



Questions and answers on the EU Emissions Trading System (EU ETS) review

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What are the main changes proposed under the review of the EU Emissions Trading System?

This [proposal](#) ensures that the [EU ETS](#) contributes to the **economic investments, resilience and competitiveness of the Union while delivering on the economy-wide 2040 climate target**, through changes in four key dimensions. It provides the flexibilities and incentives to the industry to choose the cleanest path, decarbonised and be competitive in Europe.

1. Substantially strengthening the support towards decarbonisation with a focus on **investments**, in line with the [European Council June 2026 conclusions](#) and the [Clean Industrial Deal](#):

- Establishing the **Industrial Decarbonisation Bank (IDB)** - to provide €100 billion in funding to industrial decarbonisation projects and returning a higher share of EU ETS revenues to sectors covered by the EU ETS. The **ETS Investment Booster** will kick-start the Bank by rewarding companies that invest early in decarbonisation with an estimated €30 billion as phase I of the Industrial Decarbonisation Bank.
- **Maintaining the [Innovation Fund](#)** as the key tool to bring low carbon innovation to market and enhance the deployment of clean-tech industries.
- Strengthening the **requirements on how Member States spend ETS auction revenues**. Member States will be required to spend 50% of their national ETS revenues on investments to decarbonise ETS sectors.

2. Providing **relief to industry** while **guaranteeing a robust EU carbon market**, aligned with the 2040 target:

- Aligning the EU ETS with the Union's **2040 emission reduction target of -90%**, adjusting the EU ETS reduction trajectory from 2031. This change means allowances will continue to be issued into the 2040s. It updates the Linear Reduction Factor (LRF) of 3.7% for 2031 to 2035 and 1.7% for 2036-2040.
- Considering the use of high-integrity **international credits** from 2036, as set out under the [European Climate Law](#), by establishing a facility to consider the purchase of such credits to create additional emissions space in the EU ETS up to 2% while maintaining the 90% target.
- The integration of 250 Mt high-quality **permanent domestic carbon removals** in ETS will create more breathing space for EU industry (more allowances can be made available) and kickstart the market for removals.
- The **[Market Stability Reserve](#)** will be made more dynamic, with its parameters adjusted to the shrinking market after 2030. The rate at which it absorbs allowances will drop to 12% from the current 24%, a change that will mean more permits can stay in the market for longer.
- **Modernising free allocation** by extending benchmark-based allocation beyond 2030, while making continued support conditional on investing in decarbonisation in the EU and continuing the possibility support indirect carbon costs
- Introducing **targeted simplification elements** to benefit industry and public authorities by reducing administrative compliance costs and enhancing system implementation.

3. Continuing **EU solidarity** in support of the transition:

- Demonstrating continued solidarity through the **[Modernisation Fund](#)** using ETS funding to

improve energy systems and contribute to industrial decarbonisation in lower-income Member States.

- The proposal includes **strong safeguards concerning rule of law** to protect the resources of the Modernisation Fund.

4. Ensuring a whole-of-economy approach: Accelerating the decarbonisation of the maritime and aviation sectors, integrating municipal waste incineration, and provide further support to Sustainable Aviation Fuels:

- Dedicated **direct support to maritime and aviation sectors** for the uptake of EU-produced sustainable aviation and maritime fuels, clean technologies and hydrogen
- Ensuring effective carbon pricing for the EU's fair share of international aviation emissions through the application of the EU ETS to departing international flights to destinations within 5000 km from EU centre and to all incoming and departing flights by business jets. The proposal also continues to implement CORSIA in law for 2027-35 and supports multilateral action by introducing a deduction mechanism for costs incurred under CORSIA, avoiding double carbon pricing.
- Making the system more effective for the maritime sector by reducing the risk of evasion, extending certain derogations and ensuring a level playing field through the extension of the ETS scope to certain categories of smaller vessels (between 400 and 5 000 gross tonnage). The proposal also introduces simplification measures for shipping companies and supports progress at the International Maritime Organization (IMO) by avoiding double payments by shipping companies.
- Promoting **circular carbon capture and utilisation (CCU)**, alongside the gradual **inclusion of municipal waste incineration** in the ETS, supported by appropriate safeguards and investment measures. It also shifts the point at which emissions are accounted for captured CO₂ embedded in products and e-fuels, creating an alternative pathway for hard-to-abate industries to decarbonise.

How will the reformed ETS stimulate investment and support European industry?

