

POSITION PAPER

Preserving the integrity and enhancing the effectiveness of the EU ETS

Priorities for the 2026 review

Carbon Management Europe welcomes the opportunity to contribute to the EU Emissions Trading System (ETS) review and commends the European Commission's continued efforts to implement the [Industrial Carbon Management Strategy](#) adopted in 2024.

For many sectors, industrial carbon management offers cost-effective solutions to mitigate CO₂ emissions and permanently remove CO₂ from the atmosphere. The EU ETS plays a critical role in driving these investments by creating a robust carbon price signal and supporting the deployment of technologies necessary to achieve climate neutrality.

To ensure the successful scale-up of industrial carbon management projects across Europe, the EU ETS needs to be protected and strengthened in its role as Europe's primary carbon pricing instrument and a driver of cost-effective emissions reductions, while remaining complemented by broader policy and financial measures that support industrial competitiveness and investment.

The recommendations set out in this paper aim to support a revision of the EU ETS that provides long-term investment certainty, safeguards the system's environmental integrity, and enables European industry to contribute effectively to the objectives of the European Climate Law and the EU's target of reaching climate neutrality by 2050.

Key priorities

- 1 Maintain consistency of the EU ETS with climate objectives
- 2 Direct a greater share of EU ETS revenues towards industrial decarbonisation
- 3 Ensure the Industrial Decarbonisation Bank focuses on cost-effective decarbonisation
- 4 Establish coherent and simplified carbon accounting for CO₂ capture and transport
- 5 Integrate permanent carbon removals with caution

PRIORITY 1

Maintain consistency of the EU ETS with climate objectives

The upcoming EU ETS revision must be aligned with the 2040 and 2050 targets under the European Climate Law and provide a clear trajectory for the continued evolution of the EU ETS cap well into the 2040s. It must also ensure that an effective CO₂ price signal is maintained for all sectors, not just those covered by the Carbon Border Adjustment Mechanism (CBAM).

The scheduled, gradual phase-out of free allocation between 2026-2034, as agreed under the “Fit for 55 package” and designed to coincide with the introduction of the CBAM, is an essential element of the long-term credibility and effectiveness of the EU ETS. Companies across the covered sectors have already made multi-billion-euro investment decisions on the basis of this phase-out trajectory, ranging from large-scale CCS projects to electrification and energy efficiency investments. Reopening or slowing the schedule now would penalise precisely those operators who have moved first, eroding the very price signal that justified their capital commitments and rewarding delay over action.

Maintaining the agreed 2034 end date for free allocation in these sectors is therefore essential to preserve regulatory certainty and protect the investment case for clean technology deployment and industrial decarbonisation across the Union. Predictability is the single most valuable asset the EU ETS can offer industry: each year of stable signals translates into a longer pipeline of bankable projects. Conversely, any retreat on the agreed phase-out would not only undermine ongoing decarbonisation efforts but also signal to investors that the EU's long-term climate commitments are negotiable, which is a precedent the Union cannot afford as it approaches its 2040 climate targets.



At the same time, the credibility and long-term effectiveness of the agreed free allocation phase-out rests on the ability of the CBAM to provide effective carbon leakage protection once free allocation is withdrawn. To prevent carbon and investment leakage, the CBAM must accurately reflect the carbon costs faced by EU producers and ensure equivalent treatment of imported goods. A robust and watertight interaction between the EU ETS and the CBAM is therefore essential to maintain a level playing field while preserving the integrity of the EU's carbon pricing framework.

Furthermore, while maintaining a strong carbon price signal is essential, the EU must also address the competitiveness challenges created by persistently high energy prices. Without complementary measures to improve access to affordable low-carbon energy, industrial decarbonisation and European competitiveness will become increasingly difficult to reconcile. Energy-intensive industries considering investments in CCS and other decarbonisation technologies face increasing cost pressures that can delay final investment decisions. Alongside a credible EU ETS framework, policies that ensure access to affordable low-carbon energy will thus be critical to enable industrial decarbonisation.

RECOMMENDATION 1

Maintain the agreed phase-out of free allocation through to 2034 without delay for sectors covered by the CBAM, while ensuring that the CBAM remains effective and watertight in preventing carbon leakage throughout the transition and beyond. This is essential to safeguard investments already made within the EU/EEA, provide regulatory certainty for future projects, support EU industrial competitiveness in the context of high energy prices, and preserve the credibility of the EU ETS.

The Market Stability Reserve (MSR) is a vital component of the EU ETS. By addressing structural imbalances in the supply of allowances, it strengthens the carbon price signal, helps address structural market imbalances, and enhances confidence in the long-term functioning of the system. The MSR plays an important role in stabilising prices and creating the stable investment environment needed to support industrial decarbonisation and the deployment of low- and zero-carbon technologies, including the large-scale CO₂ transport and storage infrastructure on which industrial carbon management depends.

