrated into the EU ETS through the gradual increase of the ETS cap by an amount of 250 million allowances that is equivalent to the quantity of CRCF permanent removal units that the Commission would be mandated to purchase.
- Carbon removals are integrated “on top of the cap”: they are not subject to the LRF and the newly created allowances would be assigned for the purchase of the CRCF removal units.

Why 10 million extra allowances to buy removals? Is it enough?

PUBLIC

- The additional 10 million allowances account for the estimated price differential between these CRCF units and ETS allowances
- This will be particularly important in the early stages of the purchasing programme, when relatively smaller volumes will be purchased and carbon removal prices are expected to be higher than later in the 2031–2040 period.
- The ETS purchasing programme should also trigger significant investment in carbon capture, de-risk transport and storage infrastructure, and stimulate innovation in carbon removal technologies. All of this should result in cost reductions for carbon removals in the second part of the period.

What happens if insufficient removals available? (DE)

PUBLIC

- The removals target proposed is (moderately) conservative within the range of the estimated removals to be generated by on the different modelling tools used for the impact assessment (up to 330 Mt removals – see IA 6.1.1.2).
- By the end of 2034, the Commission will assess the progress made in carbon removal markets and whether adjustments to the purchasing plans are needed.
- It will consider the available supply, and the price of removal units in comparison with the assigned budget.
- It will also examine the possible contribution of other CRCF units, including nature-based removals and carbon farming sequestration units.

Using removals to offset own emissions

PUBLIC

- Purchasing of removals by the Commission provides predictability and allows public support to the nascent carbon removal industry;
- ETS operators generating removals can sell their removals to the Commission or use them to compensate directly for their own ETS emissions. The “own” removals would also need to be CRCF certified.
- Own use is subtracted from the 250mn total.
- By 2034, the Commission will assess the feasibility to transition towards the integration towards a direct integration by operators, beyond own use.

Opening to other types of removals in the future (e.g. nature-based)

PUBLIC

- BECCS and DACCS are the most mature solutions in terms of MRV, aligned with ETS standards.
- Development under CRCF will inform the 2034 assessment on the purchase of carbon removals and whether other types of removals could be considered for integration.
- The proposal specifically mentions the possible contribution of nature based removals and carbon farming sequestration.

How the purchasing programme would work?

PUBLIC

- The Commission will adopt future delegated acts concerning the modalities for the purchase of domestic carbon removals including :
  - timing,
  - selection and eligibility criteria,
  - technological requirements
  - financial rules.
- Through these delegated acts, we intend to prioritise a portfolio of cost-effective, high-integrity projects with payment on delivery of the certified carbon removal units.
- We will also examine the eligibility of CRCF units generated before 2031.



Block 1.B – Free Allocation & CBAM (B2)

What are additional/new mechanism to address carbon leakage in the EC proposal?

PUBLIC

- Free allocation and CBAM (together with indirect cost compensation) remains the main tools addressing carbon leakage. By applying lower LRF to the cap, increasing the FA buffer from 3% to 4% and reintroducing 15% of the FA phased out due to phase in of the CBAM factors, the Commission proposal significantly increases the FA budget compared to the baseline.
- In total, FA budget will be increased by over 40% to an estimated over 2Gt in Phase V. Assuming for calculation purposes an average carbon value of €150/tCO_2, it translate into nearly €50bn worth of extra free allocation compared reference scenario analysed in the IA.

? - *PL, IT, FI,*

Why did the EC propose extending Carbon Leakage list without reviewing it?

PUBLIC

- The past exercise on Carbon Leakage list was administratively onerous and resulted in nearly 95% of emissions of the assessed sectors being included in the list. For that reason, it was deemed administratively less burdensome to simply extend the validity of the existing list.
- A new exercise for the period post-2030 would most likely lead to the same outcome.
- It also replicates the way the Carbon Leakage list was simply extended, without requiring a new one be adopted, in the 2018 review of the ETS Directive (see Article 4 on transitional provision in Directive (EU) 2018/410).

? - *PL, PT, ES, BE, PT*

How would FA conditionality work?

- All FA become conditional on the development and publication of "Invest in EU Decarbonisation Plans" per installation 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 the approved by CA of "Invest in EU Decarbonisation Plans“. Details tbd via DA/IAs.
  - The remaining 20% is disbursed when the required investments and significant emissions reductions are delivered. Required investments should equal to at least the economic value of 100% of free allocation in the relevant five-year period.
  - Allowances not allocated will be available for FA in the following five-year period.
  - Claw back mechanism in case of relocations outside the Union after receiving FA.
- Conditionality requirements are specific to each allocation period in Phase V.

? - *CZ, DE, ES,*

What is the logic behind choosing the economic value of 100% of FA for conditionality?

- Commission proposal extends FA from 2030 to 2040 to shield industry from leakage, but only by pairing that generosity with conditionality — turning FA from a passive compensation shield into a "*genuine engine for innovation and investment*."
- Estimated economic value of investments to be unlocked by conditionality is about €140 bn over 2031-2040. This amount doesn't take into account exemptions to be granted to zero/low-carbon or small installations, or IF/IB/IDB funded projects.
- In contrast, according to the IA, industry covered by ETS will need to invest between €300-400 bn to meet the EU 2040 climate target.
- Given the significant gap, to unlock the maximum possible investments between 2030 and 2040, it is important to anchor the investment conditionality to the economic value of 100% of FA.

? - *DE, IT, NL, PL,*

What is the expected trajectory of the CSCF?

PUBLIC

- The Impact Assessment includes an estimate of the CSCF trajectory for the different policy options – see table 21 in Annex 12 (part 4/5 of the published IA). These estimates have been done based on the preliminary NIMs data set, which was used to estimate BM levels and preliminary FA demand to 2040, and the free allocation budget available from the different policy options analysed in the IA
- While the cap and the resulting free allocation budget in the proposal are slightly different, the measure PO/CL2 reflects the closest the proposal, therefore the most relevant estimate of CSCF from the IA is the following one:

	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
CSCF CL2_90	0.88	0.82	0.75	0.69	0.61	0.61	0.53	0.45	0.37	0.30

- COM is currently updating the calculations of the CSCF estimates based on the final NIMs data set (finalised in July) and the cap and free allocation budget, proposed buffer and other relevant elements in the proposal.

? - PL

In which instances will the FA conditionality not apply?

- To recognise early movers/investments, according to Article 10a(3c) 5th and 6th subparagraphs, in the following cases derogations from FA conditionality shall apply (i.e. *neither Invest in Decarbonisation Plan, nor investment requirement*):
  a) 10% most efficient installations (based on the BM curve),
  b) Zero or low-carbon installations (details in the relevant DAs),
  c) Small installations that voluntarily remain within ETS (Article 2(1)).
- Furthermore, if an IF, IB, and IDB funded project is being implemented in an installation, it will be exempt from the obligation to develop Invest in EU Decarbonisation Plan and 80% of FA shall be disbursed without additional verification. The remaining 20% of FA shall be disbursed once the competent authority confirms that the afore-mentioned funding is equivalent to at least 100% of the value of the FA of the installation in question and:
  a) IF support has been launched or,
  b) Construction works for the IB/IDB-supported projects have started.

? - *CZ, FI, LT, LV*

Why did the Commission decide to largely maintain current BM rules in Phase V?

PUBLIC

- The Commission proposal largely maintains BM calculation rules to provide predictability to the industry and reduce administrative burden.
- It is also essential to highlight that given the higher certainty in the application CSCF value below 1 in Phase V, any change in rules determining BM values will have exclusively distributional effects without changing the total amount of FA given to the industry.
- The Commission proposal includes two adjustments to BM rules for post-2030:
    1) Maximum BM update rate has been reduced from 2.5% to 2%.
    2) To better reflect available emissions reduction capacities in different industrial sectors, Commission is empowered to develop sector-specific heat and fuel benchmarks. Methodological detail to be decided via the revision of FAR.

? - *DE, EE, FI, IT, LU, NL, PL, SI, SK,*

What is Commission proposal permanent solution for remaining carbon leakage risks in CBAM sectors?