To reach our 2040 target, European industry needs to undergo a significant transformation to modernise, decarbonise and switch to cleaner and more energy-efficient technologies, electrify, use renewable hydrogen, and capture CO₂ from industrial emissions through Carbon Capture Utilisation and Storage (CCUS).

The EU ETS already provides one of Europe's strongest investment signals. By putting a price on carbon and setting a predictable pathway for emission reductions, it gives businesses and investors the confidence to invest in cleaner technologies and encourages the transition to homegrown and affordable energy. Many investment decisions and financing arrangements already take the expected carbon price into account.

A central objective of the proposal is therefore to strengthen the EU ETS **as Europe's investment engine for industrial decarbonisation**. The review strengthens this role in two ways. First, it modernises the ETS to provide a more stable and predictable framework for long-term investment. Second, it reinforces the EU-level investment instruments financed through the ETS, helping businesses accelerate decarbonisation in the **industrial production and the deployment of clean technologies**, while reinforcing their competitiveness.

To support investment at scale, the proposal expands support through instruments such as **the Industrial Decarbonisation Bank**, announced in the Clean Industrial Deal, providing € 100 billion in funding. In a first phase, the Bank aims to accelerate investment through the **Investment Booster** available until 2030 with an estimated €30 billion. The **Innovation Fund** will continue to support the commercialisation of innovative, first-of-a-kind low-carbon technologies, complementing the Bank by focusing on innovative projects with higher technological risk that need support to reach commercial maturity. These will help de-risk investment by rewarding first movers and accelerating industrial decarbonisation. Member States will also be required to spend more of their national ETS revenues on investments to decarbonise ETS sectors. This **adds up to more than €100bn in investments before 2030**.

The proposal also continues to support lower-income Member States to upgrade their energy systems and industrial transformation through the **Modernisation Fund**. This is financed through a share of allowances and the redistribution of 10% of ETS auction allowances. The same Member States will also benefit from guaranteed access to the new Investment Booster.

On aviation and maritime transport, these sectors will benefit from the financial support for the production and uptake of EU-produced sustainable aviation and maritime fuels, clean technologies and hydrogen.

Since 2013, the EU ETS has generated more than €270 billion in revenues, around three quarters of which have been allocated to Member States, while providing around €255 billion in free allocation to support the transition. To maximise their impact, the proposal requires Member States to invest a share of ETS revenues in industrial decarbonisation, clean technologies and innovation.

Industry needs to remain competitive in a global market. To that end, the proposal also strengthens investment incentives for industry. Free allocation will continue beyond 2030 (and the indirect carbon cost compensation) but will be more closely linked to investments in industrial decarbonisation.

Free allocation will become conditional upon operators developing Invest in EU Decarbonisation Plans and investing an amount equivalent to 100% of the value of their free allocation into decarbonisation in the EU.

Complementing updated ETS benchmarks adopted in June 2026, a [separate targeted proposal on specific benchmarks](#) aims to increase free allocation to industry worth €6 billion for the period 2026-2030. For sectors covered by the Carbon Border Adjustment Mechanism (CBAM), the reduction of free allocation will be slowed and the phase-out extended until 2038.

How does this reform prepare the ETS to help deliver on the 2040 climate target and support the transition to climate neutrality?

This revision makes sure we are fully in line with our 2040 target, making ETS ready for the next generation. This reform ensures that all sectors contribute, gives support to industries and prepares the system for the decade beyond 2030, aligning it with the legally binding 2040 climate target while ensuring it continues to support EU's climate neutrality by 2050, as enshrined in the [EU Climate Law](#).

The proposal updates the long-term emissions reduction trajectory of the EU ETS by revising the Linear Reduction Factor by 3.7% for 2031-2035 and 1.7% for 2036-2040. This ensures that the carbon market continues to deliver emissions reductions in a predictable and cost-effective way, while providing more time and flexibility for industry to transition and greater certainty for businesses making long-term investment decisions.

The reform also strengthens the long-term functioning of the EU ETS by modernising the Market Stability Reserve, integrating permanent domestic carbon removals under strict quality and quantity safeguards, and creating stronger investment incentives for industrial transformation in line with the Clean Industrial Deal through the Industrial Decarbonisation Bank, the Investment Booster and the continued Innovation and Modernisation Funds.

More targeted use of ETS revenues and conditions attached to continued free allocation will further encourage investment in the EU's clean industrial future.

