

Options for the EU ETS

Webinar

Sandbag

22 September 2026

Legislative context

EU ETS benchmarks

- Voted by Council 16 September:
 - Increase fallback benchmarks

Market Stability Reserve: invalidation

- COM proposal 1 Apr
 - End invalidation
- EP voted 15 Sep
 - Raise threshold to 650m
- Council 16 Sep
 - No decision; initial draft 800m; Germany proposed -4%

EU ETS Directive & MSR

- COM proposal 17 July
- Draft ENVI proposal 11 September
- Deadline for amendments 6 Oct
- Vote in ENVI 1 December
- Vote in Plenary 14-17 December
- Trilogue

Commission vs. ENVI

	Current	Commission	EP
LRF	4.4%	3.7%, then 1.7%	3.4%, then 2.3%
International credits	no	Included in cap	Included in cap
Removals	no	+250m allowances	+250m allowances
MSR thresholds	400-833 (but 180m not counted)	400-833 (full amount) -4% annual decrease	?
MSR invalidation	400m	No	650m
MSR release rate	100m	Reduced	?
NER	200m transfer to MSR	400m to IDB/IB	400m to IDB/IB
Free allocation	Up to 46%	Up to 47%	Up to 47%
Benchmarks red. rate	Min -2.5%	Min -2%	Min -2%
CBAM factor	0% in 2034	0% in 2038	0% in 2038 or 2034
Extra EU flights	no	Departing <5000km	Departing <5000km
Shipping ext, waste	no	yes	yes

Emissions scenarios

2024 impact assessment for EU Climate Law

	EU-wide reduction	EU ETS reduction	EU ETS reduction with Extension
S1	75% from 1990	80% from 2005	79% from 2005
S2	85% from 1990	88% from 2005	87% from 2005
S3	95% from 1990	92% from 2005	91% from 2005

Key metric to assess scenario likelihood: surplus / annual emissions

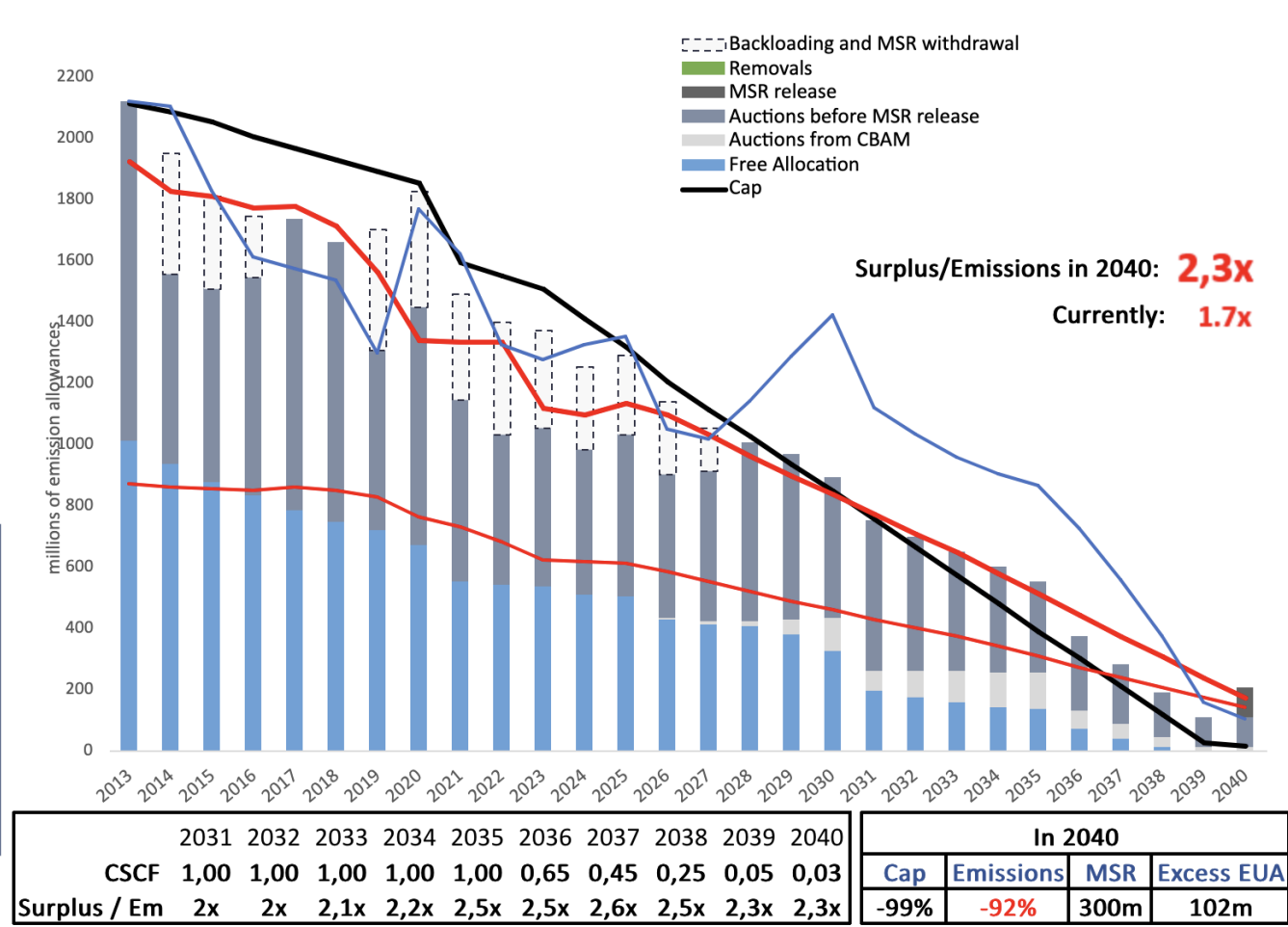
Surplus = EUA in circulation + reserves

In 2026: 2,190 / 1,139 = 1.7x

EU ETS Simulator

Select options/scenarios on the left, find result on the right

Emissions Scenario	S1	S2	S3
Cap	CUR	C...	EP
250m to buy removals	No	Yes	
Invalidate MSR allowances	400	650	LRF
MSR thresholds, TNAC...	Current	COM	
Transfer 200m NER→MSR	Yes	No	
Extensions:			
Aviation	No	Yes	
Shipping	No	Yes	
Waste	No	Yes	
Limit aviation access to EUA	No	Yes	
CBAM covers more products	No	Yes	
Benchmark update rate	-2.5%	-2%	
CSCF on CBAM first	No	Yes	
Full CBAM year	2034	2038	