- **To address CBAM-related remaining carbon leakage risk**, Commission proposes revising the CBAM to reduce the FA phase out to CBAM sectors. 15% of the amount of FA that would otherwise be phased out is reintroduced. This is directly reflected in the new CBAM factors for 2028-2037 under the Article 10a(1a) second subparagraph.
- In mathematical terms, CBAM factor is applied after the application of CSCF.
- 15% value was chosen, because it reflects roughly the FA-equivalent value of the monetary support that operators are projected to receive from TDF on average per year. According to preliminary estimates based on projections using NIMs data, this will avail about 140 mln additional allowances to CBAM sectors over 10 years with an estimated economic value of roughly €20 bn.
- In policy design choice, it was essential to respect the legal constraints associated with WTO rules.
- Adjustment to FA phase-out to CBAM sectors will be mirrored with CBAM phase-in to imports of CBAM products at the Union border.

? - *CZ, DE, DK, FI, FR, IT, LU, NL, SE, SI, SK, BE, PT,*



Block 1.B – Standalone BM (B2)

Can you provide the new BM values for the 2026-2030 period? (EE)

PUBLIC

	2021-2025	2026-2030					
		Existing ETS		COM proposal (+88 mill. from 3% buffer)		+33 mill. conditionality	
			vs. 2021-2025		vs. 2021-2025		vs. 2021-2025
Heat benchmark (tCO2/TJ)	47.3	31.2	-34%	39.7	-16%	43.0	-9%
Fuel benchmark (tCO2/TJ)	42.6	28.1	-34%	35.8	-16%	38.7	-9%

What is the reasoning of excluding some sectors from the 2026-2030 BM update? (CZ, PL)

- The NACE codes concern the oil and gas sector. This sector already benefits from increased allocation in 2026-30 due to an increase in the product benchmark for refining product above the 2021-25 level (0.0232 in 2026-2030 vs 0.0228 in 2021-2025). More allowances are then available for the other sectors.

Why are the NACE codes 35.21 and 35.24 not listed among them and can others be included (e.g. NACE 23.31)? (DE)

- There are no installations under the NACE code 35.24.
- The Commission is open to consider extending the exclusion to other NACE codes under the oil and gas sector, but there are only 5 installations under NACE code 35.21.

When and how should a sector-specific adjustment for the ceramic tiles sector (NACE 23.31) be considered? (IT)

- The Commission acknowledges the need to consider a sector-specific approach for the heat and fuel benchmarks, which is why this is part of the post-2030 proposal. For the 2026-2030 allocation period, however, such an approach did not receive enough support from Climate Change Committee.

PUBLIC

How would it be implemented? Would two new sub-installations be created? Would this mean revising the BDR documents or would this change be only in the ALC reports? (CZ, DE, PL)

- The exclusion is intended at the installation level to avoid the need to further split sub-installations.
- Changes to the NAT and how to implement them will be discussed with the relevant Expert Group.

Please provide additional information on the timeline for the amendment to the FAR? (DE)

- The Commission does not foresee a need to amend the FAR. The BM Regulation will be amended to reflect the changes to the ETS Directive once they are adopted.



Block 1.C – Funding and Solidarity (C2, except for use of revenues B1)

Revenues: will national auction revenues increase or decrease?

PUBLIC

- Overall, auctioning by MS (MF included) would amount to approximately **58%** of the total EUAs issued over 2031-2040, due in part to CBAM.
- In comparison, MS auctioning over 2021-2030 is expected to be around **47%** of the total EUAs issued, due to the significant MSR intakes.
- The proposal does not affect the distribution keys under Article 10 (2) (90% main distribution + 10% solidarity share). However, it revises the distribution of funds from the Modernisation Fund, in line with Annex IIb.
- In line with a declining cap, the number of EUAs for MS auctioning decrease by around 35% compared to the current decade. However, their monetary value is expected to increase due to increased ambition and market scarcity
- Lastly, 30% of the national auction revenues are expected to finance EU's own resources as of 2028
- Monetary values depend on the carbon price

PL, EE, SE

Revenues: 100% or 50%?

PUBLIC

- 100% of the revenues shall be spent on climate purposes, maintaining the current approach
- Out of that 100%, up to 50% may be spent on non-priority

CZ, FI, NL, SI, SE

Revenues: how to account for revenues spent on indirect carbon cost compensation?

PUBLIC

- The 100% obligation applies to the amount of revenues received *minus* anything spent on indirect cost compensation.
- Indirect cost compensation can therefore be financed with ETS revenues or from another source of State resources.
- The changes to the indirect cost compensation in Article 10(6) aim to streamline the annual reporting exercise of compensation paid out.
- State aid rules continues to apply.

DE, LU

Indirect cost compensation (ICC): how to address single market distortion (PL, SI)?

PUBLIC

- EC proposal recommends continuing to encourage provision of ICC via **State aid** in line with guidelines.
- State aid guidelines ensure harmonised rules for State aid provision.
- Pre-2030 guidelines were revised in December 2025. ETS proposal does not amend these.
- Impact assessment considered and rejected option of a **dedicated EU instrument** for ICC.
- Therefore potential fund modalities were not developed (size, allocation key, impacts on other ETS revenue uses) .

Revenues: priority vs non-priority causes

PUBLIC

- Objective is to fund ETS1-sectors with ETS1-proceeds, without earmarking at sectoral level.
- Estonia: buildings are in the non-priority list
- Luxembourg: NZIA technologies are normally eligible
- Latvia: District heating systems are in the non-priority list, however changing the heat source to a renewable heat source could fit under the priority list
- Poland: transport – distinction between ETS1 and ETS2

