

Is the ETS proposal aligned with the 2040 climate target?

Webinar

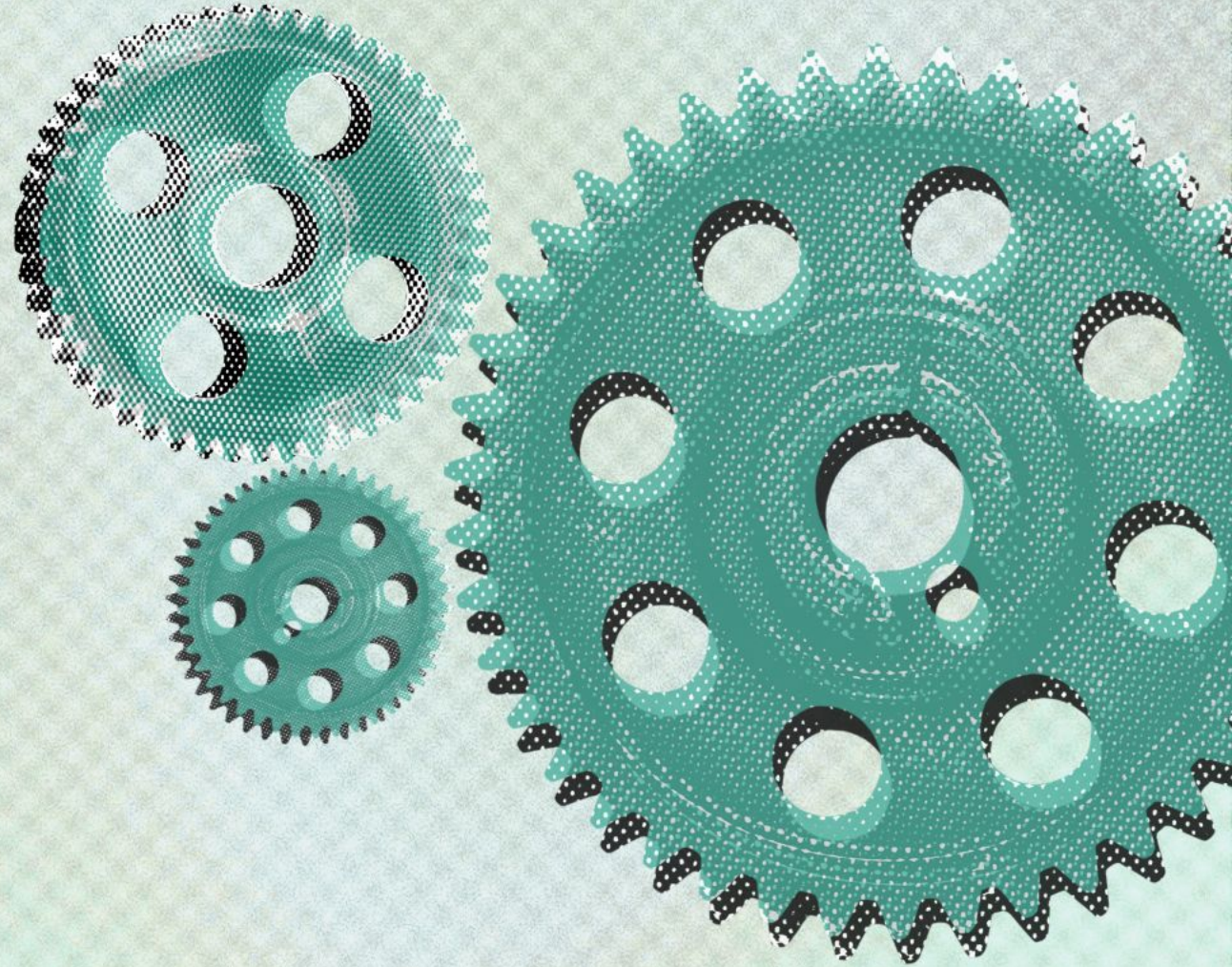
30 September 2026

12:00-13:00 CET

CLIMACT



CARBON MARKET WATCH



Is the ETS proposal aligned with the 2040 climate target?



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EU CLIMATE ARCHITECTURE

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EU CLIMATE ARCHITECTURE

55% NET GHG EMISSIONS REDUCTIONS BY 2030, CLIMATE NEUTRALITY BY 2050

NATIONAL TARGETS



LULUCF



Effort Sharing
Regulation



Emission Trading
System 1



Emission Trading
System 2



**2040 CLIMATE TARGET:
90% NET GHG EMISSIONS REDUCTIONS BY 2040**

At least 85% net
domestic
emissions
reductions

Up to 5% high-
quality
international
credits (Art. 6
Paris Agreement)

The role of
domestic
permanent CDR
in the ETS 1 to
compensate for
residual hard-to-
abate emissions

Flexibilities for
the LULUCF
sector



Empowering **you** to act
on **climate change**

Is the ETS proposal aligned with the 2040 climate target?

