

Feedback to call for evidence - ETS1 review

Carbon Market Watch submission

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The EU ETS carbon price supports the investment signal for the power sector to lower its consumption of fossil fuels and switch to renewable energy sources, but that's not the case for industrial stationary installation: the continued allocation of free emission allowances has contributed to the limited decarbonisation of steel, cement and chemicals sectors, which remain the major sources of EU industrial CO₂ pollution. All free allocation, as well as indirect cost compensation, needs to be phased out - in the meantime, all exemptions and benefits **MUST** be tied to reaching decarbonisation milestones or to investments into decarbonisation technologies.

Consistency with the application of the polluter pays principle and pollution prevention at source policy needs to be established: Article 26 of the EU ETS Directive should be deleted to support performance-based pollution prevention measures with meaningful carbon pricing instruments to industrial decarbonisation.

Funding for industrial decarbonisation needs to come from private and public sources, by unlocking billions that are currently untargeted and distributed in free allowances. Future ETS revenues must be spent on solutions that avoid further carbon lock-in: Art 10(3) needs to be edited to clearly rule out any fossil fuel subsidy and introduce the Do No Significant Harm principle to improve and harmonise Member State spending.

The EU ETS is not playing its role for aviation as it ignores most of its climate impact: from flights to/from 3rd countries and non-CO₂ effects. It must be widened to cover all departing flights from 2027 since CORSIA is clearly misaligned with ICAO's long term aspirational goal, Paris Agreement and EU's climate targets. SAF funding must be refocused on e-kerosene and strengthened with more annual allowances available until 2040.

The EU ETS must work with the IMO's Net Zero Framework to maximise climate ambitions for maritime, ie cover 100% of extra-EEA routes next to the NZF. The ETS

scope must cover all small ships in 2027. Not doing it would leave out ca. 15% of shipping emissions unaddressed and miss the opportunity to support clean tech scale-up.

To address social equity concerns, all private jet and yacht emissions must be priced with a carbon price multiplier and targeted Air Passenger Duty increase.

According to research recently commissioned by Carbon Market Watch the MSR won't need to disburse allowances before 2035. Beyond 2035 additional supply of allowances could be facilitated by changes to the LRF or the MSR. A weakening of either will increase pollution and will then have to be compensated by increased ambition in other sectors. To avoid weakening the functioning of the market prematurely, a review of the MSR and LRF could be undertaken alongside the review of the functioning of the ETS2 in 2031. Maintaining existing rules at least until 2035 inspires a strong investment signal, upholds revenue streams for member states to fund decarbonisation efforts and leads to cost-effective decarbonisation efforts.

In addition, there will be no need to solve liquidity issues through the inclusion of carbon removals under the EU ETS: alternative policies to the integration of carbon removals in the EU ETS are needed in the EU to ensure removals are not used as a substitute for reducing emissions. There are many options that do not imply a full equivalency between emissions and removals, and do not cause significant mitigation deterrence risks.. High-quality; sustainable and permanent CDR will remain scarce and expensive, with potential risks for planetary boundaries if scaled too far. Therefore they must not be wasted on offsetting in the ETS as many non-ETS emissions also need to be balanced to reach climate neutrality.

Supporting the arguments above, we provide an attached literature list.

- Carbon Market Watch, [The Emissions' Aristocracy](#), 2023
 - The report builds on a database linking company ownership data with EUTL data to “name” major polluters under the EU ETS. The main finding is that 50% of EU ETS emissions in 2022 can be attributed to only 30 companies. Heavy industry still covers over 90% of its emissions through free allocation, effectively undermining the carbon price signal. In addition, certain companies receive more free allocation than their actual emissions. While some of this overallocation can be explained through waste gases and heat allocation, there is still a risk of windfall profits for companies covered by the ETS.
- Carbon Market Watch & WWF European Policy Officer, [A clean industrial revolution in Europe](#), 2025
 - Building on The Emissions' Aristocracy, this report analyses how the top polluting industrial sectors (steel, cement, oil refining, and chemicals) benefited from the EU ETS free allocation system. These sectors show decarbonisation trajectories not in line with EU climate goals: especially for steel and cement, a handful of companies can be identified as top polluters (only two companies, ArcelorMittal and ThyssenKrupp, are responsible for half of EU steel CO2 emissions).
 - At the same time, these sectors (mainly cement) received millions back from EU ETS revenues from the Innovation Fund: a third of the Innovation Fund's total budget (from 2020 to 2022) went towards CC(U)S technologies.
- Joint letter, [EU ETS revenues from polluters to the people](#), 2024
 - Recommendations for a more effective and targeted use of EU ETS auctioning revenues.
 - For the period 2021 to 2030, the Innovation Fund's total budget is set to be about €45 billion, while heavy industry will receive some €226.7 billion in free allowances over the same period.
 - These revenues need to be unlocked, especially with the rising carbon price: it's urgent to update Art. 10(3) to exclude all fossil fuels subsidies (including through indirect cost compensation), and explicitly include the “Do No Significant Harm” principle in Member States spending.
- AirClim, TU Delft, LIFE ETX, [Speeding up the decarbonisation of European industry: assessment of national and EU policy options](#) (2022)
 - Collection of complementary policy measures -beyond the EU ETS- to support industry decarbonisation in EU and Member States.