EE, ES, LU, LV, PL

Revenues: three-year spending deadline

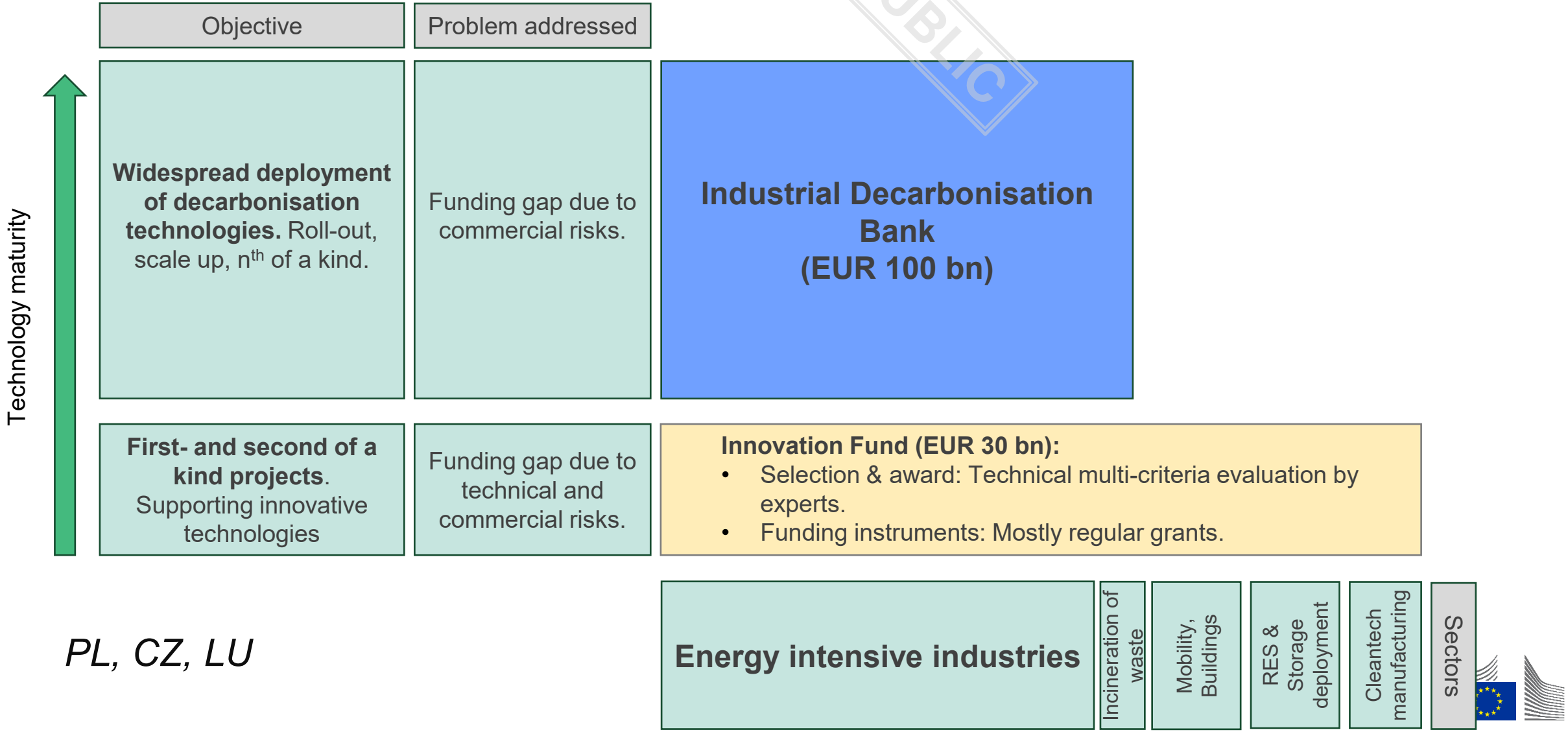
PUBLIC

- Auction revenue reporting has improved, but still shows that Member States have difficulty disbursing the money timely
- Investments are urgently needed and it is important for public acceptability that they are put to good use
- Three years is a reasonable period to have certainty on the amount of revenues (e.g. in case of volatility), determine the appropriate projects or funds to support and pay out, also because existing programmes can be funded.
- Commission will assess compliance via revenue reporting exercise where necessary complemented by additional assessment. Disbursement determines compliance, not completion of the project.

EE, PL

Architecture and rationale of IF / IDB

PUBLIC



PL, CZ, LU

Differences between the 2 phases of the IDB

PUBLIC

Phase 1: 'Investment Booster'

(2028–2030)

- **Kickstart industrial decarbonisation** with rapid, predictable support ('privilege speed')
- **Budget**: **400 mio allowances from phase 4** (EUR 30 bn with 75EUR/t carbon price)
- Work with '**First-in, First-served**' administrative schemes
- Create a solid business case with carbon **fixed premium, paid in allowances equivalent to the financial value of the carbon premium**
- **Kick-start Stakeholder consultations** on T&C in parallel, ready by adoption

Phase 2: (2031–2040)

- **Cost-efficient, long-term decarbonisation** via market-based mechanisms.
- **Budget**: total IDB budget of EUR 100 bn in funding (**400 mio allowances raising around EUR 60 bn)** allowances from Phase 5
- Work with **competitive bidding**
- Maintain a **solid business** case, e.g. with **Carbon contracts for difference** (CCfDs)

PL, CZ, LU, DK, FR, NL

IDB endowment

PUBLIC

- **Booster endowment:** 400 million allowances will first be sourced from the free allocation buffer (Article 10a(5b)), after the buffer has fulfilled its primary purpose (providing free allocation and safeguarding the CSCF). If the remaining volume in the buffer is insufficient, the difference will be covered from the New Entrants' Reserve (Article 10a(7)). Auction revenues available to Member States are not affected
- **Phase II endowment**: 400 million allowances come directly from the ETS cap (Article 9)
- **Auction timeline for allowances** mobilised for the IDB:
  - Booster phase: Allowances will not be auctioned, but be handed to project beneficiaries upon verified GHG abatement
  - Phase II: allowances will be monetised as part of general auctioning calendar
- What if IDB **project fails:**
  - Booster phase: earmarked allowances can be allocated to newly submitted projects
  - Phase II: budget reserved for payments is released
  - Completion bonds - if called by the EC - accrue to the IDB budget

CZ, DE, NL, PL, ES

IDB general design (1)

PUBLIC

- Eligibility: "*IDB shall accelerate industrial decarbonisation, including electrification (…) through supporting capital investment, including grid connection, storage and flexibility costs incurred by projects, and operational expenditure* ***for emission reductions*** *or* ***removals*** *in* ***stationary installations carrying out or substituting industrial production processes*** *referred to in* ***Annex I*** *of this Directive, including in installations for the incineration of waste*"
- IDB is intended to make investments commercially viable and bankable, bridging **funding gap** (CAPEX + OPEX but also the revenues).
- Combination of support (IDB with other EU Funds, State aid) – proposed to be possible, modalities to be defined in the T&Cs
    - IDB is not State aid.
    - IDB support can be combined with conditional Free Allocation
    - (**front-runners**) Project previously supported by the SA/IF could in principle receive support from the IDB, but State aid rules for national support and cumulation rules have to be complied with, terms and conditions will need to set out detailed rules

DK, EE, LU, NL, PL, SK, SI

IDB general design (2)

PUBLIC

- In principle **grant based approach** (with CCFD as preferred form of support in phase 2), but entire funding/financing toolbox of the Financial Regulation can be used, too early to define the allocation between different instruments.
- IDB is **self-standing tool** outside the MFF.
- **Member States** are not required to provide national budgetary contributions or co-financing for projects supported by the IDB but possibility of 'as a service' feature in the second phase, including through MF. MS are part of consultation process (cf IF expert group). Important role for Member States as regards infrastructure development.
- IDB is for **decarbonisation of industrial installations** vs Strategic Infrastructure Investment Fund/CEF for energy/CO2 infrastructure.
- There is an overlap between IDB/ECF but **the ECF scope is much larger** (notably the clean transition window covers all environmental challenges in all sectors) – coordinated governance will be put in place.

DK, EE, LU, NL, PL, SK, SI, FR

Investment Booster: general design

PUBLIC

- **FIFS approach** (assessed in the IA, amongst other options) chosen for effectiveness, simplicity, reduction of administrative procedures, and speed (3 years)
- Support provided **in allowances** for simplicity and greater impact, no expectation of negative impacts on carbon price (because of gradual release upon actual abatement).
- **Pre-determined fixed carbon premium**, making investment bankable. Differentiated premia and other conditions according to specific decarbonisation pathway/use case envisaged.
- **Payment upon verified GHG abatement only** (similar to renewable electricity support), max. 10 years.
- **Completion bond** essential to avoid 'free riding' and ensure timely project implementation.
- No explicit co-financing from MS, no 'as a service' feature.
- Fixed premia as well as contractual rights and obligations will be set in **Terms and Conditions (T&Cs)** - as in the IF auctions.
- **Stakeholder consultation (including MS) on T&Cs for several decarbonisation pathways** (e.g. electrification, H2, CCS) and parameters like size of completion bond, eligibility, minimum GHG reduction, interaction with other funding received, etc.



NEWS ARTICLE | 10 October 2025 | Directorate-General for Climate Action | 4 min read

Commission publishes Terms and Conditions for the first pilot auction for industrial heat decarbonisation with a budget of €1 billion

For the first time, the Innovation Fund will launch an auction to decarbonise industrial process heat, awarding subsidies linked to carbon abatement and paving the way for the future Industrial Decarbonisation Bank.

EE, LT, LU, LV, NL, SK, SI, DK, CZ, DE, FR, ES

Innovation Fund: general design

PUBLIC

- **Key design features and eligibility basically unchanged**.
- Post-2030 IF to be **funded** from the auctioning of 200 million allowances resulting from the reduction of free allocation in line with Article 10a(1a) - CBAM. This amounts to an estimated budget of EUR 30 bn. Combination of IF + IDB implies increased budget post-2030 to support industry, but with more emphasis on supporting deployment through the IDB
- **50 Mt additional allowances pre-2031** - important as IF likely to be depleted by 2028 (for 2-3 years IF would then stop to operate) : "*to the extent that fewer than 50 million allowances remain available from the free allocation buffer, the difference shall be made available from the MS phase 4 auction volumes*". This amounts to a budget of EUR 3.75 bn (75EUR/t price)
- **Possibility for completion bonds** to enhance project maturity (while arrangements for SME's /smaller projects are possible)
- **More flexibility and simplification** in determining eligible costs and level of support (e.g. 100% of the funding gap, or simplified methods to calculate support)
- **'special attention for CBAM sectors':** IDB focuses on industrial decarbonisation, and hence major focus on CBAM sectors

DE, IT, CZ, IT, PL, FR, ES

MF: size, eligibility and composition (1)