New calculation of total emissions allowed by the proposed ETS review

Simon Lalieu | sl@climact.com

CLIMACT developed an online tool to assess the impact of key policy options on ETS1.



Clean Industrial Deal



EU competitiveness



ETS, revision in 2026-27



We provide
Energy & climate change services



Strategy Consulting



Legal & Regulatory Advice



Prospective Studies

CLIMACT

CLIMACT provides advice on how to reconcile decarbonisation with competitiveness, whilst addressing the need for reindustrialisation in the EU.

Agenda

COM proposal

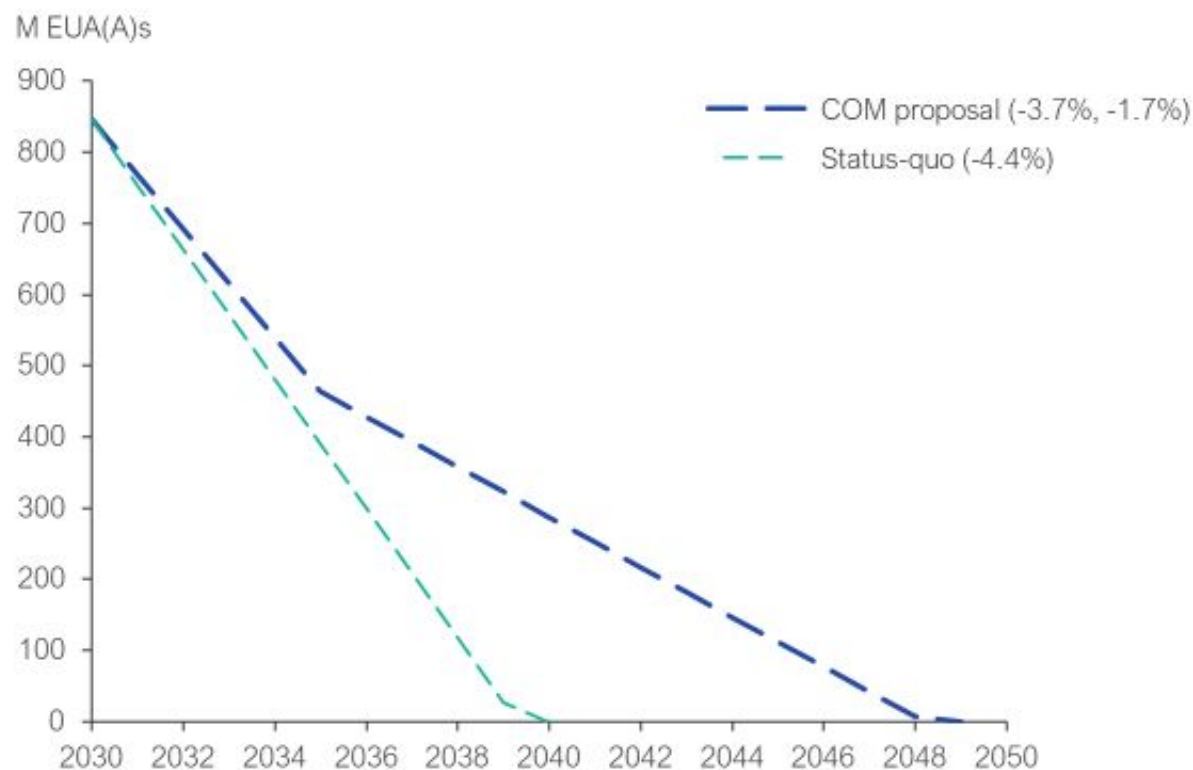
ETS and 2040 climate targets

2040 architecture scenarios

Take-home messages

Under the COM proposal, the ETS cap declines more slowly than under current rules.

Cap trajectory (current EU ETS scope)