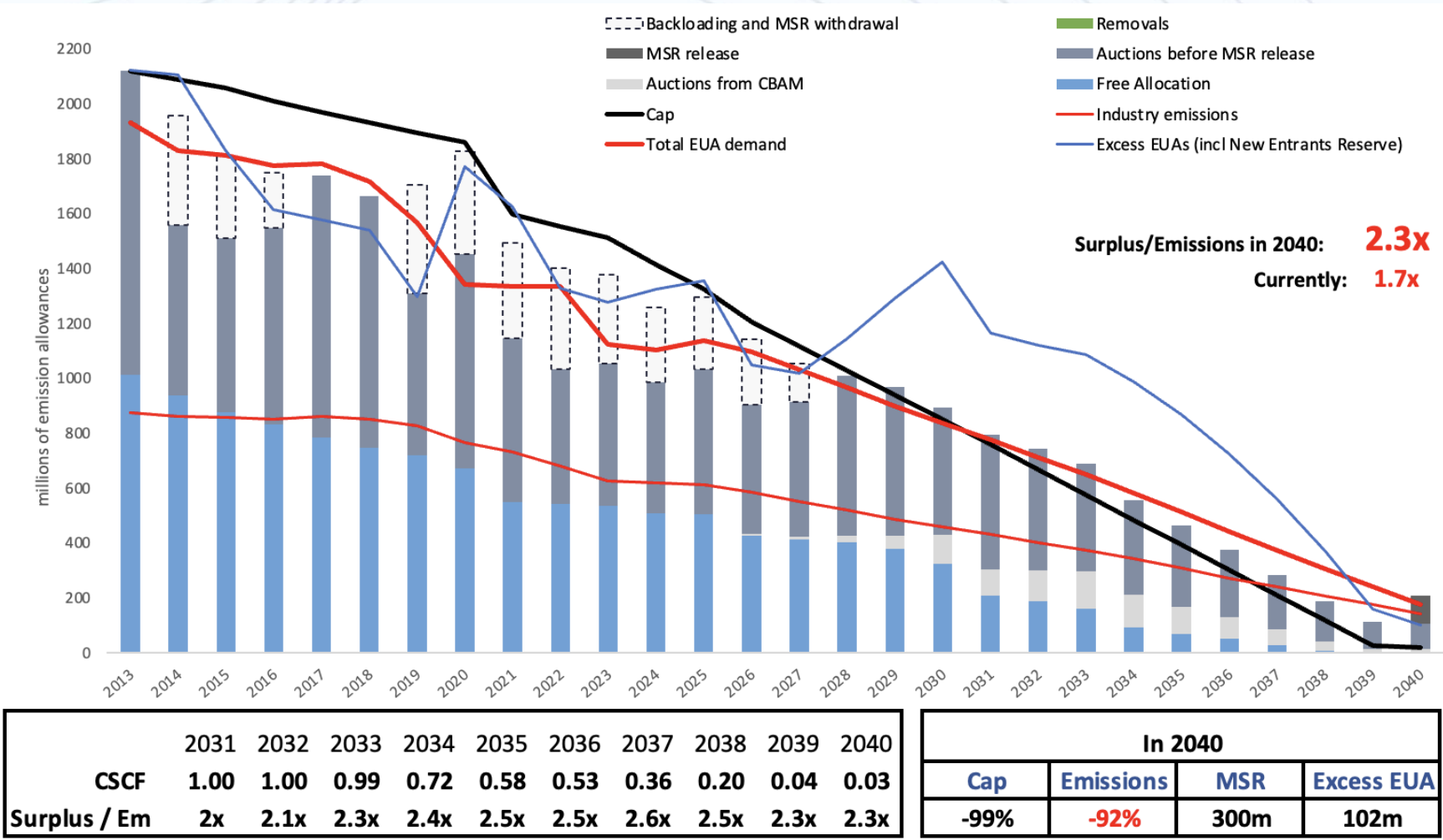


Scenario results

Cap: current

With scenario S3

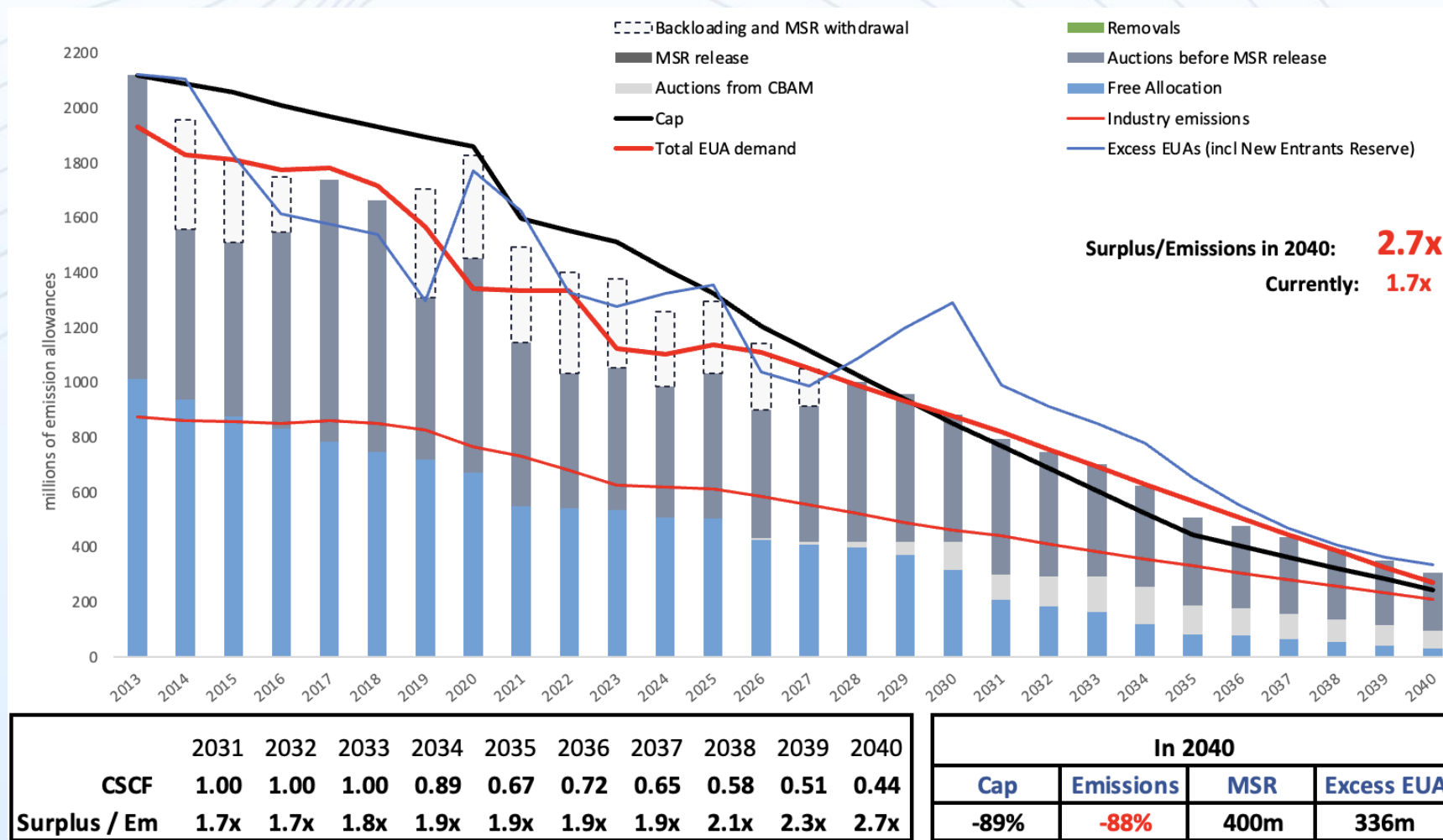
- Surplus 2040:
 - 402m EUA
- Emissions 2040:
 - 177m tCO2