- The **size of solidarity** in the proposal is determined by :
  - The share of the total amount of allowances available to the Modernisation Fund (reduced from “2+2,5%” currently, to “2+0,5%” in the next trading period)
  - The preservation of the 10% redistribution of auctioned allowances
  - The extra reserved 100 million allowances in the Investment Booster
  - The increased value of allowances (carbon price)

  ➔ overall, solidarity remains an **important policy objective** and represents a considerable financial contribution
- The **eligibility** of beneficiary Member States to the MF: the principle and level of the GDP criterion (i.e. 75% of EU average GDP per capita) has been kept, but updated based on the latest available data.
- **No support** from the Modernisation Fund shall be provided to energy generation facilities that use **fossil fuels** or facilities that transport fossils

 CZ, SI, PL, SK, EE, LT, LV, NL, FR, SK

MF: size, eligibility and composition (2)

PUBLIC

- Composition: **adding the 10% redistribution** to the MF
  - Channelling the 10% redistribution of allowances through the Modernisation Fund:
    - increases the firepower of the Modernisation Fund,
    - subsidiarity for beneficiary MS preserved due to the bottom-up nature of the MF,
    - the EU ETS rules and governance of the MF ensure that solidarity mechanisms are effectively used to accelerate the energy transition in countries that have lower financial capacities.
- Composition: the **case for industrial decarbonisation**
  - The size of the MF can be **increased** by 0,5% when used through the IDB (**auction as a service**)
  - In this way, the objective of solidarity can be combined with the objective to recycle ETS revenues to support industrial decarbonisation (in beneficiary MS). Addressing this challenge was also a specific request from a number of beneficiary MS in the context of European Council discussions on the Investment Booster.
  - This does **not entail a transfer of budget** from MF to IDB. Through auctions as a service, the beneficiary MS keeps control how these revenues are used in the IDB for projects in their country. The IDB is only used as the instrument to select the projects (simplification and facilitated State aid procedure).

CZ, SI, PL, SK, EE, LT, LV, NL



Block 1.D – MSR

MSR releases and invalidation rule

PUBLIC

When are MSR releases expected to start? How many allowances will be preserved in the MSR? Will the MSR releases depend on whether the repeal of the invalidation is approved?

Why cancel the invalidation if MSR releases until 2040 are expected to be below 300m?

- Based on the IA modelling, MSR releases are expected to start in the middle of the next decade. If the proposal is agreed swiftly, around 200 million allowances could be preserved from invalidation. The assessment of the releases under different policy options is provided in Annex 8 to the IA and assumes the repeal of the invalidation rule.
- The MSR will need holdings also in case of too low market liquidity or excessive price fluctuations (if Art. 29a is activated) and may be needed well beyond 2040.

DK, CZ, NL, FR

MSR dynamic parameters

What is the robustness of the proposed MSR parameters? Did the IA assess MSR thresholds more stable over time? How was the annual 4% reduction of the MSR parameters chosen? Could a review of the 4% reduction be considered if market liquidity or price volatility develop differently from the IA assumptions?

- The IA concludes that the fixed 4% annual adjustment to the MSR parameters provides the **most stable and predictable MSR operations and carbon price**, based on modelling results
- The IA considered multiple options to adjust the MSR thresholds in Annex 8:
  - Minimal recalibration to MSR parameters, whereby parameters remain static.
  - Dynamic thresholds with an annual adjustment of the MSR parameters
- These options were assessed for robustness against multiple LRF scenarios and for resilience to external shocks.
- The safeguard measure in the event of excessive price fluctuations is not concerned by the 4% annual adjustment.

FR, ES, IT, PL, LV, SE, LU

MSR intakes

PUBLIC

Why is the intake rate reduced from 24% to 12%? Why does the dynamic adjustment not apply to the intake rate? How robust are MSR parameters in view of assumptions?

- The Commission's review of the MSR concluded that the doubling of the intake rate has successfully contributed to reducing fast the oversupply in the market. In view of the expected future evolution of the carbon market, the rate should return to 12%.
- In all policy options in the IA, the intakes are expected to stop before 2028.
- The intakes will be linked with the levels of the upper buffer and upper threshold, which will be adjusted each year. The reduced 12% rate means that, in the event of a surplus, allowances will stay in the market for longer.

DE, CZ, SK

Safeguard excessive price movement

PUBLIC

Has the Commission assessed the actual effectiveness of Article 29a in addressing excessive increases in EUA prices? Has the Commission considered other measures, such as introducing a measure linked to the carbon price modelled on that for ETS2 or front-loading allowances?

- The ESMA reports on the EU carbon market conclude that gradual carbon price movements are driven by market fundamentals and do not identify major concerns related to the functioning of this market. Overall carbon price volatility remains contained.
- The existing strong safeguard measure under Article 29a has been updated in the last revision of the ETS Directive which came into force in 2023. Therefore, the proposal does not contain adjustments to Article 29a.
- The measure linked to the carbon price for ETS2 applies in the initial years of the start of the new system.

IT, SI, EE, FR, PL



General comments and cross cutting questions

Why is ETS2 not reviewed and when will it happen? (PL, SK)

PUBLIC

- The system has not fully started and has been under review to ensure a smooth start
- The review is already foreseen in the Directive, by the end of 2028

When does the Commission intend to review the ETS1 again (NL)

- This review gives long term stability and predictability up to 2040
- Dedicated review clauses on e.g. international credits, removals, MSR, landfilling as well as the contribution from maritime and aviation

The transposition deadline of end-2028 is too short (EE)

PUBLIC

- Many aspects of the EU ETS are harmonised or agreed centrally, and so do not need transposition, and expanding this approach is in line with better regulation.
- Swift adoption is aimed for by Council and Parliament, and the expectation is that those elements which need transposition would have this promptly i.e. by 31 December 2028. This is longer than in some previous revisions.
- Discussion is welcome on Article 3 of the proposal, as this addresses different provisions in detail, and the timing of their application.

- *EE*

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PUBLIC

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PUBLIC

Part 2 - Questions and Answers on ETS Review

WPE 2 September

DG CLIMA

European Commission



Group 2 – Sectoral Matters



Block 2.A – Aviation/ETS

Scope: extension

PUBLIC

- Clarification on scope: which flight is subject to which measure (BE, DE, ES, FI, IT, LV, PL)
  - *For ETS coverage, the geographical scope remains the same as today (intra-EEA + flights to UK/CH) until the end of 2028. The only addition is covering of flights between the EEA and Gibraltar and business aviation flights to and from EEA States from [01.01.2028/year of entry into force].*
  - *As from January 2029, all flights from the EEA to third-country airports located within 5,000km of Frankfurt airport are covered by the ETS until 2032, with the exception of LDC and SIDS.*
  - *This includes airports located in the following countries which have connections with the EEA meeting the threshold of 15,000t of total annual emissions from the EEA to that airport: Albania, Algeria, Armenia, Azerbaijan, Bahrain, Bosnia and Herzegovina, Egypt, Georgia, Ghana, Iraq, Israel, Jordan, Kazakhstan, Kosovo, Kuwait, Lebanon, Moldova, Montenegro, Morocco, Nigeria, North Macedonia, Qatar, Saudi Arabia, Serbia, Tunisia, Turkmenistan, Türkiye, United Arab Emirates, Uzbekistan. The Commission may provide, in the form of a Commission notice and on a yearly basis, the list of airports that are covered, i.e. meeting the mentioned yearly emission threshold and the distance criterion.*

Scope: extension

PUBLIC

- Clarification on scope: which flight is subject to which measure (BE, DE, ES, FI, IT, LV, PL) (continued)
  - *On those routes, where airlines must also comply with CORSIA offsetting requirements, the CORSIA cost deduction mechanism in the proposal can be used, to avoid double charging. The list of third country States considered to be applying CORSIA is defined each year by means of an implementing act, as today.*
  - *By 1 July 2032, the Commission must assess CORSIA again and, on this basis, submit a legislative proposal to bring the scope to intra-EEA or it extends to all departing flights in line with new default scope starting in 2029.*
  - *As from 1 January 2036, CORSIA is set to end for now, meaning emissions under the scheme will no longer be subject to offsetting requirements.*