Carbon Management Europe supports the continued use and targeted adjustment of the MSR. To maximise its effectiveness, it should operate according to clearly defined policy objectives and remain transparent, predictable, and rules-based. Its primary functions should be to maintain an effective and stable carbon price signal by adjusting allowance supply in response to market imbalances and to mitigate undue volatility that could undermine long-term investment decisions.

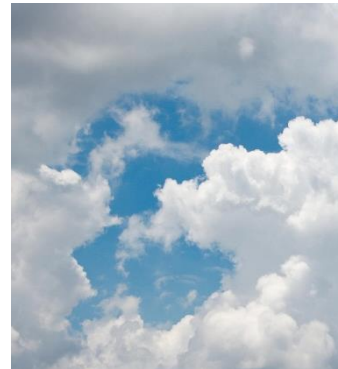
Any adjustment of the MSR must preserve its transparency and rules-based approach, so as to ensure that market participants can anticipate its operation and incorporate it into investment planning. For capital-intensive investments such as CO₂ capture facilities, transport networks, and geological storage infrastructure, confidence in the long-term carbon price signal is often as important as the carbon price level itself.

As the EU ETS cap declines and the market matures, the MSR should evolve accordingly. In particular, the fixed Total Number of Allowances in Circulation (TNAO) thresholds that trigger MSR interventions should be reviewed periodically and, where appropriate, adjusted to reflect the declining EU ETS cap, evolving market conditions, and the changing hedging needs of market participants. The objective should be to ensure that the MSR remains effective as the market becomes tighter, while preserving market liquidity and investment certainty.

The frequency of MSR assessments could also be considered as part of future reviews. More frequent assessments, for example on a biannual or quarterly basis, could in principle allow for a more timely recalibration of auction volumes as market conditions evolve.

However, such an approach would need to be carefully balanced against the objectives of predictability, transparency, and administrative simplicity. Given that the MSR relies on annually verified emissions data and that adjustments to auction schedules require significant preparation by market authorities and participants, the benefits of more frequent interventions would need to be clearly demonstrated before any change is considered. Carbon Management Europe elaborated on these proposals in its [response to the 2025 public consultation](#) on the review of the EU ETS and the MSR.

Some stakeholders have suggested complementing the current quantity-based approach of the MSR with mechanisms that take account of sustained periods of unusually high or low EUA prices. For example, a price corridor (determined by a price floor and a price ceiling with minimum and maximum EUA prices respectively) or predefined price-triggered interventions could, in principle, provide an additional safeguard against prolonged market conditions that either weaken the incentive to decarbonise or create excessive cost uncertainty for industry. Such approaches could potentially enhance confidence in the long-term carbon price signal for capital-intensive investments.



However, they would also represent a further evolution of the current architecture of the EU ETS, which is fundamentally based on emissions caps and market-driven price formation. Important questions would need to be addressed regarding the appropriate intervention thresholds, governance arrangements, and the potential implications for market predictability, liquidity, and confidence in the scarcity principle underpinning the system. While Carbon Management Europe does not take a position on such mechanisms at this stage, their potential merits and drawbacks could be explored as part of future assessments of the EU ETS and the MSR.

RECOMMENDATION 2

Ensure that the MSR evolves alongside the tightening EU ETS cap so that it continues to support a transparent, predictable, and rules-based carbon market. Future adjustments should preserve market stability, reinforce confidence in the long-term carbon price signal, and provide the investment certainty needed to accelerate industrial decarbonisation.

PRIORITY 2

Direct a greater share of EU ETS revenues towards industrial decarbonisation

The allocation and use of EU ETS revenues requires particular attention and should be a central consideration in the forthcoming review.

The EU ETS is designed to place a cost on greenhouse gas emissions and thereby incentivise industrial decarbonisation. To maintain the legitimacy and effectiveness of the system, a significant share of the revenues generated should be reinvested in the technologies and infrastructure required to reduce emissions. With [almost €40 billion generated in 2024 alone](#) and [over €250 billion generated in auction revenues since its launch](#), the EU ETS represents one of Europe's most important sources of funding for the clean industrial transition.

However, it should be noted that while the EU ETS generates substantial revenues, these alone will not be sufficient to finance the scale of investment required to both achieve climate neutrality and maintain the competitiveness of European industry. Their strategic allocation is therefore just as important as the volume of revenues generated.

EU schemes such as the Innovation Fund have demonstrated the value of directing EU ETS revenues towards industrial decarbonisation. The Innovation Fund has been instrumental in supporting industrial decarbonisation projects across Europe. As Carbon Management Europe's [Innovation Fund ICM project database](#) shows, more than 60 industrial carbon management projects have been selected across 18 Member States to date.