Cap: COM proposal

With scenario S2

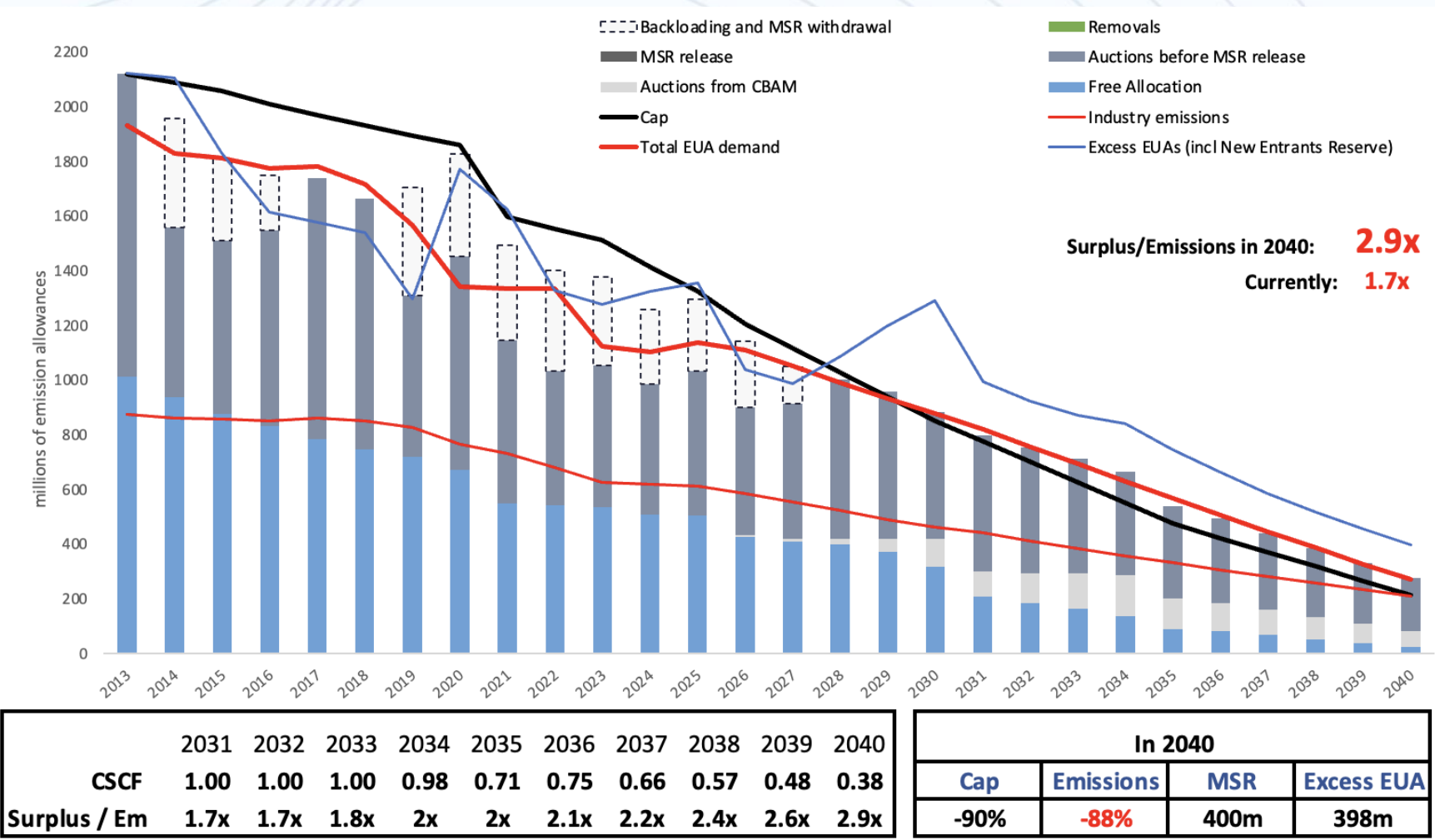
- Surplus 2040:
 - 736m EUA
- Emissions 2040:
 - 273m tCO₂