Scope: extension

PUBLIC

- Rationale for 5,000 km radius and Frankfurt (BE, DE, FI, PL, SE)
  - *This range is based on analysis indicating that such routes are the most susceptible to potential aviation carbon leakage through hub switching. This happens when transfers are moved to non-EEA hubs near EU borders to avoid paying the cost of complying with EU ETS or ReFuelEU. Analysis confirms also that such risks are lower with airports located at a distance beyond 5 000 km from the largest aerodrome in the geographical centre of the Union, which happens to be Frankfurt Airport. This distance is measured in great circle distance from the airport's reference point.*
  - *The proposed approach is gradual: since 2012 we have covered EU/EEA with equal treatment on all routes, then outbound flights to the EU's immediate neighbourhood should also contribute, then we will reassess in 2032. It is fully compatible with multilateral processes underway and global efforts under CORSIA within the ICAO framework.*
  - *The EU ETS continues to apply equally to all operators and all flights within the defined radius, regardless of where an airline may be based.*
  - *It also enables to cover a significant volume of aviation emissions while creating allowances to support the use of sustainable aviation fuels, in line with broader climate objectives. The support amounts to EUR 15 billion between 2029 and 2040 as opposed to 1.5 billion currently (2024-2030) – and will give the aviation sector a major boost for SAF for all carriers EU and non-EU.*

Scope: stop the clock

PUBLIC

- Article 25a(4) & Article 28a(1)(e) (BE, ES, FR, IT, LV)
  - *The intention of the Commission is clear, as explained in the recitals and Explanatory Memorandum: to ensure effective carbon pricing of all departing flights to extra-EEA airports within 5 000 km from Frankfurt and, as these flights should be covered by CORSIA, allow for the deduction of CORSIA costs. On the other hand, the proposal contains an amendment to Article 25a(4) which was originally introduced to ensure the implementation of CORSIA until its end. This is an inconsistency – there would be no point for CORSIA cost deduction if there would be no flights that are covered by both CORSIA and the ETS. This can be cleaned up by simply deleting the amendment to Article 25a(4).*
  - *The intention of the proposal is clear: the current intra-EEA scope would continue beyond 31 December 2026 until 31 December 2028.*

Scope: CORSIA deduction mechanism

- Price calculation, sequence for deduction, responsibilities of entities (BE, DE, DK, ES, FI, IT, NL, PL)
  - *Article 12(3-f) provides that "the reduction of the surrender obligation shall correspond to the aircraft operator's offsetting requirement, as calculated pursuant to paragraph 6 of this Article, in proportion to the extent the route is covered by the surrender obligation, multiplied by the ratio between the average price of allowances and the average price of credits eligible under Article 11a. The ratio shall be calculated using best available price indices for credits published in the carbon market report published pursuant to Article 10(5)." Considering the given route is covered 100% by the ETS, the deduction applies to 100% of the CORSIA offsetting requirement cost on that route.*
  - *The emissions occurring in 2029 that are subject to CORSIA are reported by March 2030. On this basis, the CORSIA offsetting requirements are known in November 2030 after the Annual Sectoral Growth Factor has been published in October. In March 2031, the deduction from the obligation of allowance surrendering is performed on the reported emissions for 2030 under the ETS. In line with Article 12(3-f), this is done through the use of best available data – in this example, using the 2030 Carbon Market Report, where the Commission would aim to include data for the year 2030. In September 2031, airlines surrender their emission allowances in line with the reported emissions for 2030 accounting for any deduction of CORSIA offsetting requirements for the year 2029.*
  - *The Commission will therefore provide average prices for allowances and CORSIA credits annually as per Article 12(3-f) and will adjust the emissions reporting template to reflect the possibility for CORSIA cost deduction from ETS-covered reported emissions. For the rest, responsibilities of Member State CAs, aircraft operators and the Commission remain the same as today.*

PUBLIC

Scope: thresholds

PUBLIC

- Clarification of threshold of 1,000t of yearly emissions (business aviation) (ES, PL)
  - *The thresholds in points (j) and (k) were chosen to ensure a balance between the inclusion of business aviation, thus additional emissions from aviation, and limiting the additional administrative burden.*
  - *CORSIA cost deduction would be taken into account in the year subsequent to the calculation of the CORSIA offsetting requirement, at the time of the reporting, thus can be included in the calculation of the exclusion threshold.*

- Clarification of 15,000t threshold (for exclusion of some 3rd country airports from extension) (DE, ES, IT, NL)
  - *The 15,000t annual emissions under Article 28a(d) applies to airports in third countries. This will include airports located within 5,000 km from Frankfurt, in a third country (excluding SIDS and LDCs) and which have connections with the EEA that meet the threshold of 15,000t of total annual emissions from the EEA to that airport. These airports are covered by the extension of the geographical scope of the ETS between 2029 and 2032 (cf slide on Scope: extension). To calculate this threshold, those emissions from flights operated by aircraft operators covered by the ETS are considered. Applying the 15,000t allows to simplify the measure by targeting emissions from flights to third country airports which have a minimum volume of emissions.*

Scope: OMR derogation

PUBLIC

- Could the Commission clarify whether the inclusion from 2031 of flights to, from and between the outermost regions will occur automatically or whether it will depend on the outcome of the review provided for in Article 28b? (DE, ES, PL)
    - *Article 3c(8) is amended to prolong the derogation from ETS monitoring, reporting, and surrendering obligation for flights between an outermost region and its mainland Member State, including the same outermost region or another outermost region of the same Member State, from 31 December 2030 to 31 December 2035. It is independent from the review under Article 28b. In line with Article 28a(1)(a), flights from outermost regions to third country airports within the EU's immediate neighbourhood covered by the extension are also exempted from 2029 to 2032.*

SAF support: amount and distribution

PUBLIC

- Why were the SAFs eligible for FEETS and zero-rating not aligned with the RefuelEU Aviation regulation? (FR)
  - *RFEUA is expected to determine SAF categories becoming available on the EU market: such categories are aligned with ETS zero-rating; the additional support via FEETS is limited in size and is proposed to incentivise feedstock/fuel pairs with the potential to deliver the highest emissions reductions but also confronted with the highest investment risks.*
- Rationale for 110 M allowances, predictability of the support and alignment with support for ReFuelEU compliance, link with EU ETS scope extension, and review (DE, ES, FI, IT, LV, SI)
  - *The SAF support is significantly increased with an additional 110 million allowances made available on top of the existing 20 million allowances, from entry into force of the revised Directive – ensuring continuity of the support – until 2040. The amount is a compromise between the intention of prolonging the support in duration (until 2040), in volume – in line with industry and stakeholders asks – and scope (all departing flights from 2029 onwards – aligned with ReFuelEU), while managing the constraint of the amount of allowances made available under the aviation cap. The extension to the EU's immediate neighbourhood allows to feed this increased pot. The reduction in the percentage of the price gap covered by the support, on the other hand, allows to increase the availability of the reserved allowances. There is a balance to strike between revenue going back to the sector and revenue going to MS.*
  - *Regarding SAF uptake assumptions, the Commission assumes that ReFuelEU Aviation mandates are met. More information can be found in the impact assessment in the Aviation Annex section 8. ReFuelEU Aviation was designed without ETS support, therefore it cannot be expected that the mandates are fully covered by the ETS, it only provides for additional incentive.*
  - *The support intensity is higher for maritime fuels than for aviation fuels because the price gap between supported SAF and fossil kerosene is higher than the price gap between supported maritime fuels and maritime fossil fuels. The amount of allowances proposed is the same for both the maritime and aviation sectors: 110 million allowances.*
  - *The support will be re-assessed by the Commission by 1 July 2032.*

SAF support: proportionality & flexibility

PUBLIC

- With regard to the proportionality factor, please confirm that the proposal introduces a single proportionality factor for each air operator, to be applied uniformly to all aerodromes from which the operator operates flights (i.e. calculated at operator level rather than at aerodrome level). Does the single proportionality factor expire as of 2029? (ES, IT, NL, DE)
  - *Yes. Until the end of 2028, under the current FEETS budget, where an AO cannot physically attribute SAF consumed to a specific flight, the support for the amount of SAF consumed at fleet level can be claimed proportionately to the emissions from all its flights under the current ETS scope (intra-EEA + flights to UK and CH). From 2029, AOs can claim support for SAF consumed on all departing flights, thus the proportionality linked to ETS surrendering obligations would not be applicable, any fuel uplifted in the EEA can be claimed.*
- Implementing a book & claim system needs a functioning union data base (UDB) (DE)
  - *The flexibility approach proposed under the new FEETS mechanism (which is not the same as - but goes towards - a B&C approach) will not require any UDB development as prerequisite. It is rather a simplification for SAF use claiming (inc. zero-rating and SAF support) across flights subject to ETS scope.*
  - *Still, ideally, we would like the extension of the UDB traceability up to the aircraft operator, but this takes time to implement. This is managed by DG ENER. DG MOVE is working in parallel on potential alternative solutions together with EASA.*