- Oeko Institute & Carbon Market Watch, [EU ETS and 2040 Climate Target](#) and [Fit for 2040 Policy Brief, 2025](#)
 - The report highlights that the integration of carbon removals or international credits into the EU ETS presents huge risks to the functioning of the system. The availability of cheap credits will lead to mitigation deterrence, risk to land use and biodiversity and the funneling of investment outside of Europe to ineffective projects abroad, many with a recorded history of [fraud and human rights abuses](#).
 - Using a series of emission scenarios, the modelling illustrates that the TNAC within ETS1 does not go into a deficit until 2035. This means that no changes should be made to the MSR or LRF within ETS1 before this time to ensure that the system retains its ability to drive emissions reductions.
 - The report also highlights that due to uncertainties in the level of emissions reductions in covered sectors and the functioning of the market, ETS2 should begin as planned and undergo its first review in 2028, as outlined in the Directive. Strong complementary measures to lower emissions are needed to ensure that the ETS2 price remains at a socially acceptable level without weakening the system and risking the 2040 climate target.
- Carbon Market Watch, EU ETS vs CORSIA: Which better navigates the turbulence of the climate crisis?, 2024: <https://carbonmarketwatch.org/publications/eu-ets-vs-corsia-which-better-navigates-the-turbulence-of-the-climate-crisis/>
 - The study compares the functioning and climate ambitions of the EU ETS for aviation and ICAO's CORSIA. It finds that CORSIA is an ineffective scheme to reduce aviation emissions, that its design is flawed with a sky-high baseline of emissions left unaddressed, no post-2035 direction, and a reliance on out-of-sector carbon offset credits, often found to not deliver on their emission reduction promises. Besides, 5 major countries still haven't joined the scheme, while some others who officially joined haven't implemented it (and perhaps won't). The EU ETS is assessed as a good basis yet insufficient in its current form, still with free allowances until 2026, and more importantly, major scope exemptions for extra-EEA flights and non-CO2 aviation effects. All efforts must be put into reforming the EU ETS in 2026 to bridge those gaps.
- T&E, Flying via Istanbul: escaping climate measures?, 2023: <https://www.transportenvironment.org/uploads/files/TE-Aviation-competitiveness-and-carbon-leakage-Briefing-2023-UPDATED-12-10-23.pdf>

- There is not enough empirical evidence to support that carbon leakage has occurred as a result of the EU ETS in the aviation sector in the period up to 2024. Already in the European Commission’s Impact Assessment in 2006 on the introduction of aviation emissions in the EU ETS, it had found it “unlikely to significantly affect the respective competitive positions of operators.” This was also a primary result of the European Commission’s Impact Assessment on the Fit for 55 measures, which stated “there is no evidence of carbon leakage at present for aviation”. It is key to differentiate carbon leakage from the competitiveness of our airports. The study highlights well how the significant growth of Dubai and Istanbul hubs is unrelated to EU climate policies.
- ICCT, Air and greenhouse gas pollution from private jets in 2023, 2025: https://theicct.org/wp-content/uploads/2025/06/ID-349-%E2%80%93Private-jets_report_final.pdf
 - “Private jets are a large and growing source of air and climate pollution. A private jet emits about 810 tonnes of GHGs in a typical year, equivalent to 177 passenger cars or nine Class 8 heavy-duty trucks. At their post-COVID peak in 2022, private jets emitted an estimated 23.7 Mt of CO₂-equivalent emissions and accounted for nearly 4% of the civil aviation total. In 2023, private jets collectively emitted more GHGs than all flights departing from Heathrow Airport, the busiest airport in Europe (Heathrow Airport, 2024). [...]
 - A typical private jet flight is short-haul (less than 900 km) and lasts less than two hours. This means that the emissions of private jet flights could be reduced through the use of turboprop aircraft, which are much more fuel efficient than turbofan aircraft, and by a modal shift to high-speed rail in regions where it exists, like Europe.
 - Taxation of private jet flights or GHG emissions could generate substantial revenue to support aviation decarbonization. We find that introducing a global tax on fuels consumed by private flights of approximately \$1.59/gallon (\$0.42/L)—as proposed in legislation considered by the previous U.S. Congress—could generate up to \$3 billion annually, based on a top-down analysis of total annual fuel usage estimated at 5.8 million tonnes”
 - Most emissions from private jets in the EU are exempted and not priced under the EU ETS, primarily because either airlines or planes fall below the coverage threshold, and secondarily because a share flies to/from outside the EEA.