These projects illustrate how EU ETS revenues can be recycled into solutions that directly contribute both to emissions reductions and long-term industrial competitiveness. However, demand for support significantly exceeds available funding. The Innovation Fund has been oversubscribed for several years, and as the recent [report by the European Court of Auditors](#) outlined, there is significant uncertainty as to the level of resources that will ultimately be available each year. The challenge is therefore not a lack of technically mature or commercially viable decarbonisation projects, but rather insufficient funding and de-risking mechanisms to bridge the remaining commercial gap and support their deployment at the pace and scale required. This is particularly true for shared CO₂ transport and storage infrastructure, which often requires upfront public investment before private capital can be mobilised.

A key factor underlying this challenge is the current distribution of EU ETS revenues. Under existing rules, more than 76% of auction revenues flow to Member States, while only 24 % are directed towards EU-level instruments. As reported by the [Commission](#), only a small proportion (approx. 5%) of the revenues retained by the Member States is currently spent on industrial decarbonisation. This raises important questions about whether the current allocation of EU ETS revenues is delivering the maximum climate and industrial benefit, and whether greater guidance on the use of national revenues is warranted.

EU-managed funding instruments have proven particularly effective at supporting large-scale industrial decarbonisation projects, particularly where coordination across Member States is required. This is increasingly relevant for CO₂ transport networks and integrated value chains, which often span multiple borders and require coordinated investment decisions.

As industrial carbon management scales across Europe, consideration should therefore be given to whether a larger share of EU ETS revenues should be channelled through EU-level programmes capable of supporting projects of strategic European significance. Greater transparency and harmonisation in reporting on the use of EU ETS revenues at national level would also improve accountability and help guarantee their contribution to Europe's climate and industrial objectives.

Carbon Management Europe also cautions against measures designed primarily to maximise short-term EU ETS revenues at the expense of the system's long-term integrity. Proposals such as frontloading additional allowances or using ad hoc allowance releases to finance new investment initiatives risk weakening the carbon price signal that underpins investment decisions. While additional funding for industrial decarbonisation is urgently needed, it should not be achieved through measures that distort carbon price signals and undermine confidence in the EU ETS. Any proposal to mobilise additional EU ETS revenues should therefore be accompanied by a clear explanation of its funding source and an assessment of its impact on carbon market stability and long-term investment incentives.

In this context, Carbon Management Europe also calls on the European Commission to clarify how the proposed “Investment Booster” and the associated Industrial Decarbonisation Bank will be financed. While [the Commission has indicated](#) that 400 million allowances from Phase IV of the EU ETS (i.e. until 2030) could be mobilised to provide an initial budget of approximately €30bn, questions remain regarding the origin of these allowances and the potential implications for the carbon market. Greater clarity is needed on whether these allowances would be drawn from existing volumes within the system, future auction volumes, or other sources; as well as on the potential impacts on allowance supply, the functioning of the MSR, and the long-term integrity of the EU ETS. Such transparency is essential to provide certainty to market participants and maintain confidence in the EU carbon pricing framework.

RECOMMENDATION 3

Increase the share of EU ETS revenues channelled through EU-managed programmes, particularly those supporting industrial decarbonisation, cross-border CO₂ infrastructure, and project de-risking. In addition, strengthen transparency and accountability requirements for Member States and encourage the use of EU ETS revenues to support decarbonisation investments in sectors covered by the EU ETS while also preserving their long-term competitiveness.

Several EU Member States have established support schemes for industrial decarbonisation, including the [Netherlands](#), [France](#), [Germany](#), and [Belgium](#). Targeted support for industrial carbon management also exists in countries such as [Sweden](#) and [Denmark](#).

In parallel, the Commission has introduced mechanisms that allow Member States to channel national resources through EU-level funding programmes. More specifically, instruments such as the Innovation Fund's “Auctions-as-a-Service” (AaaS) and “Grants-as-a-Service” (GaaS) were designed to enable Member States to leverage the Commission's project selection, due diligence, contracting, and monitoring processes, while pooling national and EU resources around common decarbonisation objectives. These instruments offer several advantages. By relying on established governance structures and competitive EU-wide project selection processes, they can reduce administrative burdens and implementation costs, avoid duplication of effort, accelerate funding decisions, and help ensure that public resources are directed towards high-quality projects. Yet, despite these benefits, Member State participation in these schemes has so far remained limited.

The upcoming revision of the EU ETS should strengthen the link between EU ETS revenues and industrial decarbonisation outcomes. While Member States are already required to spend 100% of their national share of EU ETS revenues for climate- and energy-related purposes, greater transparency, oversight, and accountability are needed to ensure that this obligation is implemented consistently across the Union. The upcoming revision should therefore introduce means to supervise and enforce this requirement, and provide a clearer definition of eligible climate-related expenditure.