Block 2.B – Maritime/ETS

Maritime – Scope of vessels

PUBLIC

- Clarification on timing and types of ships covered by the proposed extension for small ships (NL, DE, EE)

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			*Secondary legislation to provide for simplified monitoring and reporting requirements, where appropriate.*		MRV	MRV	ETS	ETS
➢ Ro-pax ships ➢ Passenger ships					MRV	MRV	MRV	MRV
➢ Other ship types currently under MRV scope ➢ Other ship types not under MRV scope (incl. Fishing vessels)								

Review (Art 3gg(5))

Maritime – Scope of vessels

- Rationale for the selection of small ship types (DE, FI, IT, NL, PL and SE)
  - *The selection of the 'small ships' types covered by the extension of scope took into account the contribution of specific subtypes to total emissions currently outside ETS scope and the need to ensure connectivity and essential shipping services for small islands and outermost regions.*
  - *The share of in-scope ETS emissions by 'small ships' subtype to be included is as follows (IA, part 3/5, Annex 11, p 308): general cargo (3.9%), offshore (3.6%), chemical tankers (2.3%), gas and LNG tankers (0.4%), oil tankers (0.4%). These account for 10.6% of in-scope ETS emissions (i.e. around 9 Mton CO2) for a total of 4 370 additional ships.*
  - *An additional 2.4% of ETS in-scope emissions was estimated from Passenger ships and Ro-Pax ships. Those are to be covered under the MRV system only, due to their relevance to regional connectivity and to their eligibility for existing ETS derogations (small islands, OMR, transnational PSC/PSO). Review for ETS inclusion in 2031.*
- Environmental benefits vs administrative burden (IT, LV, PL, EL)
  - *The inclusion of smaller vessels would significantly drive GHG emissions reduction, energy efficiency and uptake of renewable fuels compared to the baseline (i.e. current ETS scope). Additional administrative costs for companies and authorities were quantified on the basis of MRV/ETS implementation experience. The overall efficiency of small ships extension is assessed through a Societal Net Present Value analysis which found societal benefits to largely outweigh costs for operators and authorities.*

PUBLIC

Maritime – offshore

PUBLIC

- Clarification regarding extension to offshore (DE, PL, SI, FR, ES):
  - *Vessels' coverage: any vessel performing an offshore operation at an offshore worksite in EU waters. No more reference to specific category "offshore ship".*
  - *Any offshore operation in connection with an offshore worksite in EU waters (Article 2 (z) point (ii)). Maritime transport of fossil fuels subject to rules for "transporting for commercial purposes" (Article 2 (z) point (i)).*
  - *Timeline for transition from current MRV/ETS scope to new MRV/ETS scope:*

Ship type based		**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
'Offshore' vessels ≥ 5000 GT	MRV Reg Art 2(1b)	**MRV** (current rules)	**MRV** (current rules)	**MRV + ETS** (current rules)	**MRV + ETS** (current rules)	**MRV + ETS** (current rules)	**MRV + ETS** (current rules)	--	--
Activity based		**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**
Any vessel ≥ 5000 GT performing/supporting offshore operations	MRV Reg Art 2(1ba)			*Secondary legislation to provide for tailored monitoring and reporting requirements, where appropriate.*		**MRV** (new rules)	**MRV** (new rules)	**MRV + ETS** (new rules)	**MRV + ETS** (new rules)
Any vessel 400 GT - 5000 GT Performing/supporting offshore operations	MRV Reg Art 2(1aa)					**MRV** (new rules)	**MRV** (new rules)	**MRV + ETS** (new rules)	**MRV + ETS** (new rules)

Maritime – Support mechanism for clean fuels and propulsion (SMAP)

PUBLIC

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

- Shipping companies, on an annual basis

Support for

Sustainable Maritime Fuels (SMF) via differentiated support levels

- 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



Support for

Zero-Emission Propulsion Technologies (ZEPT)

- Including electric and wind-assisted propulsion technologies

Maritime – Support mechanism for clean fuels and propulsion (SMAP)

PUBLIC

- Rationale behind the proposed eligible fuels and technologies (DE, EL, BE)
  - *The rationale behind the proposed eligible fuels and technologies is to narrow the price gap between conventional fossil marine fuels and clean alternatives while accelerating a technology-neutral transition.*
  - *It provides EUAs for a large range of sustainable maritime fuels, from advanced biofuels to green e-fuels and supports also zero-emission propulsion technologies. This creates an incentive structure that allows shipowners to utilize SMAP funding to meet FuelEU targets.*
  - *SMAP is designed to be implemented by the authorities in charge of the ETS implementation. It should remain agile and stay streamlined, simple and focused.*
- Rationale behind the proposed funding rates (DE, FI, IT, SE, SI)?
  - *Proposed funding rates are conceived to make compliance with FuelEU Maritime economically viable for shipowners thus supporting the sector's energy transition, and the commercial upscaling of best performing options accompanying them towards commercial maturity. The mechanism differentiates the level of support favouring best performing and scalable fuels.*
  - *Support rates (including bonuses) are conceived to preserve and enhance European industrial leadership, secure strategic autonomy, and prevent clean fuels and clean tech manufacturing from moving abroad.*

Maritime – Support mechanism for clean fuels and propulsion (SMAP)