Together, these measures ensure the EU ETS remains an effective driver of industrial decarbonisation, investments, competitiveness and innovation well beyond 2030. It will continue to deliver its fair share, ensuring continued cost-effective decarbonisation and economic competitiveness.

How does the reform ensure that the ETS remains effective as emissions continue to fall?

The EU ETS has demonstrated its effectiveness, with ETS sectors having cut their emissions by over 50% since 2005, while continuing to provide a technology-neutral and cost-effective framework for further reducing emissions.

As emissions decline and the supply of allowances decreases over time, the carbon market must continue to provide a stable and reliable price signal for investment. Today's proposal therefore

bolsters the long-term functioning of the ETS by making the Market Stability Reserve more tailored for a smaller market, improving market predictability and maintaining sufficient liquidity.

The reform introduces targeted simplifications to make the system even more effective and reduce administrative burden. This for instance includes simpler [monitoring, reporting and verification](#) for the aviation and maritime sectors - a boost in investment and innovation capacities.

What impact will the new Linear Reduction Factor (LRF) have on emissions reduction?

The current LRF of 4.3% (4.4% from 2028-2030) was agreed as part of the 2023 ETS reform to deliver the EU's 2030 climate target. It was designed to accelerate emissions reductions in this decade.

Simply maintaining that rate beyond 2030 would not provide a realistic trajectory for the period up to 2040. It would reduce the ETS cap to zero around 2040, going beyond what is required under the European Climate Law.

The proposed LRF of 3.7% from 2031 to 2035 and 1.7% from 2036 therefore establishes a new trajectory for the post-2030 period, aligned with the EU's 2040 climate target and the pathway to climate neutrality by 2050.

The proposal maintains the environmental integrity of the EU ETS while providing a more predictable and manageable investment framework for industry over the longer term.

How are the revenues from emissions trading used?

Revenues generated by the EU Emissions Trading System are reinvested to support Europe's clean transition, strengthen industrial competitiveness and accelerate the deployment of clean technologies. Most ETS revenues accrue to Member States, who since 2023 must spend their share of revenues on climate- and energy-related projects. A smaller share of the revenues finance EU-level instruments.

These include the **Innovation Fund**, which supports the commercialisation of first- and second-of-a-kind low-carbon technologies across industry, clean-tech manufacturing, power generation, mobility and buildings, helping innovative projects reach commercial maturity.

The **Modernisation Fund** supports lower-income Member States in modernising their energy systems, improving energy efficiency and accelerating the deployment of renewable energy and other clean technologies. By helping these Member States invest in a fair and effective energy transition, it contributes to greater energy security, lower emissions and stronger economic convergence across the EU. The Fund also channels the existing solidarity redistribution of auctioned allowances to enhance its impact and updates the list of eligible Member States.

Under today's proposal, ETS revenues will also finance the **Industrial Decarbonisation Bank (IDB)**, announced in the Clean Industrial Deal. The IDB is the EU's flagship investment instrument to support the large-scale deployment of proven decarbonisation technologies in energy-intensive industries. With an estimated budget of **€100 billion**, it will help reduce the commercial risks of industrial decarbonisation projects and bring mature technologies into widespread use after 2030.

As a first phase of the Bank, the **Investment Booster**, announced by President von der Leyen on 19 March 2026, will provide an **estimated €30 billion** of support for 2028–2030, financed through 400 million ETS allowances. It will accelerate investment before 2030. Projects will be supported on a first-come, first-served basis, while ensuring dedicated access for lower-income Member States.

Together, these instruments will ensure that revenues from emissions trading are reinvested in innovation, industrial modernisation, clean energy and Europe's long-term competitiveness.

Why is the Commission proposing to integrate carbon removals into the EU ETS, and how will it work?

The review of the EU ETS aligns the system with the EU's 2040 climate target and the revision of the European Climate Law, which recognised the role that domestic permanent carbon removals can play

in compensating for limited residual emissions on the path to climate neutrality.

The proposal therefore introduces a carefully designed and limited integration of carbon removals into the EU ETS. It will create a predictable demand for high-quality permanent carbon removals, helping to scale up these technologies and supporting investment in a market that will be essential to achieve climate neutrality.

At the same time, emissions reductions remain the priority. The amount of carbon removals that can be used in the EU ETS will be strictly limited and accompanied by safeguards to preserve the environmental integrity of the system and maintain strong incentives to reduce emissions.