Moreover, Member States should be required to dedicate a minimum share of EU ETS revenues to the decarbonisation of sectors covered by Annex I of the ETS Directive. To meet this obligation, Member States should be provided with two implementation pathways: either (1) contribute revenues to EU-level instruments such as the Innovation Fund's AaaS and GaaS schemes, or (2) deploy equivalent national support mechanisms.

This approach would strengthen support for industrial decarbonisation while respecting national circumstances and encouraging greater use of proven EU-level funding instruments.

RECOMMENDATION 4

Strengthen oversight of Member States' obligation to use 100% of their national share of EU ETS revenues for climate- and energy-related purposes, and introduce clearer reporting requirements and definitions of eligible expenditure.

In addition, require Member States to dedicate a defined share of EU ETS revenues to the decarbonisation of sectors covered by Annex I of the ETS Directive, either through national support schemes or through contributions to EU-level funding instruments.

The definition of climate-related spending should be clarified further and aligned with the EU's climate and industrial objectives, ensuring that EU ETS revenues support a broad range of decarbonisation measures required to achieve climate neutrality.

PRIORITY 3

Ensure the Industrial Decarbonisation Bank focuses on cost-effective decarbonisation

As outlined in Carbon Management Europe's [response to the last public consultation on the Innovation Fund](#), one of the Fund's greatest strengths – its focus on supporting first-of-a-kind (FOAK) projects – is also a limitation when the policy objective shifts from innovation to large-scale deployment.

While the Innovation Fund has successfully supported a number of CCS and CCU projects that are already moving beyond the demonstration phase and into early deployment, its primary mandate remains focused on innovation. We therefore welcome the Commission's proposal to establish an Industrial Decarbonisation Bank (IDB) as a complementary instrument dedicated to supporting and accelerating the large-scale deployment of industrial decarbonisation projects across Europe.

We particularly welcome the Commission's emphasis on cost-effectiveness as a core objective of the IDB. Given the scale of investment required to decarbonise European industry, ensuring that (sometimes limited) public resources deliver the greatest possible emissions reductions per euro invested will be essential. Experience from the Innovation Fund demonstrates that industrial carbon management projects – including carbon capture and storage (CCS) and carbon capture and utilisation (CCU) – can, in specific contexts, provide cost-effective pathways to reduce hard-to-abate industrial emissions.

To maximise its impact, the IDB should therefore remain technology-neutral and support projects on the basis of their contribution to industrial decarbonisation and cost-effectiveness rather than prioritising specific technologies or innovation objectives already addressed through the Innovation Fund. A clear distinction between the respective roles of the Innovation Fund and the IDB will be essential to ensure that the two instruments complement one another and maximise the impact of EU public funding.

RECOMMENDATION 5

Ensure the Industrial Decarbonisation Bank maintains a simple design focused on delivering cost-effective industrial decarbonisation at scale. The IDB should complement the Innovation Fund by supporting the commercial deployment of mature decarbonisation solutions through a technology-neutral and cost-effective approach.

Carbon Management Europe also welcomes the Commission's proposed two-stage approach for the IDB. As [highlighted by Clean Air Task Force](#), more than 100 large scale carbon management projects are currently under development across Europe and could seek support in the coming years. We therefore welcome the pragmatic approach proposed for Phase 1 of the IDB – i.e. the “Investment Booster” – which has the potential to accelerate project deployment while reducing some of the administrative complexity associated with existing schemes. The design of the Investment Booster can build on lessons learned from the Innovation Fund, including the need for greater flexibility in determining final grant amounts following FEED studies, more realistic project implementation timelines upon grant signature, and a broader definition of “relevant costs” aligned with other EU funding instruments.

However, achieving cost-effective industrial decarbonisation requires more than selecting individual projects in isolation. A key challenge facing developers of CO₂ transport and storage infrastructure is securing sufficient committed volumes from emitters to underpin investment decisions. Experience from projects such as [Porthos](#) (the first full-chain CCS project in the EU, which connects four separate emitters to a single pipeline and storage site) has shown that coordinating multiple emitters, transport infrastructure, and storage providers is often [one of the most significant barriers to deployment](#). In Porthos' case, this was achieved, in part, thanks to coordinated support under the SDE++ scheme. Aligning the timelines, incentives, and investment decisions can therefore be just as important as the availability of funding itself.

While the Innovation Fund has successfully catalysed FOAK carbon management projects in Europe, its project-by-project assessment model does not always capture the broader system value of shared infrastructure and industrial clusters. Nor does it fully account for the coordination challenges associated with different project timelines, geographies, and commercial arrangements. To maximise cost-effective emissions reductions, the IDB should therefore adopt a more strategic approach when assessing applications, taking into account not only the merits of individual projects but also their ability to unlock shared CO₂ transport and storage infrastructure, facilitate cluster development, and accelerate investment across the wider value chain.