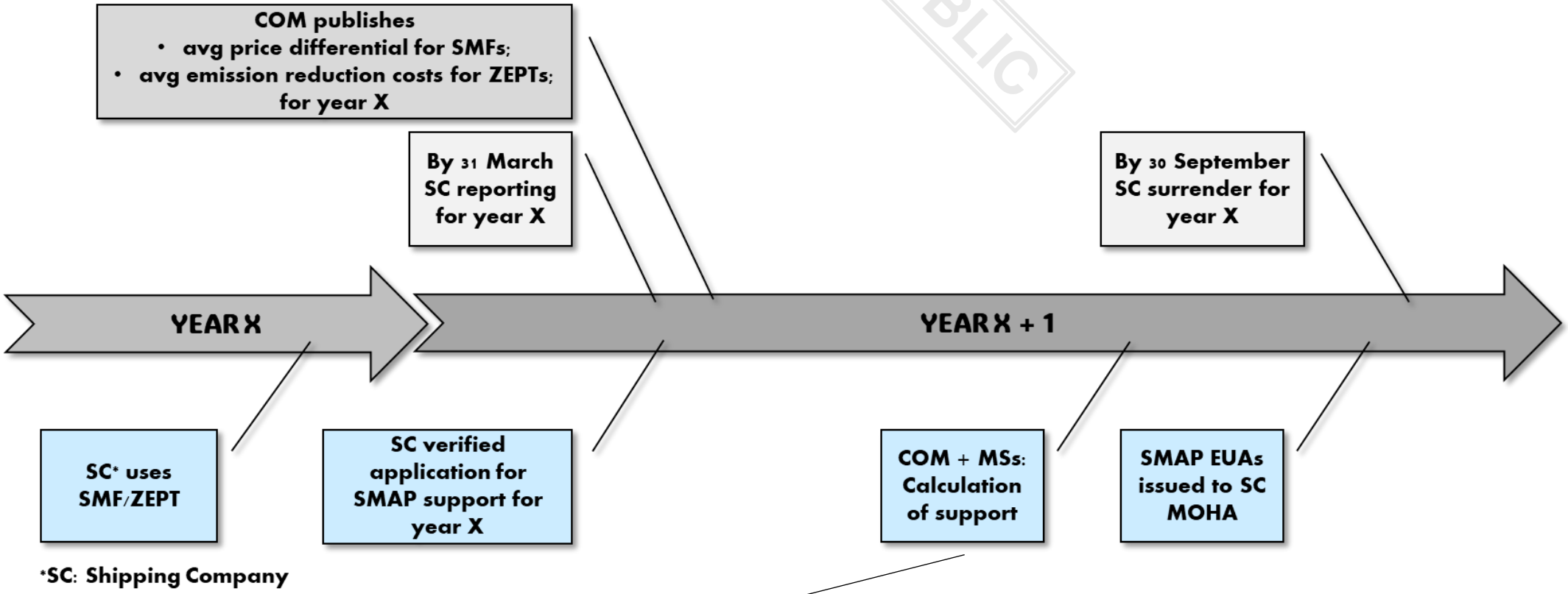
PUBLIC

- Rationale behind the proposed SMAP budget (DE, FI, IT, ES)
  - *The starting point is the investment needs to support production and uptake of SMFs and alternative propulsion technologies. For ex. STIP estimates that production of SMFs requires investment of between €35 bn – €47 bn by 2035. SMAP mechanism contributes towards this investment need.*
  - *The proposed size of the SMAP envelope is conceived to strike a balance with EUAs available to MSs (for auctioning) to themselves also invest in maritime decarbonisation.*
  - *The envelope size is aligned and consistent with the parallel support mechanism for (aviation) SAF, taking into account stakeholders' assessment complementing COM Impact Assessment (Annex 11, Section 1 discusses the approach to determining SMAP support volume).*
  - *To note that maritime decarbonisation is also a 'priority purpose' for use of MSs' auction revenues (Article 10, amended para 3, point (d)). SMAP and use of MSs' revenues should be seen as complementary sources of funding for maritime decarbonisation investment.*
  - *MSs may also add allowances to the SMAP mechanism, from their respective auctioning shares (Article 10, new para 7).*

Maritime – SMAP

How SMAP will work in practice (DK, DE, EE, ES, BE)

PUBLIC



To be defined in secondary legislation

For SMF, **Support = Energy Used x Support Rates x Price Gap**

For ZEPT, **Support = Emissions Reduction Achieved x Support Rates x Average Annualised Emissions Reduction Costs**

Maritime – SMAP

How SMAP will work in practice (DK, DE, EE, ES)

PUBLIC

- *Allocation on a first-come-first-served basis.*
- *No yearly limit under the total SMAP volume of EUAs is envisaged, until available EUAs are exhausted.*
- *When the quantity of remaining SMAP EUAs exceeds received demand for that year, allocations to each applicant shipping company will be reduced pro rata to reflect the remaining volume of EUAs.*
- *Yearly application would be a balance between certainty for applicants and ensuring availability of EUAs also for companies that cannot benefit from long-term fuel purchase agreements.*
- *MSs may top-up SMAP mechanism from their respective auction volumes (Article 10, new para 7).*
- *SMAP mechanism complements use of MSs' auction revenues: maritime decarbonisation (incl ships, ports, innovative technologies and infrastructure) is a 'priority purpose' under Article 10, amended para 3, point (d).*

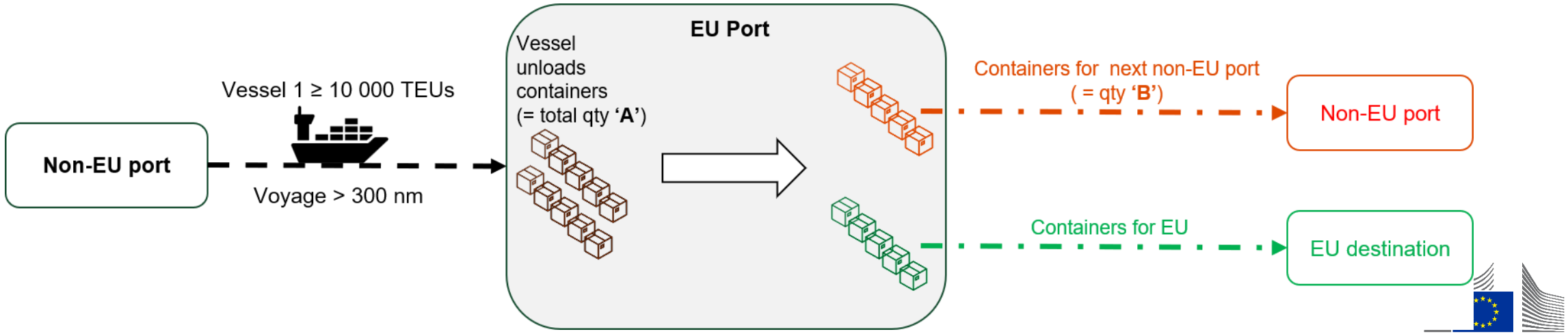
Maritime – Risk of evasion

Derogation from full surrender obligation for large containerships (Art 12(3-g))

PUBLIC

- Purpose and how it will work (ES, DE, FR).
  - *A proportionate and targeted measure to address the risk of evasion associated with the non-EU to non-EU transhipment of containers just transiting through EU ports.*
  - *For large containerships 10 000 TEUs and above (> post-Panamax), typically used in transcontinental transhipment activity.*
  - *Applies for vessels performing non-EU → EU voyages of distance > 300 nm.*
  - *The reduction in surrender obligation applies in respect of containers unloaded at an EU port and intended for onward transhipment to a next non-EU port.*

Reduction in surrender obligation for Vessel 1 = $\frac{\text{'B'}}{\text{'A'}}$ ('B' (no of containers unloaded by Vessel 1 at 'EU Port' and destined for next non-EU port) / 'A' (total no of containers unloaded by Vessel 1 at 'EU Port'))



Maritime/ETS – IMO coherence

PUBLIC

Review clause Art 3gg	Deduction mechanism Recital 18	Impact Assessment	Support to SIDSs and LDCs Art 3gab	ETS as a service Art 25b

- How overlap with future IMO mechanism will be handled so that to avoid double payment (EE, IT, LV, PL, FR)?
  - *Deduction mechanism in substance: once companies show evidence on the share of emissions paid under IMO (Well-to-Wake basis), the corresponding part of emissions under ETS would be exempted from ETS surrendering obligation (options analysed in the IA- Part 3/5, p295).*
  - *Procedurally: Once IMO agrees on a global measure, the Commission will have to present a report to the EU co-legislators, and submit, where appropriate, a legislative proposal to amend the EU ETS Directive to ensure coherence between the implementation of the global measure and the EU ETS and avoid double payment. As appropriate, the Commission proposal should accommodate for an IMO deduction mechanism.*



Block 2.C – Waste

Scope (Annex I): how is the scope of the new activity defined?

PUBLIC

- The scope of the new activity on waste incineration and co-incineration added in Annex I is consistent with the rules and guidance currently established (for the purpose of the MRV obligation) in the MRR and Guidance Document 0 (Section 6.1.) (with exception of the change in the threshold for inclusion).
- The proposal moves the key elements defining the scope into the legal text of the proposal to improve legal clarity.
- Consequently, the scope of the new activity on waste incineration and co-incineration added in Annex I covers:
  - *(continuation on next slide)*

DK, ES, FI

(continued)

- **Installations for waste incineration or co-incineration**, defined in accordance with Article 3(40) and (41) of the Industrial Emissions Directive (Directive 2010/75/EU), as established in new Annex I(c)(viii) of the proposal ...
- … where these installations (co-)incinerate **non-hazardous waste**, as established in new Annex I(c)(viii) of the proposal:
  - non-hazardous **non-municipal** waste (i.e. industrial waste) is already covered under the current scope of the EU ETS
  - non-hazardous **municipal** waste is 'newly' added for the purpose of the surrender obligation, and is defined in accordance with the Waste Framework Directive (Directive 2008/98/EC), cross-referenced in new Article 3(ak) of the proposal
  - **hazardous** waste remains excluded, and is defined in accordance with the Waste Framework Directive (Directive 2008/98/EC), cross-referenced in new Article 3(aj) of the proposal
- Where further clarity is needed in cases where both hazardous and non-hazardous waste are incinerated, Guidance Document 0 (Section 6.1.) establishes that the differentiation should be based on the **predominant waste type** incinerated, i.e. the type of waste with the largest share in mass (municipal waste, hazardous waste or other).

PUBLIC

Scope (Annex I): reasoning and impact of proposed threshold?

