Position on the Revision of the EU Emissions Trading Systems

EUROCHAMBRES
Position

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Revision of the EU Emissions Trading System

The Commission's proposal to revise the EU Emissions Trading System (ETS) comes at a critical time when European businesses face high energy prices, regulatory burdens, and an uneven global playing field. Eurochambres therefore welcomes the revised ETS trajectory, the extension of free allocation and the stronger financing framework for decarbonisation. These changes provide businesses with a more realistic and economically viable decarbonisation pathway while preserving the EU's climate ambition. At the same time, the proposal limits the use of international carbon credits and the new conditionalities attached to free allocation risk increasing regulatory complexity. The chamber network urges co-legislators to reconsider the proposed conditionalities, adopt a more ambitious approach to international credits and substantially increase the share of ETS revenues earmarked for industrial decarbonisation and the necessary enabling infrastructure.

1. Executive summary

The proposed changes to the ETS respond to several key demands from the chamber network, including a more gradual decarbonisation pathway and the inclusion of carbon removals. Nevertheless, further improvements are needed to ensure that the EU ETS remains workable and safeguards European competitiveness. Eurochambres highlights the following key priorities for the negotiations:

- **Ensure a realistic decarbonisation pathway and strengthen flexibilities:** The more gradual trajectory is welcomed, as it keeps allowances available into the 2040s. International credits and carbon removals should be integrated earlier, while the scope of eligible carbon removals should be expanded to all CRCF-certified removals.

- **Deliver a coherent and targeted financing framework:** The Industrial Decarbonisation Bank and other ETS funding instruments must provide accessible, technology-neutral and geographically balanced support, with particular attention to SMEs. The share of national ETS revenues dedicated to industrial decarbonisation and enabling infrastructure should be increased substantially.

- **Provide effective carbon leakage protection:** The extension of free allocation remains essential for industries exposed to carbon leakage. However, the proposed investment conditionalities should be reconsidered, as they risk increasing administrative burdens, restricting investment flexibility and penalising companies where the necessary infrastructure or technologies are unavailable.

- **Recalibrate the proposed ETS scope extensions:** The proposed changes to the aviation and maritime sectors require stronger safeguards against traffic diversion, carbon leakage and loss of connectivity, alongside greater support for sustainable fuels and clean technologies. The timing of surrender obligations for waste incineration should also be reconsidered until effective circular economy measures, safeguards against landfill diversion and viable abatement options, such as carbon capture, are in place.

2. Eurochambres remarks on the revision of the EU Emissions Trading System

As outlined in our initial reaction, Eurochambres generally welcomes the proposal to revise the EU Emissions Trading System (ETS), as it recognises that Europe's decarbonisation pathway must better reflect the significant challenges faced by European businesses. This includes the more gradual emissions reduction trajectory, which ensures that allowances remain available into the 2040s, reflecting one of the key demands of the chamber network. The proposal also provides businesses with a stronger financing framework, notably by requiring member states to channel a higher share of ETS revenues back to ETS sectors. With regard to carbon leakage, the proposal extends free allocation, a proven mechanism for safeguarding Europe's industrial competitiveness.

At the same time, the chamber network has identified several areas where further improvements are necessary, most importantly regarding the new conditionalities attached to free allocation. These conditions risk adding further regulatory complexity and raise significant practical concerns, particularly where companies are unable to implement planned decarbonisation investments due to permitting delays, missing infrastructure or other circumstances beyond their control. Moreover, the proposal makes the use of international carbon credits, which would provide important relief for sectors with limited decarbonisation options, conditional on the outcome of a Commission report in 2033, creating uncertainty for both carbon project developers and industry. Lastly, the chamber network raises concerns over the proposed extensions of the ETS scope, particularly the inclusion of waste incineration plants. Introducing a carbon price before upstream circular economy measures and viable abatement options are sufficiently mature risks imposing disproportionate costs on municipalities, households and businesses. Eurochambres therefore calls on policymakers to address the key priorities set out in the next chapters during the upcoming negotiations.

3. A more gradual decarbonisation pathway and additional flexibilities

The Commission's proposal aligns the EU ETS with the EU's 2040 net greenhouse gas emissions reduction target of 90% compared with 1990 levels by adjusting the cap trajectory from 2031 onwards. It lowers the Linear Reduction Factor (LRF) to 3.7% per year from 2031 to 2035 and 1.7% per year from 2036, thereby allowing allowances to continue being issued into the 2040s. The more gradual decarbonisation pathway is further supported by the introduction of additional flexibilities, such as international carbon credits and carbon removals.

The proposal foresees the potential purchase of up to 260 Mt of international credits from 2036 to 2040, reflected in the adjusted trajectory. The credits would be purchased through a centralised mechanism rather than directly by companies. However, their integration remains conditional on a Commission report in 2033 assessing whether sufficient 'high-quality, high-integrity and cost-effective' credits are available. If this is not the case, the fallback mechanism would apply and the LRF would revert to 2.7% from 2036.

