IETA

EU ETS Review
30 October 2026



IETA RECOMMENDATIONS ON THE EU ETS REVIEW PROPOSAL

INTRODUCTION

IETA welcomes the Commission's EU ETS Review proposal. It provides a strong basis for the next phase of the EU ETS and for aligning the system with the EU post-2030 climate and industrial objectives.

IETA supports the proposal's emphasis on predictable, rules-based governance and broad market participation, as well as its opening towards international carbon markets, stronger support for industrial decarbonisation and the foundations to scale up carbon removals.

The different elements of the reform should be considered as one coherent package. IETA supports the overall direction of the proposal and encourages co-legislators to maintain its coherence without weakening its ambition. **Preserving confidence in the EU ETS throughout the legislative process will be critical.** The reform should maintain the efficiency of a market-based instrument and provide visibility for investment.

Greater clarity and targeted adjustments on a limited number of elements will strengthen the ETS Review and improve predictability, competitiveness and conditions for investment.

The framework for international credits should be developed in advance, ensuring it is ready when needed, with earlier clarity on the pilot phase, eligibility rules and procurement methods to create a credible investment signal and allow project pipelines and supply to develop in time. The review should also establish **a clear pathway towards broader eligibility for carbon removals**, enabling a wider range of high-integrity engineered and nature-based solutions to contribute under appropriate conditions. The interaction between the EU ETS and CORSIA should avoid unnecessary regulatory overlap and unintended market distortions. New requirements should remain proportionate and avoid unnecessary administrative burden, particularly in the design of free-allocation conditionality.

The recommendations that follow are organised around two complementary objectives: highlighting the core strengths of the proposal that should be preserved and providing recommendations for targeted improvements in areas where greater clarity, flexibility and refinement will strengthen the framework.

A PREDICTABLE AND WELL-FUNCTIONING EU ETS MARKET

For IETA, **preserving the predictable, rules-based carbon market functioning and market access is a core priority**, both within the EU and in relation to its international partners.

Within the EU, compliance and non-compliance entities should continue to contribute to market dynamics, liquidity and efficient price formation. Externally, international credits and linking carbon markets with partners such as the UK can further contribute to market liquidity and integration.

Short-term predictability will partly depend on the timely development and publication of operational rules. Market participants need early clarity on the implementation of key elements of the reform, including international credits, carbon removals, the Industrial Decarbonisation Bank and free-allocation conditionality. Sufficient lead time will be essential for investment planning, project development and compliance preparation.

Longer-term predictability also requires staying the course on the ETS2 timeline and keeping future market integration in view. IETA continues to **strongly support EU–UK ETS linking**.

POLICY ASKS

PREDICTABILITY AND MARKET FUNCTIONING

- **Preserve predictable, rules-based governance and open market access**, avoiding unnecessary or ad hoc interventions that could undermine confidence in the market.
- **Keep ETS2 outside the scope of the current ETS1 Review**, preserving the timeline for its full operation in 2028 and the assessment of the feasibility of integration with ETS1 by 2031. Any future ETS1–ETS2 interoperability or integration should be based on an impact assessment and communicated well in advance to avoid disruptive market effects.
- **Advance EU–UK ETS linking as soon as possible**, considering alignment opportunities already through the current review to facilitate future integration and reduce adjustment costs. Full fungibility and direct registry connection remain the preferred long-term objective, gradual approaches can also support market integration over time.

A FIT-FOR-PURPOSE MSR FOR THE POST-2030 EU ETS

IETA welcomes the direction of the MSR reform: adapting it from a surplus-management tool to a mechanism fit for a shrinking cap, with smoother intake and release rules that improve market functioning and predictability.

POLICY ASKS

MARKET STABILITY RESERVE (MSR)

- **Preserve the predictable, rule-based direction** of the proposed MSR reform.
- **Provide clarification on the criteria** underpinning the revised parameters, to ensure greater predictability on how they would guide any future revisions.
- **Keep market-stability mechanisms rules-based and volume-based**, avoid ad hoc market interventions.