Cap: ENVI proposal

With scenario S2

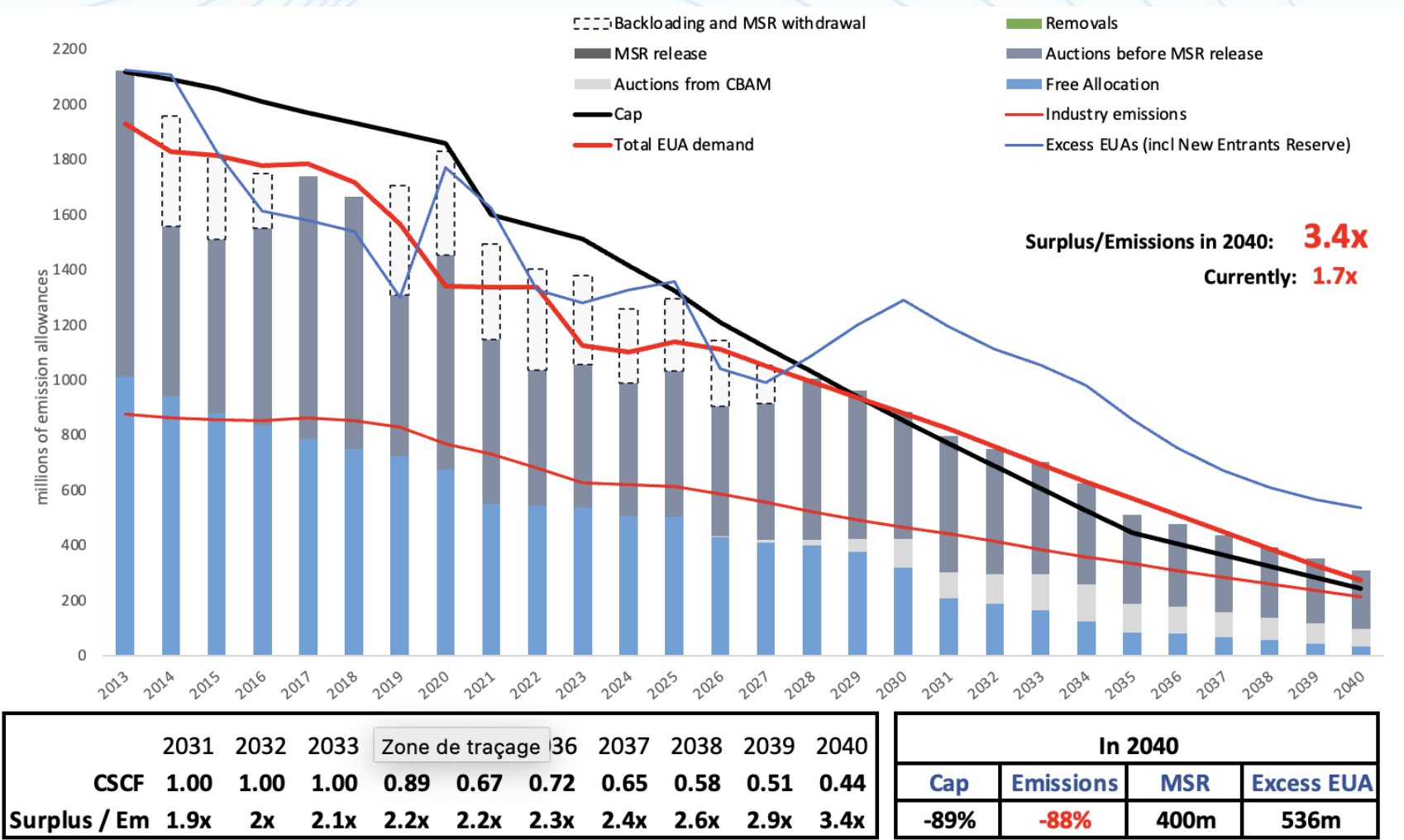
- Surplus 2040:
 - 798m EUA
- Emissions 2040:
 - 273m tCO2



End of NER transfer to MSR

With scenario S2,
COM's cap

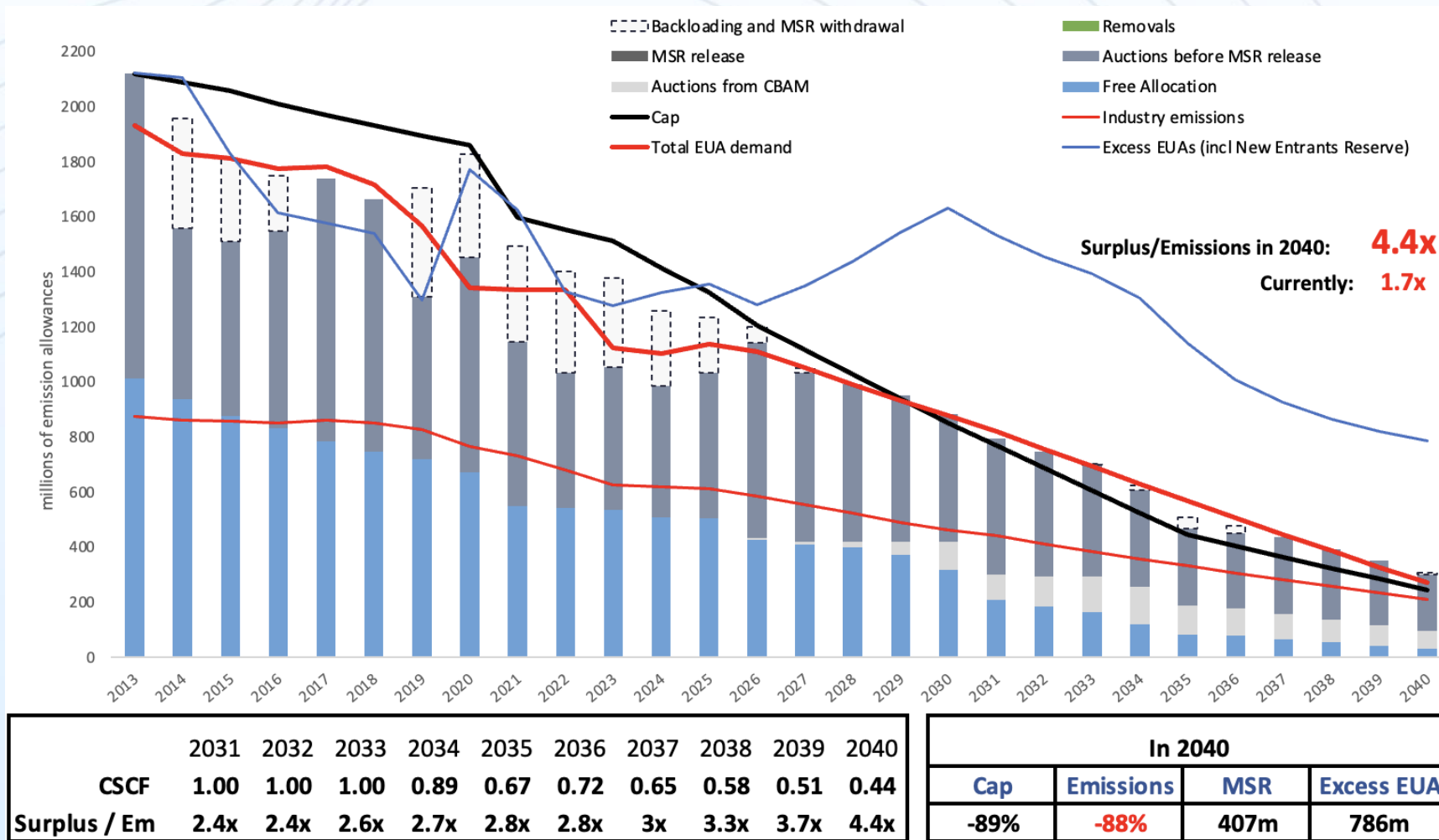
- Surplus 2040:
 - 936m EUA
- Emissions 2040:
 - 273m tCO2