The integration of up to 250 Mt of permanent domestic carbon removals into the EU ETS between 2031 and 2040 is not conditional on a review. During the initial phase, the Commission would auction additional allowances and use the revenues to purchase an equivalent amount of certified permanent removals. Furthermore, the proposal limits the mechanism to removals generated through BioCCS[1] and DACCS[2] projects. Separately, operators may use eligible self-generated BioCCS removals to reduce their own surrender obligations, but this mechanism cannot generate negative emissions or additional allowances. In 2034, the Commission will assess progress on carbon removals, including the possible inclusion of nature-based removals and carbon farming sequestration units, and the feasibility of gradually moving from Commission-managed purchasing towards direct integration of carbon removals in the EU ETS for compliance by operators.

Key priorities:

- **Maintain a more gradual decarbonisation pathway (Article 9):** Eurochambres welcomes the adjustment of the Linear Reduction Factor (LRF) to align the emissions reduction trajectory with the 2040 climate target. This change avoids the so-called 'ETS endgame' in 2039 and instead keeps allowances available into the 2040s. This is particularly important for hard-to-abate sectors, where the necessary infrastructure and technologies are not yet in place to enable a viable transition. In this context, the proposal should also outline a predictable framework for managing residual emissions towards 2050, in line with the EU's climate-neutrality objective. It is also worth noting that, despite these changes, the periods 2028-2030 and 2031-2035, with LRFs of 4.4% and 3.7% per year, respectively, will still require significant decarbonisation efforts from businesses.

- **Strengthen the role of international credits (Article 9b):** While the proposal's consideration of international credits from 2036 can generally be welcomed, the final decision is postponed pending a Commission report in 2033. From Eurochambres perspective, international credits are essential to ease pressure on industry. Postponing the decision gives neither industry nor carbon project developers sufficient legal and investment certainty. Carbon project developers will not know before 2033 whether there is a viable European market for these credits. Industry, meanwhile, will not know whether the Linear Reduction Factor from 2036 will be 1.7% or 2.7% per year. The timeline should therefore be revised, with an earlier Commission report and the possibility of introducing international credits before 2036. In addition, the proposed volume of international credits, providing up to 2% of additional emissions space for ETS sectors, should be increased.

- **Ensure the swift integration of carbon removals (Article 9c):** With the proposal to incorporate carbon removals into the EU ETS, the Commission responds to a key demand from the chamber network. The integration of removals managed by the Commission can be considered an appropriate interim solution to kick-start the carbon removal market. At the same time, the long-term ambition must be to establish a market allowing companies to trade certified removals for ETS compliance. While the corresponding review clause in the proposal requiring the Commission to assess the feasibility of such a market can be supported, the review should take place earlier than 2034.

[1] BioCCS (Biogenic Carbon Capture and Storage)
[2] DACCS (Direct Air Carbon Capture and Storage)

- **Expand the scope to all permanent removals certified under the CRCF[3] framework (Article 9c):** Ensuring a technology-neutral approach to carbon removals is critical to successfully kick-starting the market. The chamber network therefore proposes to expand the current scope to cover all permanent removals certified under the CRCF framework, including Biochar Carbon Removal (BCR) and solid carbon produced from sustainable biomethane. In addition, the 2034 review assessing the possible contribution of nature-based removals and carbon farming sequestration units to the EU ETS should be brought forward. The proposal should also provide a clear timeline and next steps following a positive assessment.

- **Delete the adjustment mechanism for self-generated BioCCS removals (Article 9c):** The chamber network supports allowing operators to use eligible self-generated BioCCS removals to reduce their surrender obligations. However, the proposal would correspondingly reduce both the allowances assigned to the EU purchasing mechanism and the volume of removals purchased by the Commission to maintain the overall additional emissions space at 250 Mt. This creates uncertainty over future purchasing volumes and weakens the investment signal for carbon removal projects. The adjustment mechanism should therefore be deleted.

4. A coherent and targeted financing framework for decarbonisation

The transformation of Europe's economy towards climate neutrality requires substantial investments in green technologies and energy efficiency. A recent study by the European Central Bank estimates that additional annual green investment needs until 2030 range from roughly 2.7% to 3.7% of 2023 EU GDP. It is therefore critical to provide businesses not only with price signals through the ETS but also with adequate support for their decarbonisation efforts through a strong and coherent financing framework.

The proposal establishes the Industrial Decarbonisation Bank (IDB), with an estimated overall funding volume of EUR 100 billion for decarbonisation projects in ETS sectors. The IDB would operate in two phases. First, the so-called Investment Booster would reserve 400 million allowances for the period 2028-2030, corresponding to approximately EUR 30 billion, to support industrial decarbonisation projects through fixed carbon premia awarded on a "first in, first served" basis. From 2031, the IDB would enter its second phase and support projects primarily through competitive bidding procedures, including Carbon Contracts for Difference and carbon premia.

Alongside the new IDB, the proposal strengthens existing financing instruments, namely the Innovation Fund and the Modernisation Fund, and requires member states to allocate at least 50% of auction revenues to priority areas supporting the decarbonisation of ETS sectors. Currently, only around 5% of ETS revenues directly support industrial decarbonisation at national level.