PUBLIC

- Reasoning for the proposed threshold:
  - A volume-based capacity threshold is **better suited to the characteristics of waste as a feedstock** compared to a thermal-input threshold (MW). Unlike power generation and industrial process installations, the thermal input of a waste incinerator does not consistently correspond to its emissions or its scale of operation (i.e. there is no direct relation between the capacity (tonnes-per-hour) and thermal input (MW) of waste incineration) due to the varying composition of residual waste, affecting its energy content and fossil-carbon share, resulting in **inconsistencies in coverage under a thermal-input threshold:**
    - for example: the current application of the 20MW threshold results in one MWI installation with 2.9 tonnes-per-hour capacity being included under the MRV obligation (>20MW), while another MWI installation with 7.4 tonnes-per-hour capacity is excluded from the MRV obligation (<20MW).
  - The specific level of 3 tonnes-per-hour was subsequently chosen to ensure **regulatory consistency** with the threshold for compliance with the Industrial Emissions Directive.
  - The proposed threshold furthermore contributes to **avoid threshold effects** from diversion to smaller installations.
- The Impact Assessment estimates that **approximately 38 additional MWI installations** will be brought under the scope in addition to the approximately 400 under current scope >20MW (Annex 13, Section 1.4.1.).

FR, DK, PL

Scope (Annex I): MRV arrangements for installations below 20MW but above 3 tonnes-per-hour?

PUBLIC

- In accordance with Article 6, installations need to prepare and submit a monitoring plan for approval to the competent authority **before the start of the monitoring period (i.e., 2031** for those installations not yet subject to the MRV obligation under the current Directive) as part of the GHG emissions permit required for industrial installations included in the EU ETS.
- Under the proposal, monitoring, reporting and verification applies for these installations **for emissions from 2031 onwards** (Article 12a/Annex I).
- Under the proposal, **no specific transitional MRV arrangements are foreseen** for these installations. For the surrender obligations, the gradual phase-in (Article 12a) applies.

SI

Scope (Annex I): does MRV continue to apply during 2028-2030?

PUBLIC

- As confirmed in the explanatory memorandum of the proposal (p.24), the **intention is that "monitoring and reporting, as well as verification and accreditation, will continue to apply** (Articles 14 and 15)" until the start of the surrender obligation in 2031.
- Due to a clerical omission this intention is not adequately reflected in the provisions on transposition (Article 3 of the proposal).
- COM therefore invites the co-legislators to correspondingly add a delayed transposition of the change in Annex I, first row, until 1 January 2031, in Article 3 (transposition) of the proposal.

DE, PL, SE

Phase-in (Article 12a): does it also apply to installations already subject to surrender obligation (e.g. co-incinerators)?

PUBLIC

- The staged integration does not apply to installations currently already fully included (with surrender obligation) in the EU ETS. For installations already subject to the surrender obligation, the surrender obligation continues at 100%.
- Article 12a applies to the surrender obligation *("shall be liable to surrender allowances")* for installations newly subject to the surrender obligation *("that become subject to the system [the surrender obligation] from 2031")*, i.e. MWI installations currently covered for MRV purposes only purposes and those below 20MW but above the proposed 3tph threshold newly covered by the proposal.

DE, LT, SE

Opt-out (Article 12b): how will compliance be assessed?

PUBLIC

- In accordance with Article 12b(1), the burden of proof lies with the Member State, who must demonstrate upon notification that at least two out of the three conditions are met.
- In accordance with Article 12b(4), the Commission will assess conformity with the conditions.
  - Equivalent national carbon tax: the national law establishing the tax until 2035 has to have entered into force by the date of notification in accordance with 31July 2029; subsequently after each calendar year, the level of the tax effectively paid over the previous calendar year is compared with the average auction clearing price in that previous year. If the tax is higher, the operators are not subject to the surrender obligation for emissions for that year.
  - Recycling/landfill conditions: The Commission will make use of the most recent periodic Waste Early Warning Reports, Environmental Implementation Review assessments and other relevant reports, which assess whether a Member State is on track towards achieving the targets, where relevant in combination with annual data reporting under EU environment laws and any additional data provided by the Member State.

DK, EE, LV, PL

General questions: how is a level playing field ensured with landfilling?

PUBLIC

- The ETS proposal should not be assessed in isolation but as part of a **comprehensive approach with the upcoming Circular Economy Act**.
- The ETS proposal ensures **convergence with the binding 2035 landfill target** in the Landfill Directive through the gradual phase-in of the surrender obligation for waste incineration up to 2034, allowing to reinforce landfill policies at EU and national to achieve this target.
- For this purpose, the upcoming **Circular Economy Act will propose reinforced regulatory and fiscal landfill policies** to ensure a level playing field and achieve the 2035 target.
- To complement regulatory policies, ETS will **start monitoring methane emissions from landfilling** (Annex I). This will be **followed by a review** to assess potential next steps (Article 30(9)).

IT, PL, PT

(Continuation on next slide)

General questions: why no earlier landfill MRV or parallel surrender obligation?

PUBLIC

- The proposal reflects the COM's assessment of a **reasonable timeframe needed to develop dedicated, robust monitoring and reporting rules** that can ensure the environmental integrity of the ETS framework.
- The Impact Assessment identified various **constraints to an earlier MRV start** (see Annex 13, Sections 1.4. and 1.7.2.1.3.):
  - **Absence of robust standardised protocols, methodologies and emission factors** is one of the central challenges for MRV for landfills.
  - **Complex MRV development process:** landfills concern a different type of emission and installations (CH4, diffuse, thousands of sites) than most ETS. Regulatory consistency should also be ensured with (ongoing) standards for monitoring and accounting being developed in the IED Best Available Techniques (scheduled for publication in 2029).
  - **Lack of comprehensive inventory of EU landfill sites:** ~90% of (legal) landfills in the EU are currently below the threshold for inclusion in the European Industrial Emissions Portal. To ensure a comprehensive basis for monitoring of landfill emissions and avoid diversion to those landfills, a more comprehensive registry or registries should be established (planned under the upcoming Circular Economy Act).
- A **simplified MRV approach**, which in view of the aforementioned considerations would likely have to rely on Member States' reporting to the UNFCCC GHG inventory, similarly carries a number of constraints for use under the ETS framework:
  - **Non-harmonised** reporting: IPCC emission factor methodology is implemented and applied in different ways in different national jurisdictions
  - IPCC emission factor methodology is generally considered **outdated (2006) and inaccurate** (significantly underestimating landfill emissions following more recent findings)
  - IPCC emission factor methodology is designed for measuring emissions from **historical disposal** in landfills, whereas the impact assessment for the ETS revision concluded that inclusion of landfills in the ETS should target future disposal in view of economic, operational and liability constraints related to covering emissions from historical disposal,

DE, IT, PL, PT

General questions: why no earlier landfill MRV or parallel surrender obligation?

PUBLIC

- Prior to establishing a surrender obligation on landfilling, MRV is to be developed and operated.
- Furthermore, it is important to point to the potential and limitations of the ETS framework for landfilling.
- While ETS would contribute to address emissions from landfilling, the effectiveness of the ETS framework in ensuring a one-on-one level playing field with incineration is limited by a number of factors:
  - ETS prices emissions and would predominantly monitor and cover *methane* emissions from landfills originating from biodegradable *organic waste streams,* which are strictly regulated under the Landfill Directive.
    - *Restrictions on biodegradable waste landfilling, in combination with increased methane recovery and flaring, have been the main driver of the downward trajectory of EU landfill emissions by 55% compared to 1990 and 25% compared to 2010 (UNFCCC Inventory Report, 2025).*
  - ETS for waste incineration, on the contrary, prices CO2 emissions from *fossil waste streams.* Biogenic CO2 emissions from incinerated organic waste are zero-rated, limiting incentives to divert organic waste to landfills.
  - Consequently, the ETS price would not substantially impact landfilled fossil waste fractions, given their limited emissions in landfills.
- The impact assessment indicates that a comprehensive approach with reinforced regulatoryand fiscal landfill policies is the most appropriate and effective toolbox to ensure a levelplaying field for landfilling (See recital 78 of the proposal and impact assessment Section6.1.2.5. and Annex 13, Sections 1.5.; 1.7.1.2.1.; 1.7.1.2.3.; 1.7.2.1.3. et al.).

DE, IT, PL, PT

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PUBLIC

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