- European Commission, REPORT FROM THE COMMISSION on Monitoring of the implementation of Directive 2003/87/EC in relation to maritime transport, 2025: https://climate.ec.europa.eu/document/download/1bb8387b-bdc4-4489-9d76-7ff30239704d_en?filename=First%20report%20on%20the%20implementation%20of%20the%20ETS%20extension%20to%20maritime%20transport.pdf and EC (commissioned to Ricardo), Supporting study for the implementation of the ETS Directive and MRV requirements for maritime transport - Report on monitoring the impacts of the EU ETS extension to maritime transport, 2025: https://climate.ec.europa.eu/document/download/2fe45945-e1ec-4b84-b78b-bd2a50d03478_en?filename=Report%20on%20monitoring%20the%20impacts%20of%20the%20EU%20ETS%20extension%20to%20maritime%20transport.pdf
 - The report finds that “The analysis shows no concrete evidence of a general trend in relocation of container transshipment activities, whereby neighbouring non-EU ports would profit from a decrease in port activity at EU ports. There is also no clear evidence suggesting that shipping companies are adding stops at neighbouring non-EU ports or modifying the order of their port calls to circumvent ETS obligations. In addition, analysis of available data on two case studies (Spain-Italy and Bulgaria-neighbouring countries) provides no evidence of modal shift towards road transport. Furthermore, available data do not point to an increase in the use of smaller ships outside the scope of the system or ship-to-ship transfers, which could have suggested that companies are implementing such evasive behaviours.”
- CO2ol Down results: co-created suggestions for a new governance framework for carbon removals and alternatives to ETS integration
 - In the CO2ol Down project, representatives from academia, industry, and civil society collaborated during co-creation workshops to improve the way carbon removals are currently addressed in the EU climate policy architecture. The project is based on the principle that the EU should set separate targets for gross emissions reductions, biogenic sequestration (LULUCF) and permanent removals, without allowing for fungibility between these three pillars. In [phase 1](#) of CO2ol Down, stakeholders co-drafted a [Proposal to revise the EU Climate Law](#), that suggests specific amendments to the law which clarify the role and characteristics of biogenic sequestration and permanent removals. In addition, co-creators also worked on [Policy recommendations for EU instruments on permanent removals](#), which develop ideas on the building blocks for an EU good strategy on permanent removals, including principles on target

setting, governance, finance, portfolio approach and sustainability criteria.

- In [phase 2](#) of the CO2ol Down project, co-creators met again to develop proposals to finance permanent removals in the EU without diverting investments in reducing emissions.
- [Joint letter calling for the inclusion of Waste Incinerators and Landfills in the EU ETS, 2025](#)
- Zero Waste Europe (ZWE), [Waste incineration under the EU ETS – an assessment of climate benefits](#) (2025 update)
 - Incorporating waste incineration under the EU ETS will result in emission reductions of at least 4 to 7 Mtonnes in 2030 and 18 to 32 Mtonnes in 2040 while boosting recycling, sorting, and waste prevention. The reform should be backed by strict landfill rules, including bans already applied by some Member States.
- [Bankwatch \(2025\)](#), How the EU Modernisation Fund props up fossil gas and waste incineration
 - outlines the current scope of the Modernisation fund allows for the funding of fossil gas projects (over EUR 2 billion) in covered states. This practice essentially locks lower-income member states into higher energy prices as the price of fossil fuels increase with the introduction of ETS2.

Contact

Sam van den plas

Policy Director

sam.vandenplas@carbonmarketwatch.org