Key priorities:

- **Promote an accessible, technology-neutral and geographically balanced approach to funding:** Eurochambres generally welcomes the measures proposed to strengthen financing for businesses, most notably through the IDB and stronger

[3] Carbon Removals and Carbon Farming (CRCF)

earmarking of ETS revenues for industrial decarbonisation at member state level. At the same time, it is essential that funding instruments follow a technology-neutral and geographically balanced approach and provide businesses, particularly SMEs, with accessible and predictable funding. This should include dedicated SME application windows, proportionate verification, project aggregation and technical assistance through business support networks to improve access for smaller businesses. Furthermore, the selection process should adequately consider emissions abatement potential and project quality and include transparent geographical monitoring and safeguards against the concentration of funding in member states with greater fiscal or administrative capacity.

- **Ensure an effective rollout of the Industrial Decarbonisation Bank (Articles 10cc, 10cd and 10ce):** The chamber network considers the planned IDB to be an important step for strengthening EU-level support for industrial transformation. The proposed two-phase approach, with the Investment Booster as an interim solution for 2028-2030, would enable companies to benefit from funding before the IDB becomes fully operational in 2031. At the same time, the first phase of the IDB risks disadvantaging smaller businesses, as it relies on the ‘first in, first served’ principle, requiring businesses to swiftly navigate the administrative processes for securing funding. The proposal should therefore introduce adequate safeguards to ensure that SMEs and businesses across all member states have effective access to funding. Moreover, greater clarity is needed regarding the design of the competitive bidding procedures, including Carbon Contracts for Difference and carbon premia, as well as the assumptions underlying the headline figure of EUR 100 billion. Lastly, stronger synergies with the European Competitiveness Fund through the possibility of awarding a “Competitiveness Seal” to eligible projects are supported.

- **Maintain a strong Innovation Fund (Article 10cb):** The chamber network supports the proposal to continue supporting innovative low- and zero-carbon technologies that contribute to the decarbonisation of EU ETS sectors. The strengthened implementation principles, including project development and technical assistance for member states with low participation and annual public reporting, are also supported, although the impact of these changes remains to be seen. Support should also reach viable industrial clusters and smaller projects, including those in regions outside the eligibility of the Modernisation Fund.

- **Strengthen the Modernisation Fund (Article 10d):** Eurochambres welcomes the Commission’s proposal to extend the Modernisation Fund for the period 2031-2040 and broaden its eligible investment areas to include industrial decarbonisation, notably electrification and CCS/CCU. The proposed increase from 80% to 95% in the share of revenues that must be used for the defined priority investment areas is also welcomed, although increasing this share to 100% should be considered. The decision to channel solidarity-related allowances through the Modernisation Fund and allow member states to transfer additional allowances voluntarily from their auction volumes to increase the Fund’s resources is supported.

- **Deliver more ambitious earmarking of ETS revenues for industrial decarbonisation at national level (Article 10(3)):** Eurochambres supports the proposal to require member states to use at least 50% of ETS auction revenues to support the decarbonisation of ETS sectors. However, this threshold should be increased substantially, as it still gives member states considerable discretion over the allocation of revenues. In addition, it should be complemented by a dedicated minimum share for industrial decarbonisation and the enabling conditions required by ETS sectors, including grid connections, hydrogen infrastructure and CO2 transport and storage networks. Such a requirement should apply in particular to the priority areas set out in Article 10(3)(b) and (c). The chamber network supports using ETS revenues for the decarbonisation of air and maritime transport, but this support should be proportionate to the revenues generated by those sectors and should not reduce the resources available for industrial decarbonisation.

5. Decarbonisation of the aviation sector

To drive decarbonisation in the aviation sector, the Commission proposes to extend carbon pricing from 2029 to flights departing from an airport in the EEA and landing at a third-country airport located no more than 5,000 km from Frankfurt airport. In addition, the proposal broadens the coverage of business aviation by removing the existing flight-number criterion and revising the applicable emissions thresholds. To avoid double charging and improve alignment between the EU ETS and the international CORSIA mechanism, the proposal allows CORSIA-related offsetting costs to be deducted from the EU ETS surrender obligation, while extending the CORSIA unit-cancellation mechanism until 2035. The proposal also foresees stronger financial support for the decarbonisation of aviation, notably by reserving additional allowances to support sustainable aviation fuels, electricity-based propulsion and measures to reduce the climate impacts of contrails.

Key priorities:

- **Carefully reassess the proposed geographical extension of the EU ETS for aviation (Articles 28a(1) and 28b(4); Annex I):** The chamber network raises strong concerns over the proposed extension of the scope to certain extra-European departing flights. The change would significantly increase the cost burden on European airlines, exacerbate existing competitive disadvantages compared with third-country carriers, and weaken the industry's capacity to invest in climate-friendly technologies. In addition, the aviation industry is already subject to multiple overlapping climate and regulatory requirements, including CORSIA, ReFuelEU Aviation, mandatory Sustainable Aviation Fuel requirements, and other national and European levies. These instruments have a cumulative impact across the entire air transport value chain, increasing operating costs and affecting the viability of routes and frequencies. This weakens not only the competitiveness of airlines but also the connectivity and attractiveness of European airports. The proposed extension must therefore be carefully reassessed on the basis of a comprehensive cumulative impact assessment covering competitiveness, connectivity, traffic diversion, passengers, air cargo and regional impacts. The assessment should distinguish between the equal treatment of EU and non-EU carriers on routes covered by the EU ETS and indirect competitive distortions resulting from connections through hubs outside the scope.