Insights

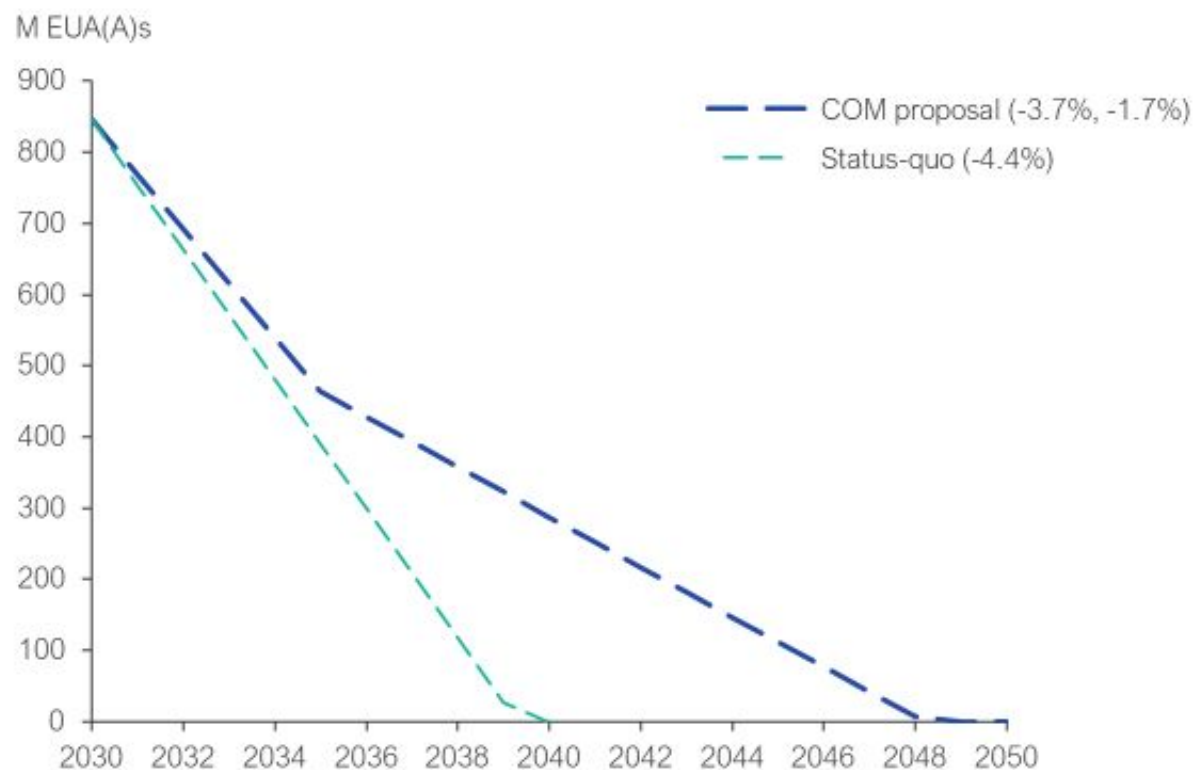
Supply > cap

In addition to the cap, the following must be included to estimate total supply:

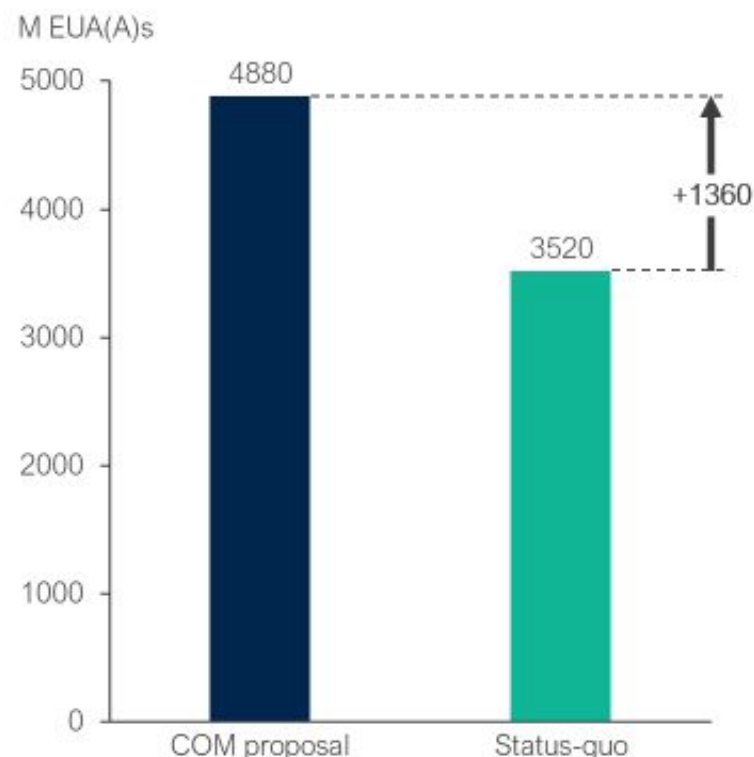
- international credits
- Market Stability Reserve (MSR)
- New Entrants Reserve
- Total Number of Allowances in Circulation (TNAC)

The LRF proposed by the Commission increases the supply resulting from the cap by 1.4 billion allowances between 2031 and 2040.

Cap trajectory (current EU ETS scope)



Cap supply 2031-2040



Extending the ETS scope increases the cap compared with the current scope.