Only domestic permanent carbon removals certified under the [Carbon Removal Certification Framework \(CRCF\)](#) will be eligible. Their permanent storage will remain subject to the [EU ETS monitoring, reporting and verification rules](#), ensuring transparency, robust accounting and appropriate liability in the event of any reversal.

What does the ETS review change for the maritime sector?

The proposal strengthens the EU ETS for maritime transport to accelerate the sector's decarbonisation while ensuring it remains aligned with international developments.

It extends the scope of the ETS to several types of smaller ships by lowering the threshold from 5,000 gross tonnage (GT) to 400 GT, which will be beneficial to improve the effectiveness of the EU ETS and the level playing field among ship categories. Today's proposal also strengthens incentives to deploy sustainable fuels, clean propulsion technologies and hydrogen.

The proposal also improves coherence with the emerging global framework under the International Maritime Organization (IMO). The review clause foresees when there is an IMO agreement a review to avoid double payment, providing greater certainty for the sector. This could be done via a mechanism to avoid double carbon pricing where emissions are covered by both the EU ETS and a future IMO pricing measure.

It also addresses the risk of evasion by containerships and vessels engaged in or supporting offshore operations with reinforced safeguards. The Commission remains empowered to update the list of neighbouring container transshipment ports every year and further monitor such risk.

The proposal reinforces support for the global transition to clean shipping by establishing the Sustainable Maritime Alternative Propulsion (SMAP) mechanism, which reinvests ETS revenues in sustainable maritime fuels and clean propulsion technologies. It also provides targeted support to Small Island Developing States (SIDS) and Least Developed Countries (LDCs) to help decarbonise their maritime sectors.

The existing derogation for ice-class ships, for voyages involving outermost regions and small islands without a fixed land connection, and for certain passenger transport services operated under public service obligations or contracts is extended until 2035.

What does the ETS review change for the aviation sector?

The proposal strengthens the EU ETS for aviation to advance the decarbonisation of the sector towards climate neutrality, through targeted reforms for a stronger carbon price signal while maintaining a level playing field and supporting international cooperation.

Today's proposal significantly reinforces the support for the uptake of sustainable aviation fuels, cleaner propulsion technologies, hydrogen and electrification. It extends ETS-funded support for production of these technologies, helping to accelerate their deployment.

It expands the scope of the ETS to flights departing to the neighbourhood of the Union. The scope will be extended to cover all flights departing from an airport situated in the European Economic Area (EEA) and landing in third countries no further than 5.000 kilometres from the largest aerodrome in the geographical centre of the Union.

Internationally, it maintains close alignment with the global carbon offsetting scheme for international aviation (CORSIA) from the International Civil Aviation Organization (ICAO). It avoids double carbon

pricing where both systems apply, while continuing to support the development of an effective global approach to reducing aviation emissions.

Today's decision to extend ETS aviation scope takes into account the findings on the environmental integrity of CORSIA as part of the Commission's impact assessment accompanying today's proposal. It shows that the scheme has not been sufficiently strengthened yet. In 2032, the Commission will conduct a new assessment on the implementation of CORSIA. By then, results of the functioning of the scheme in terms of offsetting will be apparent. In the event that CORSIA is proving to be ambitious, efficient and successful, the scope of effective carbon pricing under the EU ETS will be reduced to flights within the EEA and departing to the UK, Switzerland, to and from Gibraltar and other countries taking advantage of ETS as a service. On contrary, if CORSIA still does not deliver by then, the Commission may consider extending the scope to full departing flights.

Emissions from aircraft operators released until 31 December 2035 from flights between an aerodrome located in an outermost region of a Member State and an aerodrome located in the same Member State, including another aerodrome located in the same outermost region or in another outermost region of the same Member State will continue to be exempted.

For Iceland, the Commission would be favourable to an extension of three years of the existing mechanism in the Joint Committee Decision.

What does the ETS review change for the waste incineration sector?

The proposal introduces **municipal waste incineration into the EU ETS gradually, with a phase-in approach from 2031 to 2034**. This provides greater planning certainty for local authorities and operators while supporting progress towards the EU's waste and climate objectives. These will be the steps for those installations liable to surrender allowances on municipal waste incineration:

25% of verified emissions reported for 2031

50% of verified emissions reported for 2032

75 % of verified emissions reported for 2033

100% of verified emissions reported for 2034 and each year thereafter

Derogations are possible for waste co-incineration installations located in outermost regions.