- **Limit the cost burden by reintroducing free allocation for air transport:** The phase-out of free allocation, higher carbon prices and the lack of an international level playing field already put the competitiveness of European airlines under significant pressure. Furthermore, these additional costs limit airlines' capacity to invest in fleet renewal, sustainable aviation fuels and other decarbonisation measures. The chamber network therefore calls for the reintroduction of free allocation for aviation to mitigate competitive disadvantages and preserve the sector's investment capacity, particularly in the event of an extension of the geographical scope.

- **Introduce strong safeguards to protect the competitiveness of European aviation:** If the geographical scope is extended, the extension must be accompanied by robust safeguards to protect the competitiveness, connectivity, resilience and investment capacity of European air transport. This includes an effective monitoring mechanism to assess impacts on connectivity, traffic diversion to non-EU hubs, carbon leakage, market shares and the competitiveness of European operators. Particular attention should also be paid to tourism, export logistics and the connectivity of peripheral regions, including islands and outermost territories. Where adverse impacts are identified, the framework must provide for timely corrective measures, including adjustments to the scope and targeted support. This is particularly relevant where passenger flows shift because European hubs face competitive disadvantages compared with non-EU hubs, including those in the Gulf region. Failure to address carbon leakage or hub leakage would risk relocating rather than reducing emissions, while weakening European airlines, airports, employment and value creation.

- **Strengthen CORSIA as the global CO2 regime for international air transport (Article 12):** In principle, the chamber network welcomes the option to deduct CORSIA-related offsetting costs from the EU ETS surrender obligation and the extension of the CORSIA unit cancellation mechanism until 2035. However, given the global nature of international aviation, regional measures require careful coordination with international rules to remain effective and minimise competitive distortions. In addition, the coexistence of multiple carbon pricing regimes increases regulatory complexity for businesses and risks distorting competition. The priority should therefore be to strengthen CORSIA as the global CO2 regime for international aviation.

- **Earmark aviation ETS revenues for the decarbonisation of the sector (Articles 3c(6), 10(3)(a) and (e), and 28a(6)):** To the extent that EU ETS revenues are generated by the aviation sector, an appropriate and clearly defined share must be returned to the sector to support its decarbonisation. Simply allowing member states to allocate ETS revenues to aviation is insufficient. These revenues should be used primarily to support the market uptake and production of Sustainable Aviation Fuels, offset the additional costs of sustainable fuels, facilitate fleet renewal and investment in low-emission aviation technologies, support research, development and the industrial scaling of new propulsion systems, and modernise air traffic management and airport infrastructure supporting the energy transition.

- **Rapidly expand Sustainable Aviation Fuel production in a technology-neutral and coordinated manner (Articles 3c(6) and 28a(6)):** Sustainable Aviation Fuels (SAF) are a crucial tool for reducing air traffic emissions. However, available quantities remain limited and costs are considerably higher than those of fossil kerosene. The planned support mechanism for SAF, including the reservation of up to 110 million additional allowances until 2040, is therefore generally welcomed, but the available support may prove insufficient given the broader range of eligible flights and operators. Eurochambres therefore calls for significantly more funding, a seamless transition between existing and future funding periods and continued support for Hydroprocessed Esters and Fatty Acids (HEFA) fuels beyond 31 December 2029, as they currently represent one of the most mature and commercially available SAF pathways. Their premature exclusion from support could reduce the availability of sustainable aviation fuels, increase compliance costs and slow aviation decarbonisation. More broadly, support must be provided in a technology-neutral manner for all SAF that meet European sustainability and quality standards, while EU ETS, ReFuelEU Aviation and SAF funding must be coherently coordinated. Additional regulatory costs must not be introduced before sufficient quantities of sustainable fuels are available at internationally competitive prices.

- **Strengthen the ETS exemptions for outermost regions (Article 28a):** Outermost regions (ORs) are structurally dependent on air transport and often lack viable alternative connections. The proposed exemption from the obligation to surrender allowances until 31 December 2035 should therefore not be limited to intra-regional flights and flights between ORs and airports on the mainland of their respective member states. Instead, the scope should be extended to flights between ORs and all airports within the EEA. Separately, any extension to routes connecting ORs with third countries should be assessed on the basis of demonstrated connectivity needs, the availability of alternatives and potential competitive impacts. These measures would help prevent discriminatory treatment compared with mainland territories and safeguard adequate levels of connectivity and competitiveness.