Waste incineration

- New activity in ETS
 - Phase-in from 2031 (25%) to 2034 (100%)
-



Aviation

- Current scope (intra-EEA + UK/CH)
 - Extra-EEA extension: as from 2029, all flights from the EEA to airports < 5000 km of Frankfurt
-



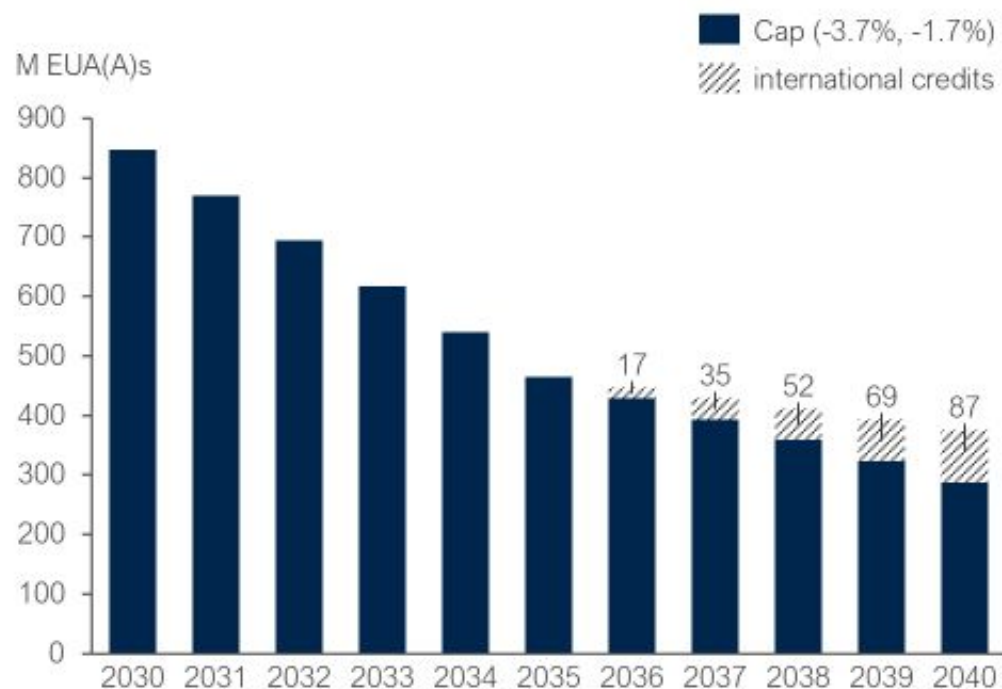
Maritime

- Extension of the ETS to offshore and general cargo ships (400 – 5000 GT)
- Adjustment planned for 2031

The COM proposal includes 260 million allowances via international credits from 2036-40.

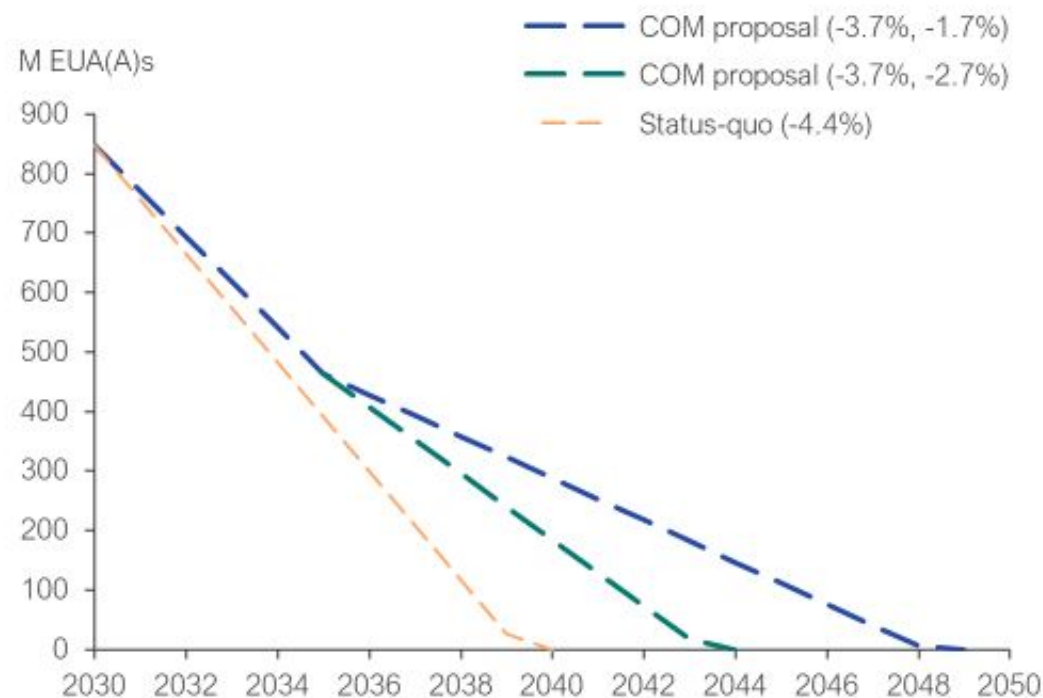
International credits + cap

- 260 Mt for ETS = ~40% of a cumulative total of 710 Mt (2036-40, ECL)



If < 260 Mt international credits are available:

- LRF (2036-40) is -2,7%, rather than -1,7%



The 2026 MSR reform keeps more allowances in circulation after 2030.