SUPPORT FOR A COMPETITIVE DECARBONISATION THROUGH INVESTMENT BOOSTER AND INDUSTRIAL DECARBONIZATION BANK (IDB)

IETA welcomes stronger EU-level support for industrial decarbonisation and calls for the IDB to become operational as soon as possible. The Investment Booster and IDB can help address the investment gap and complement the ETS price signal. Their design should provide sufficient revenue certainty to mobilise private investment and support investment decisions.

Access conditions should be aligned with market standards and project-finance practices, including appropriate treatment of guarantees, permitting and construction risks and delays outside project developers' control. Support should remain technology-neutral and accessible to relevant CapEx- and OpEx-based decarbonisation solutions. Early clarity on the design and financing of CCfDs and other support instruments will help build a strong project pipeline.

The proposed sequencing of allowance supply should be preserved. In particular, avoiding the immediate release of Investment Booster allowances helps prevent additional near-term supply from weakening the carbon-price signal.

POLICY ASKS

INVESTMENT BOOSTER AND IDB

- **Preserve the proposed sequencing of Investment Booster allowances** and avoid front-loading supply during the legislative process.
- **Align Investment Booster and IDB requirements with established project-finance practices**, ensuring proportionate guarantees and appropriate treatment of permitting, construction and other risks outside operators' control.
- **Ensure Phase 2 of the IDB and the CCfD/premium framework become operational as early as possible**, so that support is available when projects reach Final Investment Decision.
- **Maintain technology-neutral eligibility and cover relevant CapEx- and OpEx-based decarbonisation solutions,** focusing support on verifiable emissions reductions.

STRONGER INVESTMENT SIGNAL THROUGH ETS REVENUES

IETA welcomes the proposal to set a clear **minimum share of Member State ETS1 revenues for the decarbonisation of ETS1 sectors**, while maintaining the requirement to use revenues for climate and energy objectives. The 50% earmarking, together with the IDB, represents a significant strengthening of support for ETS-sector decarbonisation.

A higher share dedicated to ETS1 sectors would provide an even stronger investment and competitiveness signal. Revenues should be recycled through transparent mechanisms focused on decarbonisation projects in ETS-paying sectors and the enabling system investments they require.

POLICY ASKS

USE OF ETS REVENUES

- **Increase the minimum share** of ETS1 revenues dedicated to the decarbonisation of ETS1 sectors beyond 50%.
- **Ensure revenues earmarked for ETS1 sectors are recycled through transparent eligibility criteria**, supporting decarbonisation in the sectors generating the revenues and the enabling system investments they require.
- **Maintain a focused list of priority areas** and avoid further expansion that could dilute support for ETS-sector decarbonisation.

GREATER CLARITY ON THE POST-2036 LRF TRAJECTORY

IETA considers the proposed post-2030 trajectory to offer a balance between the need for stability, consistency with the EU Climate Law and the current geopolitical and competitiveness context. IETA generally refrains from taking a position on the level of cap ambition as an ETS is a policy tool that can efficiently pursue different climate targets. However, the level of ambition can affect political acceptability and, in turn, the stability and predictability of the framework. These considerations are especially important in the current context of geopolitical and trade tensions and heightened uncertainty.

IETA welcomes the Commission's decision to keep the LRF unchanged until 2030, preserving short-term predictability. Greater **clarity is needed on the post-2036 trajectory.** The EU should provide market participants with more visibility on the ETS trajectory, contributing actively to building a reliable framework for international credits that supports EU climate goals, international cooperation and EU competitiveness. A predictable commitment to procure the international credits towards the 2040 climate target will strengthen the demand signal for stakeholders, giving greater confidence to scale international credit supply in time.

POLICY ASKS

LINEAR REDUCTION FACTOR (LRF)

- **Maintain the current LRF trajectory until 2030** and avoid reopening near-term cap parameters during the legislative negotiations.
- **Decouple the post-2036 LRF from the 2033 assessment of international credits.** This should be accompanied by a clear EU commitment to procure the international credits needed to support the EU climate target (see International credits below).