- **Allow the use of certification systems to access SAF financing support in outermost regions (Article 3c):** Access to SAF support in outermost regions should not depend exclusively on the physical delivery of eligible fuels to the airport concerned. Many of these regions lack biofuel refineries and the necessary infrastructure for complex blending operations. Furthermore, requiring SAF to be transported by tanker vessels to remote islands would increase transport-related emissions and the carbon footprint of fuel logistics. The chamber network therefore proposes to remove the requirement for physical on-site delivery in the ORs and to permit robust certification and mass-balance systems, including Book & Claim mechanisms.

6. Decarbonisation of the maritime sector

To further reduce emissions from the shipping sector, the proposal extends the EU ETS to certain categories of smaller vessels between 400 and 5,000 gross tonnage from 2031. The possible inclusion of smaller Ro-Pax and passenger ships within this size range remains subject to a Commission review by the end of 2031. Given the international nature of shipping, the International Maritime Organisation (IMO) is continuing its work towards an international carbon pricing mechanism. To take account of these developments and avoid overlapping obligations if an equivalent international measure is adopted, the proposal introduces a review clause.

As decarbonisation remains particularly challenging in the shipping sector, requiring substantial investment, the proposal establishes a Sustainable Maritime Alternative Propulsion (SMAP) mechanism to provide dedicated ETS-funded support for sustainable fuels and clean propulsion technologies. The pricing of shipping emissions also affects the competitiveness of EU ports and risks leading to traffic diversion and changes in shipping patterns. The proposal therefore reinforces safeguards against evasion by containerships and vessels engaged in or supporting offshore operations. In addition, the proposal reserves allowances to support least developed countries and small island developing countries.

Key priorities:

- **Safeguard competitiveness and connectivity when expanding the maritime ETS scope (Article 3gg; Annex I):** Eurochambres generally welcomes the proposed measures to limit additional pressure on the maritime sector under the EU ETS and foster a level playing field between EU and non-EU ports. This includes dedicating part of ETS revenues to maritime transport decarbonisation, strengthening safeguards against evasion and extending exemptions and support measures for territories particularly dependent on maritime transport. However, concerns remain as to whether these measures will be sufficient to safeguard competitiveness, mitigate evasion and supply-chain risks, and ensure European connectivity. The impact of the ETS on the maritime sector must therefore be closely monitored, particularly in light of the proposed extension from 2031 to selected categories of smaller vessels between 400 and 5,000 gross tonnage.

- **Strengthen safeguards against evasion and traffic diversion (Articles 3ga and 12):** The chamber network welcomes the proposal's stronger safeguards against evasion, including measures concerning neighbouring container transhipment ports. However, monitoring should not be limited to individual port calls or historical traffic data. It should also examine changes in connectivity, trade routes, transhipment activities, port capacity and announced investments that may indicate traffic diversion or carbon leakage. The assessment should also cover the impact on supply chains and the effects of higher transport costs, which disproportionately affect sectors relying on external trade, peripheral territories and smaller businesses. Particular attention should be paid to Mediterranean and Atlantic routes and exposed EU transhipment hubs. The monitoring framework should also provide publicly accessible indicators on the effects of the EU ETS on shipping patterns. Where adverse effects are identified, the framework should trigger corrective measures according to a clearly defined timetable to prevent the relocation of port calls, transhipment or logistics activities to non-EU ports. Greater transparency should also be ensured for shippers, particularly SMEs, regarding ETS-related surcharges and the basis for their calculation.

- **Recognise the strategic role of transhipment in European maritime connectivity:** Transhipment activities play an important role in connecting European ports to international shipping routes and ensuring efficient logistics and trade chains. While updating the list of neighbouring ports is an important step in addressing certain risks of circumvention, the Commission should continue to assess whether the EU ETS creates incentives to relocate transhipment activities outside the EU without achieving a corresponding reduction in global emissions. Particular attention must be paid to preserving a level playing field and the ability of European ports to remain fully integrated into global shipping networks.

- **Promote international carbon pricing mechanisms for shipping (Articles 3ga and 3gg):** The chamber network welcomes the proposal's review clause to address the risk of double payments in light of global measures under development at the IMO. However, any recognition of equivalent measures in third countries should be based on substantive, verifiable and comparable criteria that ensure a level playing field. The assessment of such measures should take account of their geographical scope, emissions covered, compliance obligations and actual effectiveness. It is important to avoid situations where significant differences in the scope or practical application of these instruments create material competitive asymmetries for European ports and operators. To avoid double burdens in the first place, the EU should prioritise the development of an effective global solution rather than relying on additional unilateral measures. Lastly, the EU should ensure coherence between the maritime EU ETS, FuelEU Maritime and future IMO measures.

- **Maintain a proportionate approach to smaller vessels (Article 3gg; Annex I):** The chamber network raises strong concerns over the possible inclusion of smaller Ro-Pax and passenger ships between 400 and 5,000 gross tonnage following the Commission review by the end of 2031, as this could have a disproportionate impact on local economies and regions heavily dependent on maritime transport. Any future extension should be subject to a comprehensive impact assessment covering connectivity, transport alternatives, socioeconomic effects and the administrative and financial burden on smaller operators and should allow sufficient time for operators and maritime-dependent regions to adapt. It should therefore not take effect before 2035. Eurochambres also welcomes the continued exclusion of vessels below 400 gross tonnage. These vessels must remain outside both the MRV requirements and the ETS surrender obligation to avoid disproportionate burdens.