Current rules

2026 reform proposal¹

Thresholds

- Static
- Upper : 1096 M, 833 M
- Lower : 400 M



- Dynamic: annual 4% reduction from 2029
- Upper: 947 M, 833 M
- Lower: 400 M, 300 M

MSR intake (from auctions to reserve)

- 24% of TNAC



- 12% of TNAC

MSR release (from reserve to auctions)

- 100 M/year



- 100 M/year

MSR invalidation

- Threshold of 400 M

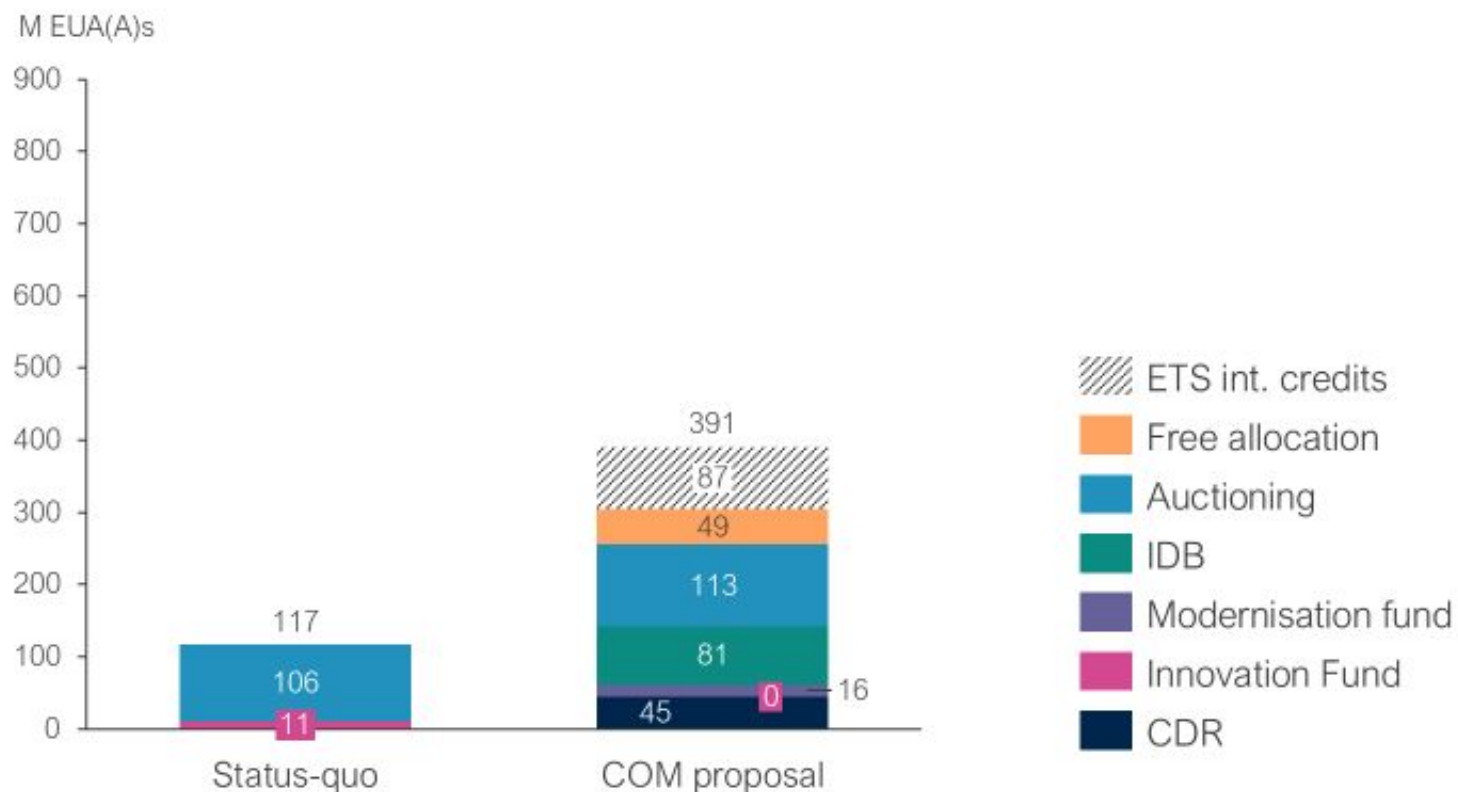


- Removed

¹ July 2026 proposal

Under the COM proposal, 2040 ETS supply reaches ~390 M allowances, over 3× the status quo.