MSR thresholds + TNAC

With scenario S2

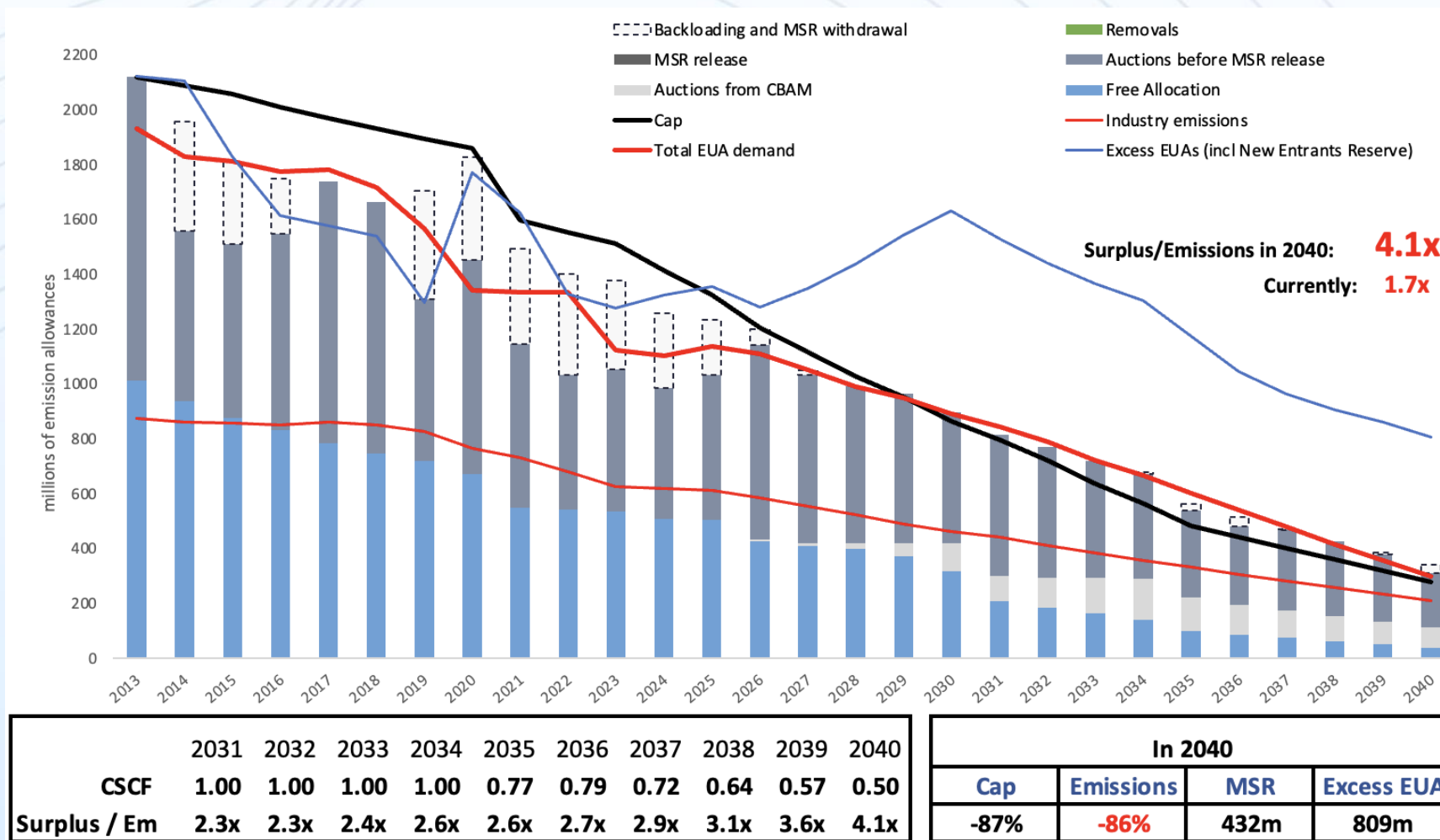
- Surplus 2040:
 - 1,193m EUA
- Emissions 2040:
 - 273m tCO₂