- **Maintain derogations for maritime-dependent territories and specific services (Articles 12 and 3gg):** Eurochambres strongly welcomes the extension until 2035 of existing derogations for certain ships, routes and regions, including small islands without fixed road or rail connections, outermost regions, ice-class ships and specified passenger services. Any future assessment of these derogations should consider, in particular, dependence on maritime transport, the availability of alternatives, socioeconomic conditions and connectivity needs.

- **Provide a strong financing framework for maritime decarbonisation (Articles 3gaa and 10):** The creation of the Sustainable Maritime Alternative Propulsion (SMAP) mechanism is a positive step towards returning part of maritime ETS revenues to the sector to support its decarbonisation efforts. However, its operating criteria, governance, funding-allocation methodology, access conditions and eligible beneficiaries must be clearly defined and accessible, particularly for smaller shipping companies. A substantial share of maritime ETS revenues should support sustainable fuels, clean propulsion technologies and the energy infrastructure required by the maritime-port ecosystem.

7. Extension of the ETS sectoral scope

In order to regulate greenhouse gas emissions from sectors previously not subject to the ETS, the Commission proposes to expand the carbon pricing regime to non-hazardous waste incineration and co-incineration installations with a capacity exceeding three tonnes per hour. The obligation to surrender allowances would be gradually phased in from 2031 to 2034. However, member states implementing equivalent measures may be eligible for a temporary national opt-out, while installations in outermost regions may benefit from an optional time-limited derogation until 2035. Hazardous waste incineration would remain excluded. The proposal also introduces monitoring and reporting for non-hazardous waste landfills from 2031, or from 2034 if the necessary enabling conditions are not yet in place, and requires the Commission to assess by the end of 2034 whether landfill emissions should be included in the EU ETS.

The proposal allows the ETS surrender obligation for CO2 captured and used in certain non-permanent products to be deferred until the carbon is released in an ETS-covered activity. The Commission is empowered to establish a list of products to which this approach would apply. For synthetic fuels, the obligation would arise when the fuel is distributed for consumption.

Key priorities:

- **Reconsider the inclusion of waste incineration in the EU ETS and avoid premature surrender obligations (Articles 12a, 12b and 30; Annex I):** The inclusion of non-hazardous waste incineration and co-incineration plants in the EU ETS should be carefully reconsidered, particularly with regard to the pass-through of costs to municipalities, consumers and businesses. These installations provide an essential waste-management service and often have limited ability to influence the feedstock. The proposed extension could also increase district-heating costs where recovered heat is supplied to local networks and create additional uncertainty for publicly financed assets subject to long-term contractual obligations. A staged phase-in from 2031 to 2034 does not in itself resolve these structural concerns. The timing of surrender obligations should therefore be reconsidered, particularly for municipal waste incineration. Their introduction should be subject to a later review, with a particular focus on the effectiveness of upstream circular economy measures, whether the risk of diversion to landfill has been adequately addressed, and the availability of technically and economically viable abatement options, including carbon capture. Until those enabling conditions are in place, obligations should be limited to robust monitoring and reporting instead of introducing premature surrender obligations.

- **Provide more workable derogations while maintaining a level playing field (Articles 12a and 12b):** If waste incineration and co-incineration are brought into the EU ETS, member states should be able to maintain equivalent national carbon pricing or regulatory measures beyond 2035 where they deliver comparable climate outcomes and remain consistent with EU recycling and landfill objectives. The conditions should be proportionate and reflect differences in national waste management systems while avoiding distortions between waste treatment operators. Equivalence should therefore be assessed against common EU criteria to prevent unequal treatment and waste diversion between member states. In the case of the proposed time-limited derogation for installations in outermost regions, extending equivalent flexibility to other geographically disadvantaged areas, such as islands, should also be considered.

- **Ensure the accurate and practical accounting of biogenic carbon (Article 14; Annex IV):** The proposal's zero-rating of biogenic emissions is supported as an accounting treatment subject to the applicable sustainability rules. Its implementation must ensure that only fossil CO2 emissions are subject to the surrender obligation and that the biogenic carbon content of mixed waste streams is determined accurately. A practical and scientifically robust methodology should therefore be established, building on existing emissions measurements and suitable facility-level measurement procedures.

- **Strengthen circular economy measures and prevent diversion to landfill:** The fossil emissions from waste-to-energy are driven largely by non-recyclable materials placed on the market. A possible ETS extension must therefore be accompanied by effective circular economy measures supporting waste prevention, improved recyclability and increased sorting and recycling capacity. Additional carbon costs on waste-to-energy also risk creating incentives for waste exports or diversion to landfill, particularly in member states that do not yet have sufficient sorting, recycling and residual-treatment infrastructure. Any inclusion of waste incineration must therefore be assessed against these effects.