Breakdown of the 2040 ETS supply (excluding extra-EEA aviation)



Insights

ETS.Climact Simulator

- ETS supply estimation is based on the Commission's proposal, modelled with the ETS.Climact simulator.
- Access to [the online tool](#)

Agenda

COM proposal

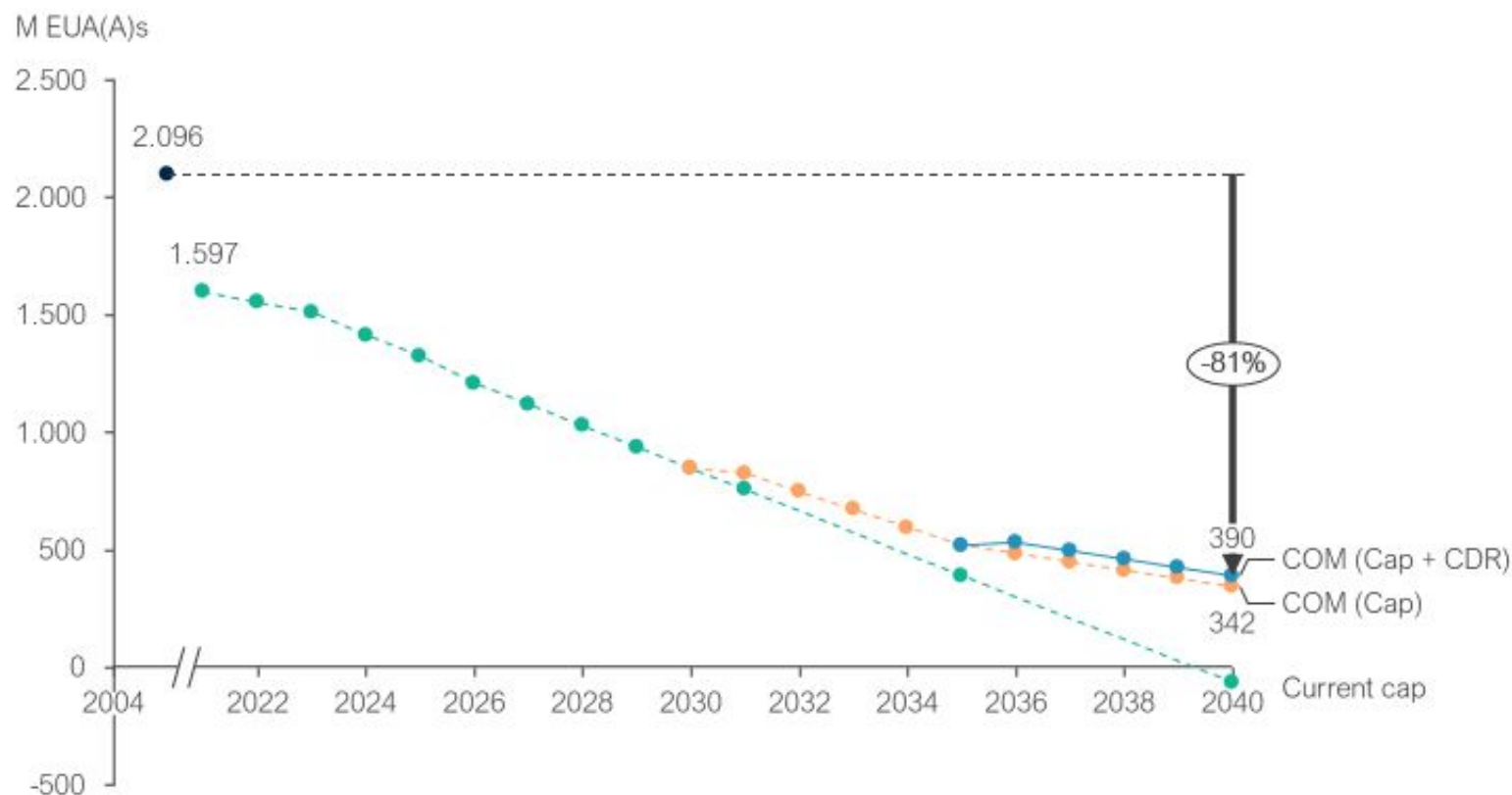
ETS and 2040 climate targets

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Take-home messages

Compared to the 2005 ETS cap, the domestic ETS reduction for 2005–2040 would be -81%.

ETS Cap and COM proposal



Sources: EU COM, formatted by CLIMACT

Key insights

- ETS cap of 342 Mt EUA(A)s in 2040 (LRF)
- + CDR: 48 Mt CO₂e in 2040
- = a total of 390 in 2040, i.e. an 81% reduction target compared with the 2005 cap set by the Directive

However, this calculation has 2 limitations:

1. 2005 cap excludes aviation, maritime and waste
2. It does not consider the following supply sources: MSR, TNAC, New Entrants Reserve

Many Member States are questioning the impact of the ETS proposal on total emissions in 2040.

What will be the ETS-share of total emissions?

- The comparison of the ETS cap with the remaining net GHGs under the ECL can be misleading due to different definitions, the question of the role of overall removals and the international credits
- The ratio of the ETS1 cap to remaining (gross) GHG emissions in 2040 will depend in particular on the overall contribution of carbon removals
- This will be addressed in the upcoming initiative on national GHG targets

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Questions from CZ, DK, DE, ES, FI, LV, PL, SE, SI, SK



We assess the proposal on total domestic emissions: ETS + ESR + LULUCF + CDR.