Extensions

With scenario S2

- Surplus 2040:
 - 1,241m EUA
- Emissions 2040:
 - 300m tCO₂



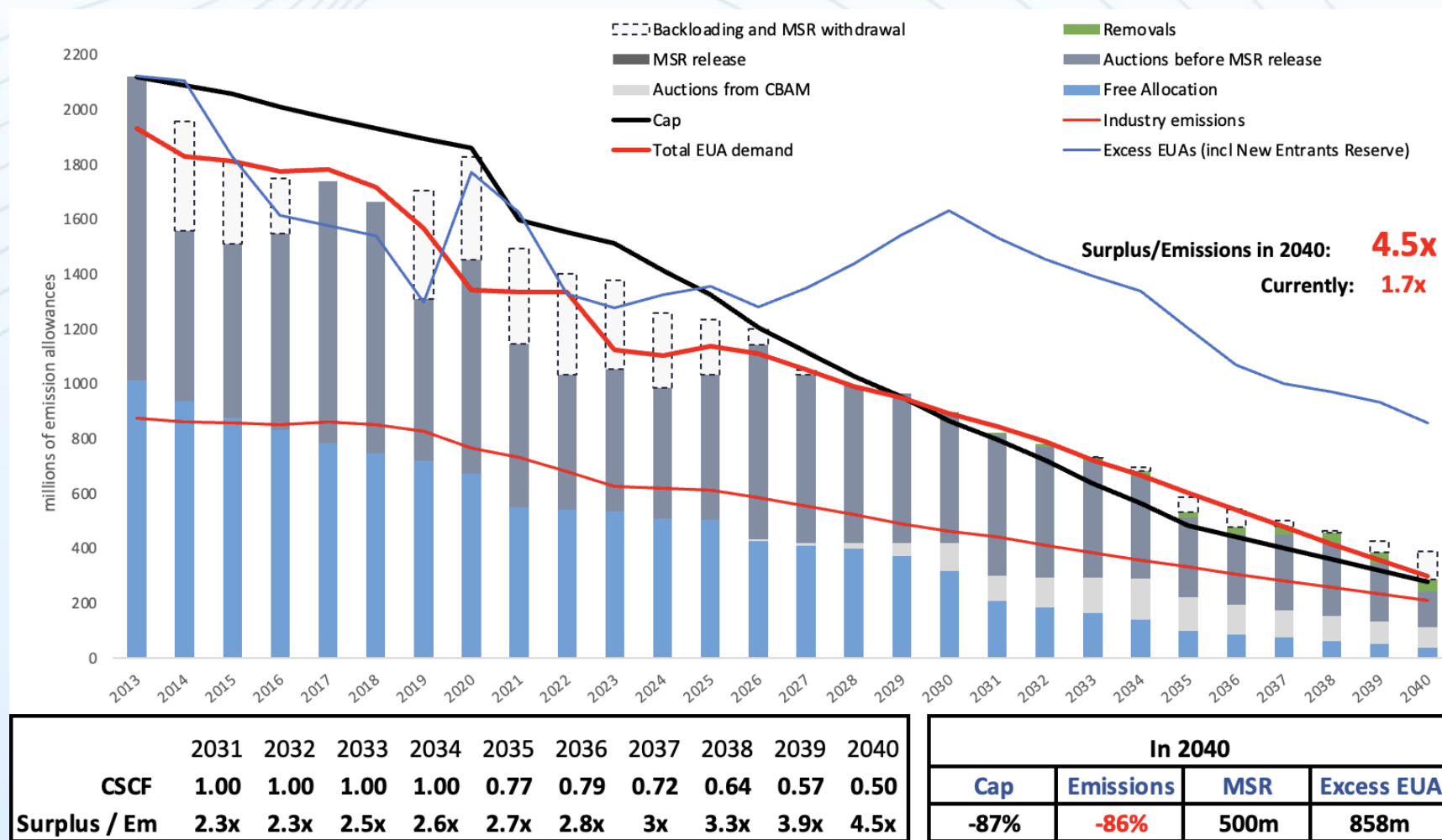
Removals: +250m EUA

With scenario S2

- Surplus 2040:
 - 1,358m EUA
- Emissions 2040:
 - 300m tCO₂

COM vs. ENVI

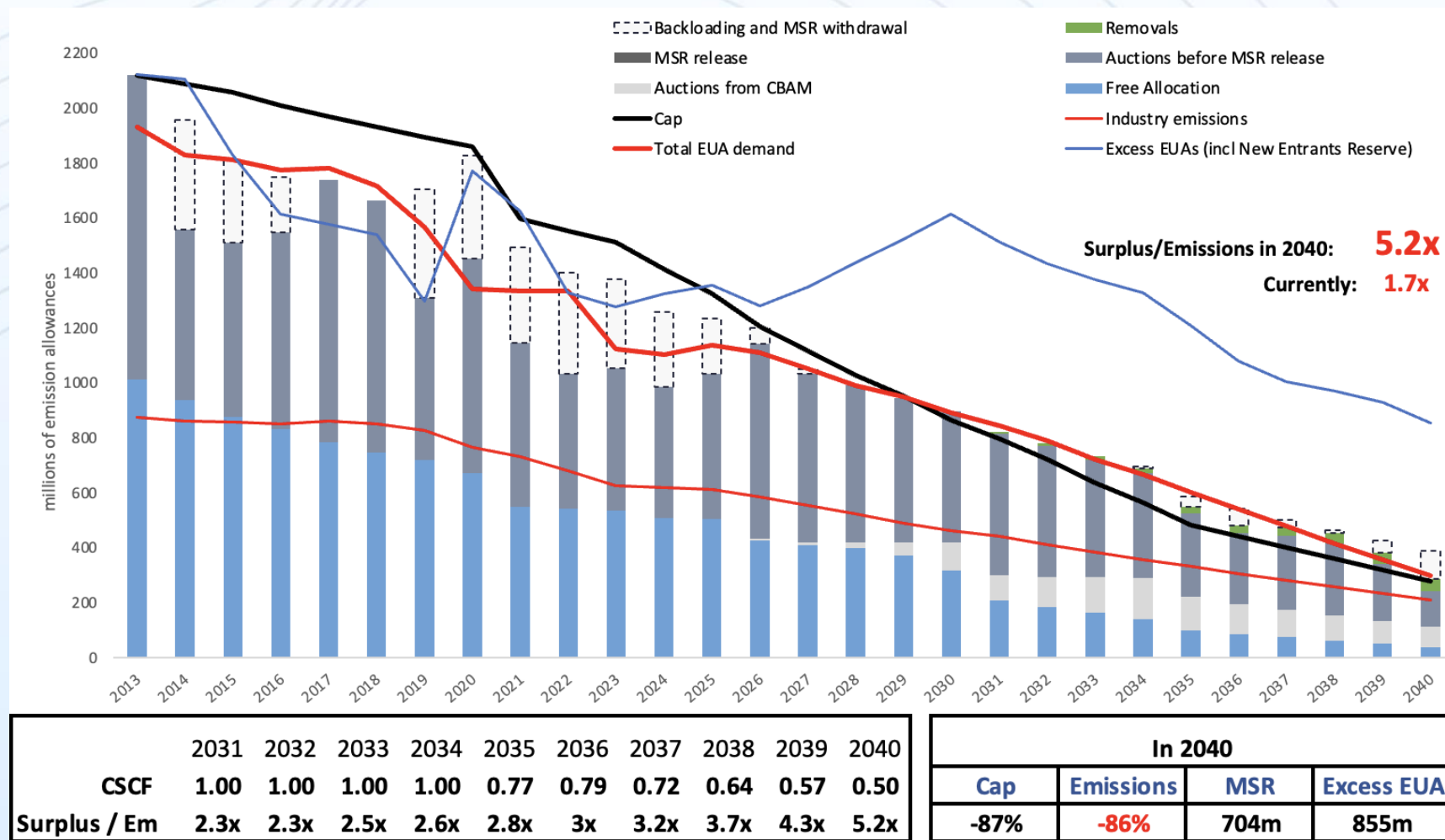
- COM: up to 1.04 EUA per CDR
 - CDR supply conditional
- ENVI: no price limit
 - CDR unconditional



Invalidation threshold at 650m EUA

With scenario S2

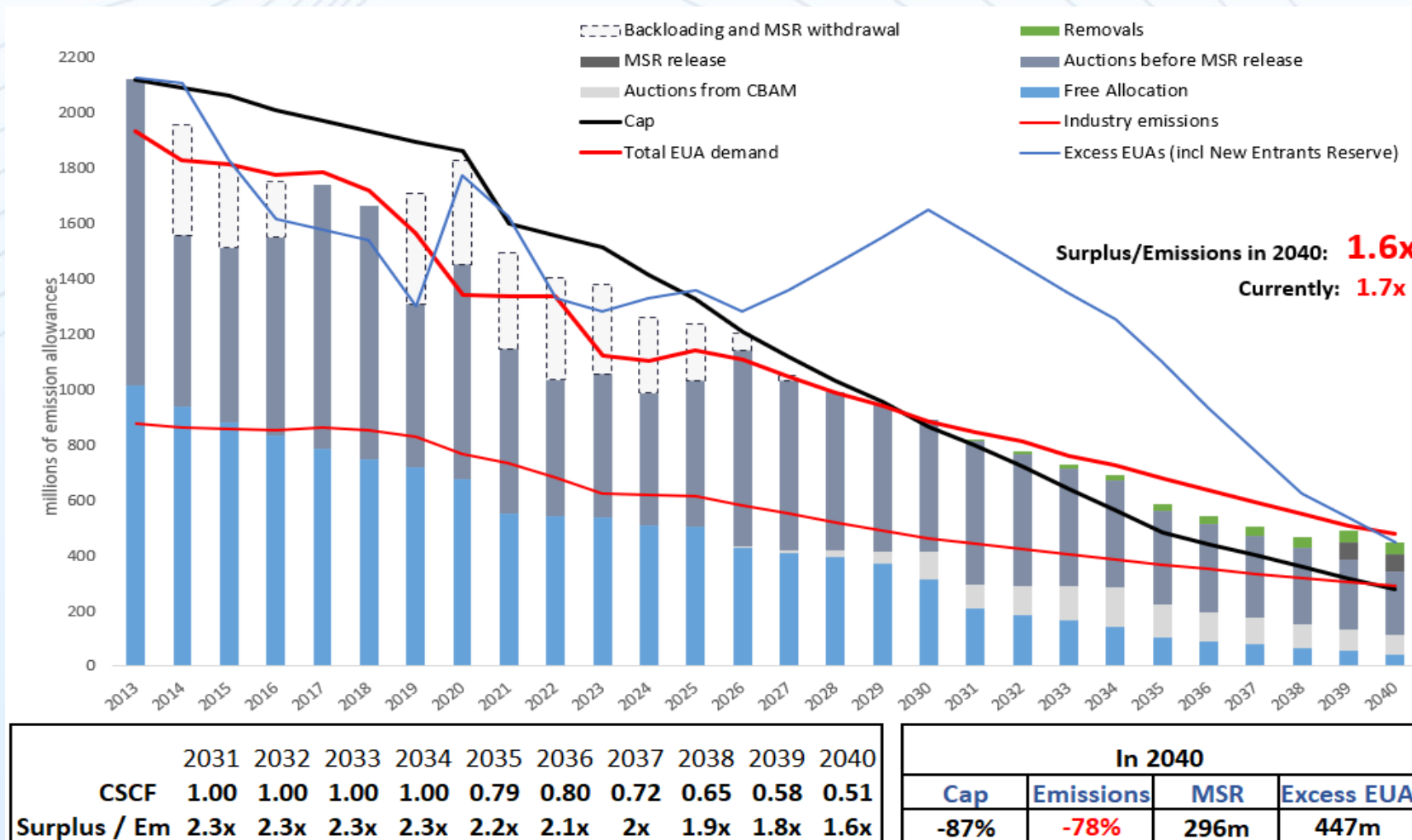
- Surplus 2040:
 - 1,560 m EUA
- Emissions 2040:
 - 300m tCO₂