Looking ahead to Phase 2 of the IDB, any European Carbon Contracts for Difference (CCfD) scheme should be designed to provide a bankable framework for large-scale industrial decarbonisation projects. This should include (i) assessing both upfront investment (CAPEX) and operational (OPEX) risks to the extent necessary to make projects financeable, (ii) providing predictable and long-term CO₂ price support, (iii) allowing sufficient flexibility in project delivery timelines (for e.g. in cases of force majeure), and (iv) ensuring balanced risk-sharing across the value chain. Compatibility with other support mechanisms (e.g. the Innovation Fund), together with proportionate monitoring and penalties, will be essential to make large-scale industrial carbon management projects bankable.

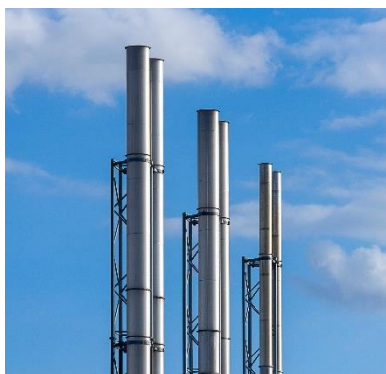
RECOMMENDATION 6

Ensure the Industrial Decarbonisation Bank prioritises projects that deliver cost-effective emissions reductions while enabling the development of shared CO₂ transport and storage infrastructure and industrial clusters. During the early deployment phase, particular emphasis should be placed on projects capable of unlocking wider value-chain investments and creating the conditions for future scale-up, while ensuring that source-to-sink projects in less densely industrialised regions are not excluded from support.

PRIORITY 4

Establish coherent and simplified carbon accounting for CO₂ capture and transport

The EU ETS review should deliver a carbon accounting framework for industrial carbon management that is simple to understand and to apply, consistent across different value chains and transport modes, and robust enough to preserve the environmental integrity of the system. As CCS, CCU, and industrial carbon removal pathways scale up across Europe, monitoring, reporting, and verification (MRV) rules will need to evolve to reflect increasingly complex and cross-border CO₂ value chains.



In particular, updated MRV rules are needed for CO₂ transport installations to ensure that EU ETS accounting remains fully compatible with the large-scale deployment of CO₂ pipeline, shipping, rail, and terminal infrastructure. These rules should provide legal clarity for operators, facilitate cross-border CO₂ flows, avoid unnecessary administrative complexity, and ensure that captured CO₂ can be tracked and accounted for reliably across the value chain. While the core accounting principles should remain consistent across transport modes, implementation requirements may need to reflect the operational characteristics of different transport systems.

The Commission could also consider introducing more proportionate verification requirements for low-materiality CO₂ streams and other small material flows. As carbon management value chains become increasingly complex, MRV obligations should focus on maintaining environmental integrity while avoiding disproportionate compliance costs. Where comparatively small material flows have only a limited impact on a facility's overall carbon balance, the use of standard values, conservative estimates, or simplified monitoring approaches could reduce administrative burdens and accelerate project deployment without materially affecting the accuracy or reliability of emissions accounting. Any such simplifications should remain transparent, verifiable, and consistent with the environmental integrity objectives of the EU ETS.

RECOMMENDATION 7

Update MRV rules to ensure full compatibility with the planned deployment of CO₂ transport and storage infrastructure across Europe, while introducing proportionate and risk-based verification requirements that simplify implementation without compromising environmental integrity.

In particular, the review should ensure coherent treatment of CO₂ capture installations and CO₂ transport chains across all industrial carbon management pathways (i.e. CCS, CCU, or industrial carbon removals). As these pathways increasingly rely on shared transport and storage infrastructure, a consistent carbon accounting framework is essential to avoid double counting, regulatory gaps, and divergent treatment of comparable activities. This is particularly important for infrastructure handling mixed CO₂ streams (i.e. containing both fossil and atmospheric/biogenic CO₂), where inconsistent accounting approaches could create unnecessary complexity and undermine investment certainty.

The review should therefore seek to establish a common and interoperable accounting framework across industrial carbon management value chains while preserving the environmental integrity of the EU ETS. This work should be closely coordinated with related legislative and policy initiatives, including the Industrial Carbon Management Strategy, CRCF Regulation, Net-Zero Industry Act, TEN-E Regulation, and the forthcoming CO₂ market and infrastructure regulatory framework.

RECOMMENDATION 8

Establish coherent carbon accounting rules across ICM pathways, including for mixed CO₂ streams, and ensure alignment between the EU ETS and related legislative frameworks to avoid double counting, regulatory gaps, and inconsistent treatment of comparable carbon management activities.