AN INTERNATIONAL CREDITS FRAMEWORK READY BEFORE IT IS NEEDED

IETA welcomes the proposed integration of international credits as an important first step towards a strategic flexibility tool for the EU ETS, as well as an opportunity to build on progress under Article 6 of the Paris Agreement and strengthen international climate cooperation. While direct use by compliance entities would offer additional benefits in terms of market participation, investment signals and private-sector mobilisation, we support the proposed approach as part of a phased pathway with the potential to evolve towards more direct market integration.

Timing and certainty should be strengthened. Developing projects at the scale and integrity that will be required takes several years, so work on governance, project development and procurement should start as early as possible. A clear EU commitment to procure credits will provide a more credible demand signal for project developers, investors and partner countries. Rather than treating the availability of international credits as an uncertain future condition, the EU should contribute actively to building a reliable and predictable framework that supports EU climate goals, international cooperation and EU competitiveness. The 2033 assessment should serve primarily as a progress check.

The **2031–2035 pilot should be fully functional to testing the framework in practice**, build partnerships and project pipelines, and assess eligibility criteria, procedures and different procurement and integration models. The long-term procurement model should not be locked in before the pilot.

Eligibility should remain **integrity-based and technology-neutral**, building on Article 6 and existing international standards and avoiding unnecessary EU-specific restrictions or duplication.

POLICY ASKS

INTERNATIONAL CREDITS

- **Decouple the post-2036 LRF from the 2033 assessment of international credits** and provide a clear EU commitment to procure the volumes needed to support the target.
- **Define eligibility and assessment criteria as early as possible to provide a credible market signal and sufficient visibility before the pilot phase**, ideally within 12-24 months from the adoption of the ETS Review.
- **Introduce an earlier assessment to be conducted before the start of the pilot phase, and regular monitoring of eligible supply ahead of 2036**, so that the 2033 assessment operates as a progress check.
- **Clarify the 2031–2035 pilot modalities**, including volumes, procedures, timelines and the procurement models to be tested as early as possible before the start of the pilot phase, ideally within 12-24 months from the adoption of the ETS Review.
- **Leverage existing private-sector expertise and infrastructure** for credit assessment, risk management and procurement.

A BROADER ROLE FOR CRCF REMOVALS TOWARDS 2040

IETA welcomes the integration of CRCF-certified removals into the EU ETS and the creation of compliance-driven demand. This represents an important first step in a phased pathway towards scaling carbon removals in Europe.

The possibility for operators to use self-generated removals is also welcome. IETA recommends broadening their use from installation level to corporate-group level, which would provide additional flexibility for compliance entities and support more cost-effective decarbonisation pathways. The Commission already recognises the value of pooling across installations in the proposed free-allocation conditionality framework. A similar principle could be explored for the use of eligible self-generated removals.

At the same time, eligibility is too narrow. Beyond BioCCS and DACCS integration, the framework should concretely apply a technology-neutral approach, encompassing all removals for which CRCF methodologies have already been approved, such as biochar. It should also provide a clear and timely pathway towards integration of other high-integrity removal solutions, including nature-based removals, subject to appropriate integrity, accounting and permanence conditions. To support broader eligibility over time, the framework should also set a clear pathway towards appropriate durability-management tools, such as a permanence fund, that can enable nature-based solutions to contribute towards achieving the EU ETS goals. IETA recommends working with market participants and solution providers already developing durability-management approaches to assess existing tools, identify gaps and define the conditions needed for their use in the EU ETS.

In the longer term, direct integration into the EU ETS should remain the objective, as the most effective way to create a durable demand signal and mobilise private investment. The proposal already foresees a 2034 assessment of both broader removal eligibility and a possible transition towards direct operator integration. Given the pace of innovation in the sector, **waiting until 2034 risks missing an important window for action**. Bringing the review forward would provide earlier regulatory visibility and a clearer roadmap for the market.