S1 scenario – with COM's cap

Full proposal +
MSR threshold at
650m

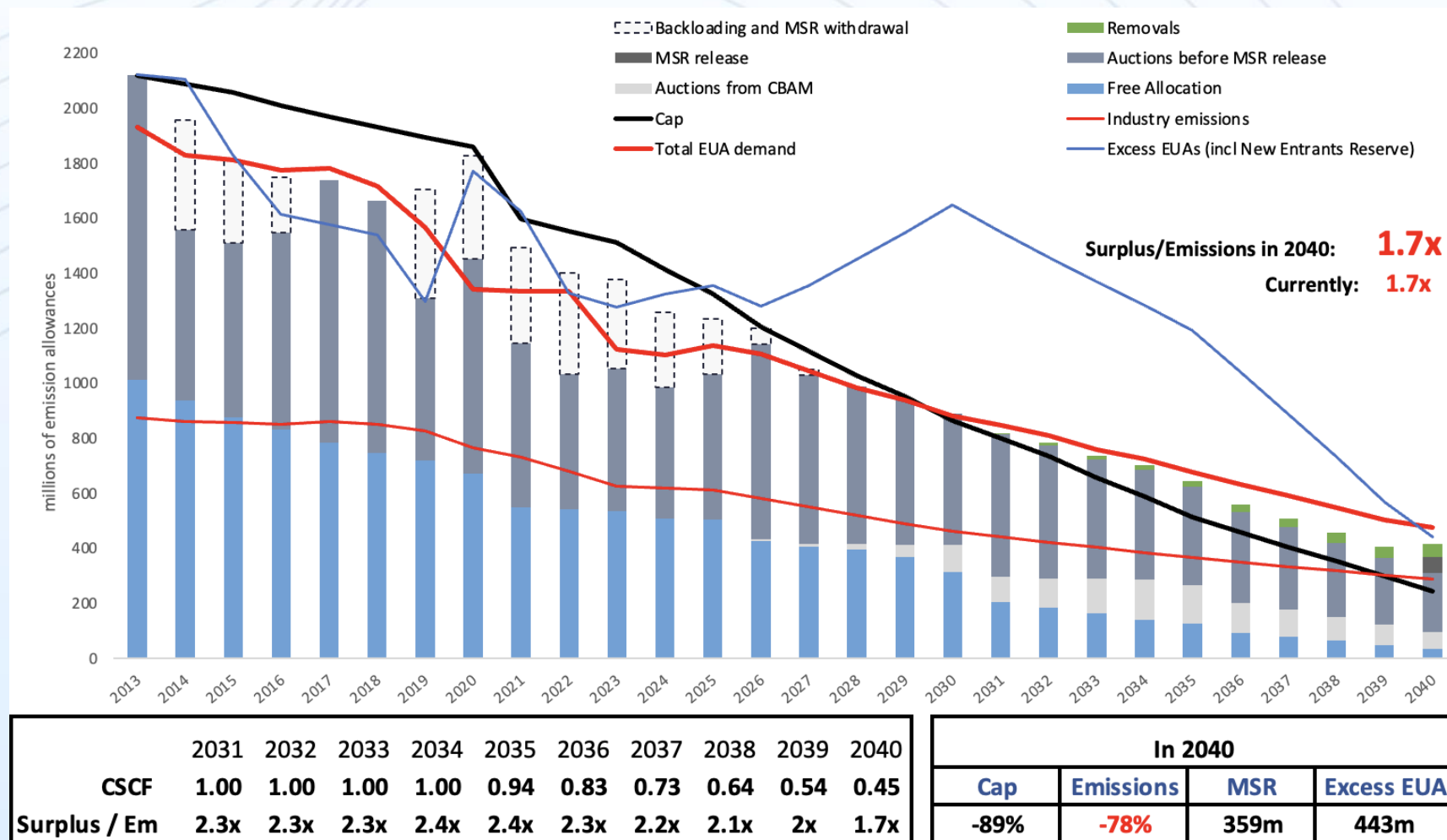
- Surplus 2040:
 - 743m EUA
- Emissions 2040:
 - 476m tCO₂



S1 scenario – with ENVI's cap

Full proposal +
MSR threshold at
650m

- Surplus 2040:
 - 802m EUA
- Emissions 2040:
 - 476m tCO₂



Alternative proposals...