- **Recognise the contribution of thermal waste treatment to material recovery:** The design of the EU ETS should appropriately reflect the contribution of modern thermal waste treatment to the circular economy and resource conservation. The recovery of ferrous and non-ferrous metals and mineral fractions from incineration residues replaces primary raw materials, thereby avoiding emissions associated with the extraction and processing of new raw materials. These contributions should be duly taken into account if such plants are included in the EU ETS, as otherwise the incentive to invest in material recovery and innovative processing and recovery technologies could be weakened.

- **Support the deployment of carbon capture solutions:** Carbon capture may become an important decarbonisation route for waste-to-energy, including through the capture of biogenic CO2, but its deployment is constrained by site footprint, high energy requirements and the limited availability of CO2 transport, utilisation and storage infrastructure. Where waste incineration and co-incineration are brought into the EU ETS, a clearly defined share of the resulting revenues should therefore be earmarked for carbon capture deployment where it is technically and economically viable, alongside support for sorting, recycling and residual-treatment infrastructure.

- **Promote a broad scope for non-permanent carbon capture and use (CCU) (Article 12; Annex I):** The proposed shift in the surrender obligation from the point of capture to the point where the CO2 is released can be welcomed, as it avoids double counting and improves the business case for non-permanent CCU products. In this context, the Commission must ensure that the future list of eligible products is sufficiently broad and that the related accounting rules are clear, practical and do not create new administrative barriers.

- **Expand the scope of recognised permanent CCU products (Article 12):** The list of permanent CCU products in the Annex to Delegated Regulation (EU) 2024/2620 should be expanded beyond the currently recognised construction products to cover all mineral carbonation pathways, including the production of precipitated calcium carbonate (PCC).

- **Develop a regulatory framework for solid carbon derived from methane pyrolysis and plasmolysis:** A dedicated regulatory framework with practical monitoring rules is required for solid carbon produced from fossil natural gas through methane pyrolysis and plasmolysis. It should be recognised at least as a CO_2 emission-reduction method and, where permanence is demonstrated through utilisation and disposal pathways that prevent the release of carbon, as permanent storage of fossil carbon.

8. Measures against carbon leakage

While the ETS represents the central instrument for achieving climate neutrality, it also exposes European industries to carbon leakage, especially in sectors facing high energy prices, complex decarbonisation pathways and uneven global competition. A robust carbon leakage protection framework is therefore pivotal to safeguarding Europe's industrial competitiveness and preventing key sectors from relocating to countries with less stringent climate policies.

As a result, the Commission proposes to extend free allocation for certain energy-intensive industries exposed to carbon leakage until 2040. However, from 2031, free allocation would be conditional on operators submitting a verified plan to invest in decarbonisation in the EU ('Invest in EU decarbonisation plan') and implementing the corresponding investments. Operators would be required to invest an amount equivalent to the economic value of 100% of their free allocation during the relevant five-year period. Following approval of the plan, 80% of the free allocation would be allocated annually upon submission of the plan, while the remaining 20% would only be granted after verification that the investments have been implemented and the corresponding emission reductions achieved. Operators relocating or transferring relevant production capacity or economic activity outside the Union would be required to reimburse the allowances received. The proposal also allows operators to pool their investment obligations under certain conditions.

In parallel, the proposal makes adjustments to the benchmarks for free allocation and empowers the Commission to establish sector-specific heat and fuel benchmarks. The proposal slows the phase-out of free allocation from 2028 by revising the Carbon Border Adjustment Mechanism (CBAM) factor, thereby delaying the end of free allocation and the full phase-in of CBAM until 2038 instead of 2034. Finally, the proposal continues to allow member states to grant state aid to compensate certain electricity-intensive industries for part of the carbon costs passed on through electricity prices.

Key priorities:

- **Extend free allocation to address carbon leakage (Articles 10a and 10b):** Eurochambres strongly supports the extension of the free allocation framework until 2040 as a measure to protect industries exposed to carbon leakage. Free allocation remains an essential and readily available instrument for preserving industrial competitiveness.

- **Reconsider the introduction of conditionalities (Article 10a):** The chamber network raises strong concerns over the introduction of new conditions linked to receiving free allowances. Requiring companies to submit verified and publicly available 'Invest in EU Decarbonisation Plans' risks adding regulatory complexity at a time when companies already struggle with disproportionate administrative burdens, while potentially forcing them to disclose commercially sensitive investment strategies and restricting their investment flexibility. Disproportionate investment requirements could also undermine the role of free allocation as a carbon leakage protection instrument, particularly where companies cannot implement investments because of missing infrastructure, high energy prices or unavailable technologies. Lastly, requiring investments equivalent to 100% of the financial value of the free allowances received would worsen companies' cash-flow constraints without addressing the difficulties they already face in raising the capital required for decarbonisation. Such requirements could therefore contribute to further production decline and should be reconsidered. If retained, the conditionalities should at least be introduced gradually and accompanied by robust safeguards.