POLICY ASKS

CARBON REMOVALS

- **Include biochar in the initial eligibility framework**, under the approved CRCF methodologies.
- **Bring forward the 2034 review to before 2030**, with a clear mandate to assess broader removal eligibility, including high-integrity nature-based removals.
- **Establish a clear pathway for the expansion of eligibility to additional CRCF methodologies**, including high-integrity nature-based removals, either in the Review or through a clearly identified legislative framework.
- **Safeguard the integrity of the ETS cap by ensuring a one-for-one match between additional allowance supply and delivered permanent removals**, with any unmatched allowances cancelled rather than returned to the market.
- **Allow eligible removals to be used across installations within the same corporate group**, extending the proposed pooling approach to self-generated removals.

A WORKABLE EU ETS–CORSIA INTERACTION FOR AVIATION

IETA supports the **effective implementation and enforcement of CORSIA at EU and Member State level, and recommends a pragmatic approach to the interaction between CORSIA and the EU ETS.** The proposed double coverage on some routes and the related cost-deduction mechanism warrant further assessment to ensure that they avoid double payment without unintentionally distorting price formation, procurement or hedging incentives in the CORSIA market. Such unintended effects could ultimately undermine the objective of extending EU support for CORSIA.

The cumulative impact of EU aviation climate policies should also be considered, including the interaction

between ETS scope changes, ReFuelEU Aviation requirements and SAF/e-SAF obligations, to avoid overlapping cost pressures that could affect competitiveness.

POLICY ASKS

SCOPE EXPANSION IN AVIATION SECTOR

- **Continue effective implementation and enforcement of CORSIA** at EU and Member State level.
- **Avoid double payment and unnecessary regulatory overlap**, and coordinate future ETS scope decisions with ICAO's 2032 special review and the evolution of CORSIA beyond 2035.
- **Assess the cumulative impact of EU aviation climate policies**, including ETS scope changes and SAF/e-SAF requirements.
- **Maintain sufficient flexibility** in the proposal to allow the deduction methodology and data sources to be revisited in light of further assessment of the interaction between the EU ETS and CORSIA.
- **Ensure clarity, predictability and early stakeholder engagement** throughout the next implementation and review steps.
- **Ensure that the final text of the proposal incorporates extension** of CORSIA participation through 2035.

A SIMPLER AND EFFECTIVE FRAMEWORK FOR FREE ALLOCATION

IETA supports stronger incentives for industrial decarbonisation, but **conditionality should not undermine the core function of free allocation, which is protection from carbon leakage risk**. Conditionality runs the risk of increasing uncertainty over allowance supply, particularly as market liquidity tightens. **If conditionality is retained, it should be proportionate and clearly defined in scope,** recognise early movers and investments already underway.

The proposed 80/20 mechanism should be revised as it increases uncertainty over the actual volume of allowances available, moves away from the annual allocation cycle and adds administrative complexity.

POLICY ASKS

FRAMEWORK FOR FREE ALLOCATION

- **Keep baseline free allocation unconditional** for sectors exposed to carbon leakage.
- **If conditionality is retained,** the mechanism should recognise early movers and relevant CapEx and OpEx investments already contributing to decarbonisation, avoiding penalising operators that are progressing towards decarbonisation, even where they are not moving at the same pace.
- **Keep reporting and administrative requirements as light as possible: remove or fundamentally redesign the 80/20 mechanism**, avoiding uncertainty over allowance availability over the annual cycle.

ABOUT IETA

Since 1999 IETA has been the leading voice of business on ambitious market-based climate change solutions and driving net zero. IETA advocates for trading systems for emissions reductions and removals that are environmentally robust, fair, open, efficient, accountable and consistent across national boundaries. Representing more than 300 leading international organizations, IETA is a trusted partner in developing international policies and market frameworks to reduce greenhouse gas emissions at the lowest cost while building a credible path to net zero emissions. See www.ieta.org for more information.