01. Set the share of international credits in total emissions (0%-5%)

EU domestic reduction: -85% to -90% by 2040 (vs. 1990)

- Excl. international bunker fuel

02. ETS target vs. 2005



03. LULUCF target absolute target, 2040



04. ESR target vs. 2005

- Assumption: ETS emissions in 2040 = ETS supply
- Subtract from this supply the aviation emissions not covered by the EU Climate Law

- Define a reduction target in 2040 (e.g. -210 Mt CO₂-e)

- Balance the equation: Total = ETS + ESR + LULUCF + CDR (generated by ETS)
- Deduce ESR target (%) 2005-2040 that needs to be met

Agenda

COM proposal

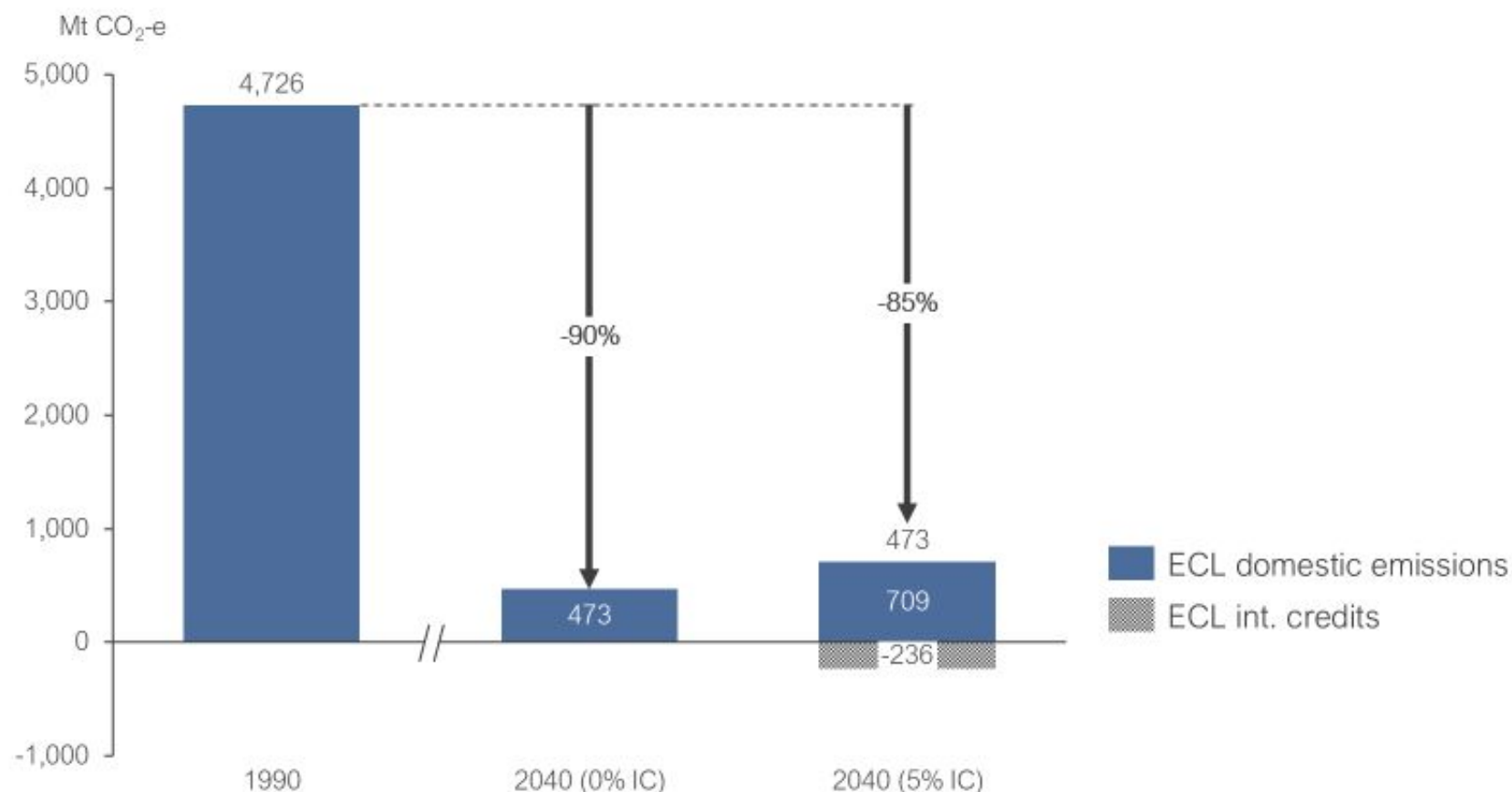
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Take-home messages

The ECL caps 2040 net domestic emissions at 473-709 Mt CO₂e (-90% to -85% vs 1990).