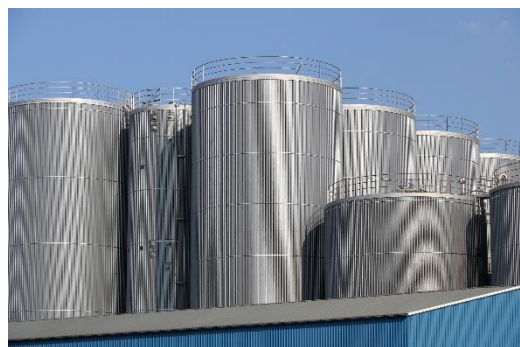
The treatment of carbon capture and utilisation (CCU) pathways under the EU ETS remains a complex issue, particularly because many CCU applications are non-permanent and ultimately result in the release of captured CO₂ back into the atmosphere. Under the current framework, as set out in Article 49 of the Monitoring and Reporting Regulation (MRR), CO₂ transferred for (non-permanent) utilisation purposes (e.g. e-fuels and chemicals) is accounted for at the point of capture. As a result, the capturing installation remains responsible for surrendering allowances even though the eventual release of the CO₂ may occur downstream in the value chain.

For non-permanent CCU pathways,¹ a [downstream 'chain-of-custody' model](#) could provide a more accurate and equitable accounting framework, building on principles already applied to CCS pathways under the EU ETS. The objective would not be to reduce surrender obligations or create new exemptions for non-permanent CCU, but rather to follow captured CO₂ throughout the value chain and assign surrender obligations to the entity responsible for its eventual release (rather than leaving liability with the original capturing installation). This would better reflect the polluter-pays principle and the actual fate of the CO₂. It could also simplify the overall carbon accounting framework by applying a common principle across ICM pathways: liability for captured CO₂ should be capable of being transferred through the value chain, with no surrender obligation where permanent storage is demonstrated and a surrender obligation where the CO₂ is ultimately released.

Robust safeguards would nonetheless be required to prevent double counting, carbon leakage from the EU ETS, and gaps in emissions accounting. Furthermore, any transition towards a downstream accounting framework should be accompanied by a detailed assessment of its impacts on existing and emerging CCU value chains, including recycled carbon fuels and e-fuels defined in the Renewable Energy Directive.² It should avoid creating unintended disruptions or disincentives for ongoing projects and investments made under the current regulatory framework.

Particular attention should also be given to situations where non-permanent CCU products are exported outside the European Union. Under a downstream accounting framework, the obligation to surrender allowances should remain with the last installation covered by the EU ETS that possesses the CO₂-containing product before it leaves the system. This would ensure that the carbon price continues to be paid even where the eventual release occurs outside the EU's regulatory jurisdiction, thereby preserving the environmental integrity of the EU ETS.

In parallel, [Commission Delegated Regulation \(EU\) 2024/2620](#) and the Monitoring and Reporting Regulation should be reviewed regularly to ensure that the list of recognised permanent CCU products keeps pace with technological developments. A transparent and science-based process for recognising additional permanent CCU applications would provide regulatory certainty and create stronger incentives for investments in pathways that deliver durable carbon storage.



¹ For the sake of the argument, “non-permanent CCU pathways” refer to any CCU pathway that is not explicitly included in Annex of [Commission Delegated Regulation \(EU\) 2024/2620](#), which lays out the requirements for considering that greenhouse gases have become permanently chemically bound in a product.

² See [Commission Delegated Regulation \(EU\) 2023/1184](#) and [Commission Delegated Regulation \(EU\) 2023/1185](#).

RECOMMENDATION 9

Adopt a downstream **chain-of-custody** model for non-permanent CCU pathways under the EU ETS, building on accounting principles already applied to CCS and ensuring that surrender obligations are assigned to the point of eventual release. Any such framework should maintain robust safeguards against double counting, carbon leakage, and unintended impacts on existing CCU value chains. In parallel, establish a regular process for updating the list of recognised permanent CCU applications to reflect technological progress and support investment in durable carbon storage solutions.

As Carbon Management Europe noted in the annex to its [response to the public consultation on the future regulatory framework for CO₂ markets and transportation infrastructure](#), system boundaries must be simple, clear, and operationally workable. Unclear or overlapping responsibilities would risk creating confusion, duplication, and unnecessary administrative burdens, thereby slowing the deployment of CO₂ infrastructure across Europe.

EU ETS accounting rules should therefore be adapted to address cross-border CO₂ transport and storage value chains. For both transport and storage infrastructure, the EU ETS rules should clearly allocate jurisdictional, reporting, monitoring, and liability responsibilities across each infrastructure segment. In the case of CO₂ transport, each distinct transport segment should be treated as a separate ETS installation, with clear MRV obligations for the relevant operator. In the event of CO₂ losses during transport, emissions reporting, compliance oversight, and enforcement responsibilities should be assigned to a designated lead authority, based on clear and predictable criteria. In cross-border transport chains, this could, for instance, be the Member State of departure.