There is also the possibility of national opt-out until 2035, if two out of three conditions are met (equivalent national carbon tax; on track for recycling targets; on track for landfill target/lower landfill target).

At the same time, the proposal provides significant support for the sector through continued support for district heating, funding for cleaner technologies and carbon capture, and priority use of ETS revenues to improve local waste management.

The inclusion of waste incineration is part of a wider package with the forthcoming Circular Economy Act to promote waste prevention, reuse and recycling, while introducing stronger safeguards against increased landfilling.

How will the ETS reform ensure stability in the carbon market and what is the impact on electricity prices?

A well-functioning, stable and predictable carbon market is essential to give businesses the confidence to invest in clean technologies and long-term decarbonisation. The reform preserves the core design of the EU ETS while introducing targeted improvements to strengthen its effectiveness and predictability. These include measures to improve the functioning of the Market Stability Reserve, ensure a predictable supply of allowances and maintain a robust carbon price signal that supports investment while safeguarding the integrity of the system.

The EU ETS is, however, **not the main driver of electricity prices**. Electricity bills are determined primarily by the cost of supplying electricity, network charges, and national taxes and levies.

The biggest structural driver of high and volatile electricity prices remains Europe's dependence on

imported fossil fuels, particularly gas. Gas-fired power plants are exposed to volatile global fuel markets, whereas renewable electricity is increasingly among the cheapest sources of power.

By providing a stable carbon price signal, the EU ETS encourages investment in clean, home-grown energy, electrification and energy efficiency, helping reduce Europe's exposure to fossil fuel price shocks over time. The reform also strengthens investment support through instruments such as the Industrial Decarbonisation Bank and the Investment Booster, helping businesses accelerate their transition to cleaner technologies. The recent published [2026 EU Carbon markets report](#) by the **European Securities and Markets Authority (ESMA)** on 9 July confirms the EU ETS is well-functioning and there are no significant issue in the transparency and integrity of EU carbon markets.

The ETS is only one part of the solution. Alongside today's ETS reform, the Commission is presenting its [Electrification Action Plan](#), which tackles other key drivers of electricity costs. The package includes measures to make better use of electricity grids, better design network charges, encourage smarter electricity consumption through wider deployment of smart meters and flexibility solutions, and better align electricity taxation with the EU's electrification objectives.

Together, these measures will strengthen Europe's energy security, improve the predictability of the carbon market and support a cleaner, more competitive and more affordable energy system.

How will the ETS reform continue to protect European industry against carbon leakage?

Preventing carbon leakage remains a crucial element of the EU Emissions Trading System. The reform maintains protection for industries exposed to international competition, while strengthening incentives to invest in decarbonisation in Europe. If companies delocalise, the proposal provides safeguards to recover funding.

For **sectors covered by the [Carbon Border Adjustment Mechanism \(CBAM\)](#)**, free allocation will continue to be gradually phased out in step with the gradual phase-in of CBAM, in compliance with WTO rules. The proposal adjusts the phase-out trajectory while ensuring that imported products remain subject to an equivalent carbon price. This preserves a level playing field between European producers and imports while encouraging global decarbonisation.

For **sectors not covered by CBAM but exposed to carbon leakage risks**, the proposal extends the carbon leakage framework until 2038. These sectors will remain eligible to receive up to 100% of benchmark-based free allocation, reflecting their continued exposure to international competition and the fact that commercially viable decarbonisation technologies are not yet available in all sectors.

District heating installations will remain eligible for free allocation well into 2030s. Free allocation will amount to 30% of the heat benchmark in 2030 and will then decrease linearly to 0% by 2040.

At the same time, free allocation becomes conditional on investing in decarbonisation in Europe. From 2031, installations will be required to develop independently verified **"Invest in EU Decarbonisation Plans"** and invest in decarbonisation projects in Europe to receive their full allocation. This ensures that continued support helps accelerate the modernisation and decarbonisation of European industry.

Furthermore, the [standalone proposal on benchmarks](#) will increase free allocation to be given to industry via the **fallback benchmarks** on heat and fuel worth €6 billion between 2026 and 2030. This will be achieved by using all available budget from the 3% free allocation buffer without triggering the cross sectoral correction factor.

Together, these measures protect European industry against carbon leakage, maintain a level playing field with international competitors, while at the same time driving investment in Europe's industrial transition.

For more information

[Press release](#)

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