- **Avoid a double burden from withholding part of free allocation until investments are completed (Article 10a):** The decision to grant the remaining 20% of free allocation only after the investments have been implemented and the corresponding emission reductions achieved raises significant practical concerns. This includes how compliance will be verified and what happens if a company cannot implement the planned investments due to external factors, such as missing infrastructure or permitting delays, or cannot achieve the expected emissions reductions because the technologies do not perform as expected. In such cases, companies could face a double burden by incurring the investment costs while also having to purchase additional allowances to make up for the lost part of their free allocation. Conditionalities must therefore be workable and proportionate and reflect the actual availability of enabling conditions such as affordable clean electricity, hydrogen infrastructure, CO_2 transport and storage networks, and grid connections. The proposal must introduce exemptions, deadline extensions or adjustment mechanisms where investments cannot be implemented or the expected emission reductions cannot be achieved due to circumstances beyond the operator's control. While the proposal provides exemptions from these conditionalities for specified categories of installations, including the 10% most efficient installations and certain projects supported by EU-level funding instruments, these do not solve the aforementioned problems.

- **Ensure realistic benchmarks for free allocation (Article 10a):** The proposed reduction of the maximum annual benchmark-update rate to 2% and the introduction of sector-specific heat and fuel fallback benchmarks are welcomed, as these changes better recognise that decarbonisation pathways differ significantly across industrial sectors. However, the benchmark methodology should be further improved to ensure that benchmark values are based on real industrial emissions data and only reflect technologies that are economically viable and scalable at industrial level. More broadly, the methodology should better reflect impacts on international competitiveness and the affordability of rising CO_2 costs. Benchmark values must also be published sufficiently early to provide companies with planning certainty. Lastly, the separate proposal adjusting the heat and fuel fallback benchmarks for 2026-2030 is a step in the right direction. However, the additional 80 million allowances are unlikely to fully address the structural challenges faced by sectors relying on fallback benchmarks, and further corrective measures should therefore be considered.

- **Provide a more realistic phase-in of CBAM (Article 10a):** The chamber network supports the slower phase-out of free allocation alongside the slower phase-in of CBAM. However, as long as CBAM has not demonstrated its effectiveness in preventing carbon leakage, sufficient protection must be guaranteed through the allocation of free allowances. A further extension of free allocation beyond 2038 should therefore be considered.

- **Develop an effective export solution for CBAM sectors:** The proposal neither includes the promised export solution for CBAM-covered sectors nor provides clarity on how the carbon leakage risk for EU exports will be addressed. The upcoming negotiations must ensure stronger safeguards against carbon leakage, including an effective export solution or, at the very least, a binding provision requiring the Commission to propose such a solution within a defined timeframe.

- **Maintain indirect cost compensation (Article 10a(6)):** Eurochambres fully supports the continuation of the possibility to compensate indirect CO2 costs, reflecting a key demand of the business community. However, greater harmonisation is needed to avoid competitive distortions arising from differences in national implementation and fiscal capacity. In this context, common eligibility criteria, predictable payment schedules and stronger EU-level support should be explored to help ensure that otherwise comparable companies do not receive materially different levels of protection depending on the member state in which they operate.

9. Update to the Market Stability Reserve (MSR) and maritime monitoring, reporting and verification (MRV) requirements

To ensure market liquidity and limit excessive ETS price volatility, the Commission proposes to reduce the upper and lower thresholds triggering MSR interventions, as well as the number of allowances released from the reserve. From 2029, the relevant MSR thresholds and release volumes would decline annually by 4%, reflecting the shrinking ETS cap. In addition, the proposal reduces the annual MSR intake rate from 24% to 12% and adjusts the calculation of the Total Number of Allowances in Circulation to account for aviation allowances and verified aviation emissions more comprehensively. These changes complement the Commission’s separate proposal of 1 April 2026 to remove the invalidation mechanism under which allowances in the reserve above 400 million are currently cancelled, and instead retain those allowances as a buffer to support future market stability.

Lastly, a separate legislative proposal on monitoring, reporting and verification for maritime emissions aims to streamline requirements under the Maritime MRV Regulation, the EU ETS and FuelEU Maritime, allowing companies to submit relevant emissions and energy-use data through a consolidated reporting framework.

Position

Key priorities:

- **Maintain the proposed adjustments to the MSR while introducing a stronger price-based safeguard:** Eurochambres welcomes the changes to the MSR, which aim to make it a more responsive and supportive element of emissions trading. However, the proposal should also introduce an automatic price-based safeguard comparable to the mechanism under ETS2, under which additional allowances are released when specified price conditions are met. This would provide a more effective response to excessive price increases than relying solely on the existing mechanism under Article 29a.

- **Ensure that the alignment of maritime reporting requirements delivers genuine simplification:** The proposed alignment of monitoring, reporting and verification requirements under the Maritime MRV Regulation, the EU ETS and FuelEU Maritime can be welcomed as a simplification measure. The consolidated reporting framework must deliver a measurable reduction in duplicate data submissions, verification requirements and administrative costs for shipping companies, in practice.

Eurochambres – the association of European chambers of commerce and industry – represents more than 20 million businesses through its members and a network of 1700 regional and local chambers across Europe. Eurochambres is the leading voice for the broad business community at EU level, building on chambers' strong connections with the grass roots economy and their hands-on support to entrepreneurs. Chambers' member businesses – over 93% of which are SMEs – employ over 120 million people.

Previous positions can be found here.

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