For cross-border storage (for example, cases where a plume of CO₂ extends across jurisdictional boundaries while remaining safely contained within a geological storage complex), the framework should enable a “one-stop shop” model for permitting, supervision, monitoring, and reporting. Under such an approach, the competent authority of the Member State where the injection well is located could act as lead authority, while the competent authorities in neighbouring Member States would be formally consulted and given an opportunity to confirm that their legitimate interests are addressed. This could be achieved through a structured consultation or “no-objection” procedure, ensuring effective oversight without duplicative permitting or reporting requirements.

RECOMMENDATION 10

Establish a clear and streamlined framework for cross-border CO₂ transport and storage infrastructure, with clearly defined jurisdictional responsibilities, reporting obligations, and liability arrangements. Where infrastructure or storage complexes span multiple Member States, a lead-authority or “one-stop-shop” approach should be adopted to minimise administrative burdens, avoid duplicative procedures, and ensure effective regulatory oversight and accountability.

PRIORITY 5

Integrate permanent carbon removals with caution

The Carbon Removal and Carbon Farming Certification Framework (CROF) is a welcome and important step towards establishing a robust European framework for certifying carbon removals. Carbon dioxide removals (CDR) will play a critical role in achieving climate neutrality and addressing residual emissions that cannot be eliminated through direct emissions reductions, and ultimately supporting the transition to net-negative emissions. The CROF provides the appropriate framework to certify, monitor, and support the deployment of these activities across Europe.

The primary purpose of the EU ETS, on the other hand, should remain the reduction of greenhouse gas emissions within covered sectors. While carbon removals will be an important component of the EU's overall climate strategy, the EU ETS should not be transformed into a general deployment mechanism for carbon removal technologies. Any future integration of removals into the EU ETS must therefore be carefully designed to preserve the environmental integrity of the system, maintain a strong incentive for direct emissions reductions, and avoid weakening the carbon price signal that underpins industrial decarbonisation.

For these reasons, any future integration of CDR into the EU ETS should be limited to permanent carbon removal pathways that deliver durable climate benefits and are fully compatible with the monitoring, reporting, and verification requirements of the scheme. At present, pathways relying on permanent geological storage – such as Direct Air Carbon Capture and Storage (DACCS) and Biogenic Carbon Capture and Storage (BioCCS) – appear to be the most readily compatible with the EU ETS framework, as they can be robustly monitored and verified over the long term. The eligibility of other CROF-certified permanent carbon removal pathways, including Biochar Carbon Removal (BCR), should be assessed against the same criteria, including permanence, traceability, attribution, and compatibility with the ETS accounting framework.

RECOMMENDATION 11

Limit any future integration of CDR into the EU ETS to permanent carbon removal pathways that demonstrate robust permanence and are fully compatible with the system's monitoring, reporting, verification, and compliance rules. Eligibility should be assessed on the basis of traceability, attribution, and compatibility with the EU ETS accounting framework.

The rationale for considering the future integration of certain permanent CDR pathways in the EU ETS lies in their potential to address residual emissions from industrial sectors – i.e. emissions which cannot be abated at source for technical reasons and/or at reasonable cost. However, integrating removals into a cap-and-trade system raises a number of important design questions that require careful assessment. These include the interaction between removal credits and the EU ETS cap, the extent to which removal credits should be fungible with EU allowances, and the implications for carbon price formation and industrial decarbonisation incentives.

The impact of permanent CDR on the EU ETS carbon price signal will depend on the specific architecture chosen. Integrating removals within the existing cap (i.e. a “one-in-one-out” approach) would have fundamentally different implications from allowing removals to create additional compliance flexibility beyond the cap. The treatment of removals will therefore have important consequences for the effective stringency of the EU ETS, the volume of emissions allowed within the system, and the long-term carbon price signal. Carbon Management Europe considers it essential that any future integration preserves the integrity of the EU ETS cap and avoids creating additional emissions space that could weaken incentives for emissions reductions. Any proposal to integrate removals into the EU ETS should therefore be accompanied by a transparent assessment of its implications for the cap trajectory, the Linear Reduction Factor (LRF), EUA demand, and long-term carbon price formation.

Particular caution should also be exercised regarding the fungibility of removal credits and EU allowances. While fungibility could provide a future compliance pathway for addressing residual emissions, unrestricted one-to-one substitution between removals and emissions allowances would drastically alter the functioning of the EU ETS. The extent to which removal credits may be used for compliance purposes should therefore be carefully assessed and, if pursued, introduced gradually and subject to appropriate quantitative safeguards, taking into account their implications for carbon prices, resource availability, deployment constraints, and the overall integrity of the EU ETS.