Cap

Cap

Scenario S2 (85% EU-wide domestic reduction)

LRF 2031-35; 2036-40	Cap 2040 (vs. 2005)	Surplus / emissions 2040
COM: 3.7% - 1.7% (w/o removals)	-87%	4.4x
ENVI: 3.4% - 2.3% (w removals)	-89%	5.1x
3.7% - 2.7% (w/o removals)	-92%	3.3x
3.7% - 3.7% (w/o removals)	-97%	2.3x
3.7% - 3.7% (w/o removals, limit aviation access)	-97%	3.0x

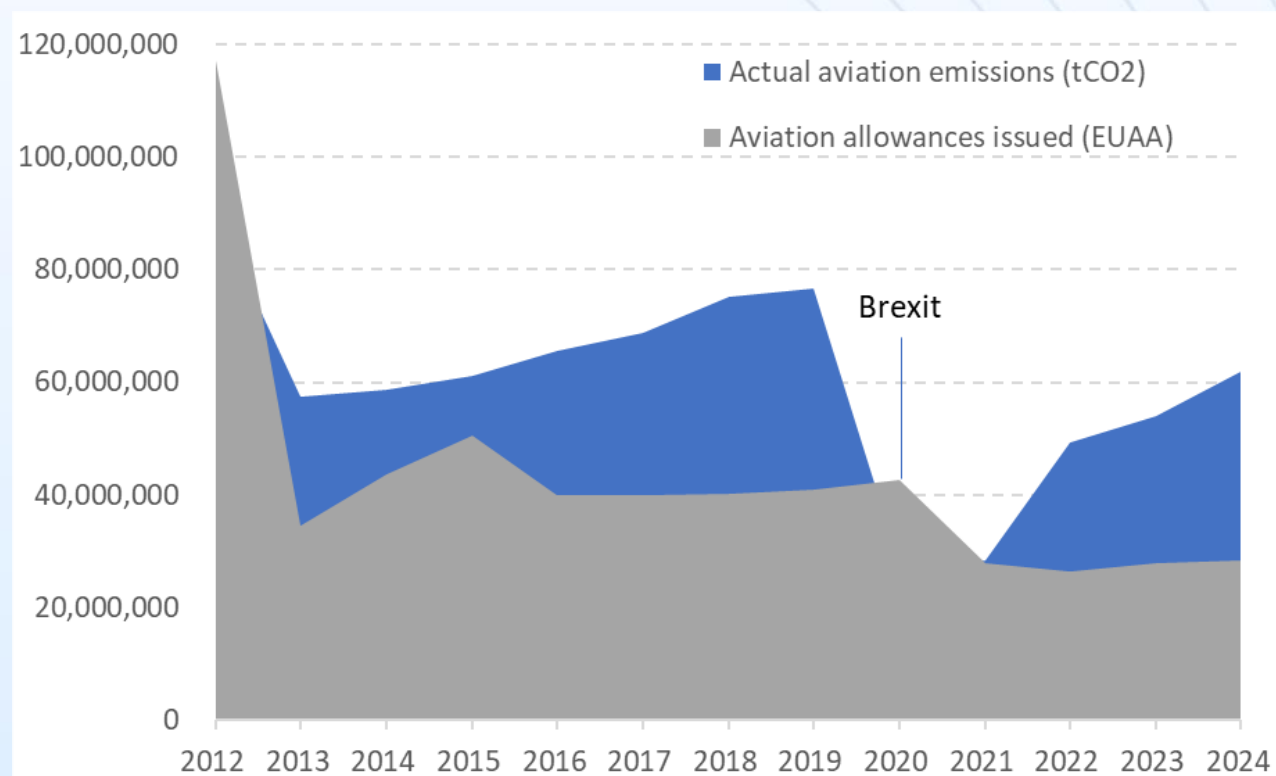
Aviation: put a seatbelt on allowances

Flying economy

- Cap exceeded consistently
- Buying general allowances is cheaper than abatement
- Removals are uneconomical
- Demand uncertainty affects other sectors

Demand from intra-EU flights (source: Sandbag)

2040 emissions scenario	2040 EU ETS emissions (mt CO ₂)	2040 aviation emissions (mt CO ₂)	Aviation net demand 2031-2040 (mEUA)
IA S3 (-95%)	177	28	261
IA S2 (-85%)	273	29	268
IA S1 (-75%)	443	31	283
2040 = 2024	N/A	62	503



Aviation: put a seatbelt on allowances

Limit the surrendering of general allowances

- Re-introduce aviation allowances (EUAA)
- Airlines can surrender EUAA + a proportion of EUAs, decreasing from [100%] to [0%]
- This would raise air fares, revenues from EUAA sales, enable switch to rail, removals, efuels
- It would redirect funds from buying imported fuel to investing in domestic rail infrastructure, like in China
- It would allow to meet a larger share of the 90% target domestically, buying fewer imported credits

Free allocation

Currently

- 54 product benchmarks, 2 fallback, 1 process emissions
 - Flat steel products are compensated per tonne of primary iron used
 - Fallback: per MWh used
 - Petrochemicals: per steam cracking operation used
 - Cement: per tonne of clinker/binder
 - ...

More desirable:

- Benchmarks closer to finished goods
- Incentivising more efficient processes and circular practices
- More in line with CBAM

Cross-sectoral correction factor

Currently

- Applied uniformly across all sectors
 - CBAM sectors protected by CBAM
 - Non-CBAM sectors unprotected

	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
CSCF	1.00	1.00	1.00	1.00	0.73	0.78	0.71	0.64	0.57	0.49

Suggestion:

- Apply CSCF to CBAM sectors first
- Non-CBAM sectors more likely to keep CSCF = 1

	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040
CSCF	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

Indirect cost compensation

Currently, ICC:

- Does not reward the use of renewable electricity
- Is based on the assumption that market power prices are always set by fossil-based generation
- Is expensive for Member States
- Will cost more with electrification and hydrogen use
- Is incompatible with the CBAM

Proposal:

- Make ICC dependent on the share of renewable power
 - This would compensate for the costs of adjusting to intermittent supply, dissociate ICC from CBAM scope
- Limit ICC to periods when fossil sets the marginal price
 - This would avoid over-compensation, decrease as the grid gets decarbonised

Removals

Keep as safety net

- COM: purchase at price of 1.04 EUA
 - Supply kicks in when EUA prices are high enough
- ENVI: purchase at all cost, add biochar
 - Supply is unconditional, permanence issue

No dressing-up of CCS as removals

- Delete Art 14(1a): possibility for operators to compensate their fossil emissions with domestic permanent carbon removal units generated from the storage of their biogenic emissions.

List of possible improvements

Article	Subject	Improvement
9	LRF	Increase, to avoid surplus/emission ratio increase
9b	International credits	Turn into “safety net” with Art 29a
29a	Price volatility	Use international credits; make symmetrical
10a(7)	New Entrants Reserve	Leave in 200m transfer provision
10a(5)	CSCF	Apply to CBAM sectors first
10a(1)8, 10a(2)f	Free allocation	Reform to better match end products
12(3)	Aviation	Limit access to general EUAs
9c, 14(1a)	Removals	Avoid “purchase at any cost” approach, direct ETS link
10a(6)	Compens. for ind costs	Incentivise non-fossil power, avoid over-compensation
21(2), 10a(6)	Transparency	Avoid regression
MSR – Art 1(5), 1(6)	Upper threshold	Lower to compensate effect of TNAC change
MSR – Art 1(5a)	Invalidation threshold	Linear decline

Q&A