The geographical scope of any eligible removals also warrants careful consideration. Carbon Management Europe considers that priority should be given to permanent carbon removals developed within the EU regulatory framework, in line with the mandate established under the European Climate Law and previous EU ETS review (2023) to assess the potential integration of domestic permanent removals into the EU ETS. These removals are subject to a comprehensive legislative framework, including the Carbon Removal and Carbon Farming Certification Framework (CRCF) and its Q.U.A.L.I.T.Y certification criteria, as well as, where applicable, the CCS Directive governing the long-term monitoring, liability, and stewardship of geological CO₂ storage sites. Any future consideration of international carbon removals should only take place where they demonstrably provide equivalent standards of permanence, monitoring, verification, environmental integrity, liability arrangements, regulatory enforceability, and overall compatibility with the EU ETS accounting framework.

Any future inclusion of permanent CDR in the EU ETS should therefore be subject to strict eligibility criteria, quantitative limits, and robust monitoring, reporting, and verification requirements. These safeguards should ensure that removals complement rather than substitute for greenhouse gas emissions abatement efforts, and that the effectiveness of the EU ETS as a driver of industrial decarbonisation is preserved.

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RECOMMENDATION 12

Ensure that any future integration of removals preserves the integrity of the EU ETS cap, maintains incentives for direct emissions reductions, and is accompanied by a detailed assessment of implications for the cap trajectory, LRF, EUA demand, carbon prices, and the potential fungibility of removal credits with EU allowances.

Furthermore, EU ETS integration alone should not be seen as sufficient deployment mechanism for permanent carbon removals. Even under scenarios where removals become eligible for compliance purposes, the costs of DACCS and BioCCS are expected to remain significantly above EUA prices for the foreseeable future, creating a substantial funding gap. Any future integration of permanent removals into the EU ETS should therefore be accompanied by dedicated support mechanisms capable of bridging this gap and providing long-term investment certainty for project developers. Such support could be delivered through bespoke funding mechanisms or through existing and future EU instruments, including the Innovation Fund.



RECOMMENDATION 13

Establish dedicated funding mechanisms to address the prevailing cost gap between permanent CDR and EUA prices before relying on the EU ETS as a significant deployment mechanism for DACCS, BioCCS, and other eligible permanent removal pathways. Such support should provide long-term investment certainty and be designed to complement, rather than replace, future ETS-based demand.

Conclusion

Carbon Management Europe firmly supports the preservation and the strengthening of the EU ETS as Europe's primary carbon pricing instrument and a cornerstone of the Union's climate policy framework.

A robust, predictable, and long-term carbon price remains essential to driving emissions reductions, supporting the deployment of industrial carbon management solutions, and providing the investment certainty required for large-scale industrial decarbonisation. For energy-intensive industries and hard-to-abate industrial process emissions in particular, a stable EU ETS is indispensable to unlocking investment in cost-effective decarbonisation solutions, including industrial carbon management pathways.

However, the EU ETS cannot deliver Europe's climate and industrial transformation in isolation. Carbon pricing is a powerful driver of change, but its effectiveness depends on a broader policy framework that enables investment, provides long-term revenue certainty for decarbonisation projects, creates demand for low-carbon products, and accelerates the deployment of strategic infrastructure. The forthcoming EU ETS review should therefore be approached not as a standalone exercise, but as part of a wider agenda aimed at delivering climate neutrality while strengthening Europe's industrial competitiveness.

In this context, Carbon Management Europe highlight three complementary policy priorities:

- 1 **Industrial Accelerator Act:** Essential to bridge the gap between carbon pricing and industrial investment decisions, stimulate demand for low-carbon products, and create lead markets for industrial decarbonisation solutions.
- 2 **Net-Zero Industry Act:** Member States must accelerate efforts to develop CO₂ storage capacity and related infrastructure in line with the obligations and objectives established under the NZIA.
- 3 **CO₂ Market and Infrastructure Regulatory Framework:** Expected imminently, this legislative initiative must be closely aligned with the EU ETS review. Regulatory coherence across these initiatives will be essential. DG CLIMA should play a central role in its design, too: the current legal basis, detached from Article 192 TFEU, risks creating inconsistencies with the broader EU climate and industrial carbon management policy framework.

The recommendations set out in this paper are intended to preserve the integrity, effectiveness, and long-term credibility of the EU ETS while ensuring that it remains fit for purpose in a rapidly evolving decarbonisation landscape. By maintaining a climate focus together with a strong and predictable carbon price signal, strengthening support for industrial decarbonisation, improving the use of EU ETS revenues, and ensuring coherence with related policy instruments, the EU can ensure that the EU ETS continues to serve as the foundation of its climate and industrial strategy on the path to climate neutrality.

ABOUT CARBON MANAGEMENT EUROPE

Carbon Management Europe is the official advisor to the European Union on industrial carbon management. Our mission is to enable and accelerate the deployment of carbon management technologies across Europe to help achieve climate neutrality.

Since 2005, our platform has brought diverse stakeholders together to share knowledge, find common ground, and turn technical expertise into science-based policy advice for EU institutions and European governments.

We work with a broad range of members, including industrial companies, energy producers, civil society organisations, technology and infrastructure developers, financial actors, and research and academic institutions.

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