Overall emissions under the European Climate Law



Source: EC, [Climate Action Progress Report 2025](#)

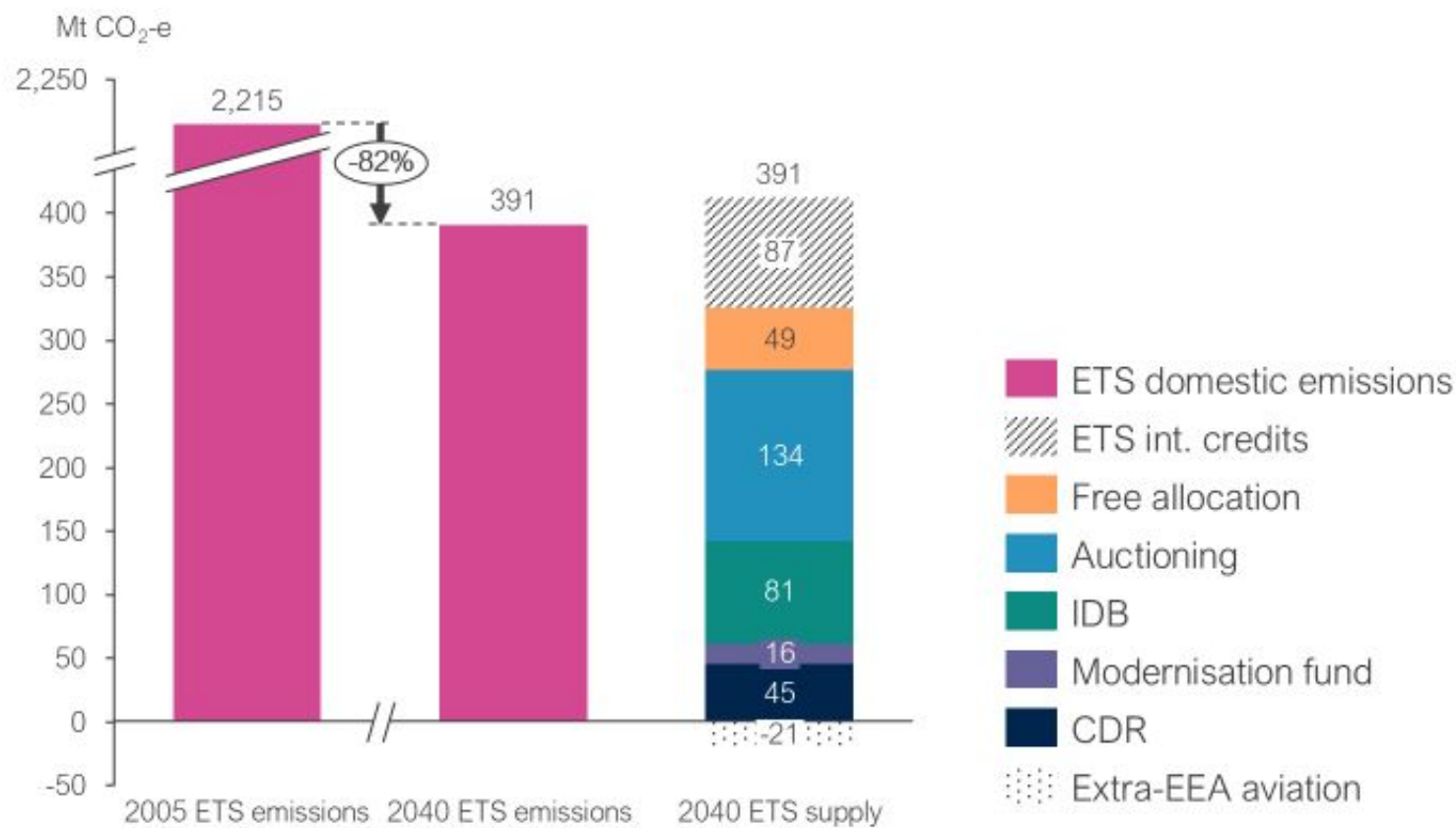
Key insights

All GHG emissions and removals "regulated by EU law". It includes total emissions (UNFCCC), LULUCF emissions, and part of international aviation and navigation under the EU climate target scope.

- International aviation includes intra-EU flights, departing flights from EU27 to EEA (non-EU) countries, to UK and to CH; and CO₂ emissions from non-domestic flights between EU Member States (MS) and the outermost regions;
- International maritime includes emissions from voyages between two EU27 MS, 50% of emissions from voyages between an EU27 MS and NO/IS, 50% of emissions from voyages between an EU27 MS and a third country

The 2040 ETS reduction could be measured against the reconstructed 2005 ETS emissions, and not against the 2005 cap.

Breakdown of the 2040 ETS target



Sources: EC, [Climate Action Progress Report 2025](#), ETS.Climact Simulator

Key insights

Reconstructed 2005 ETS emissions

- From Climate action progress report 2025 ([link](#))
- Similar to the current ETS scope

2040 estimated ETS emissions

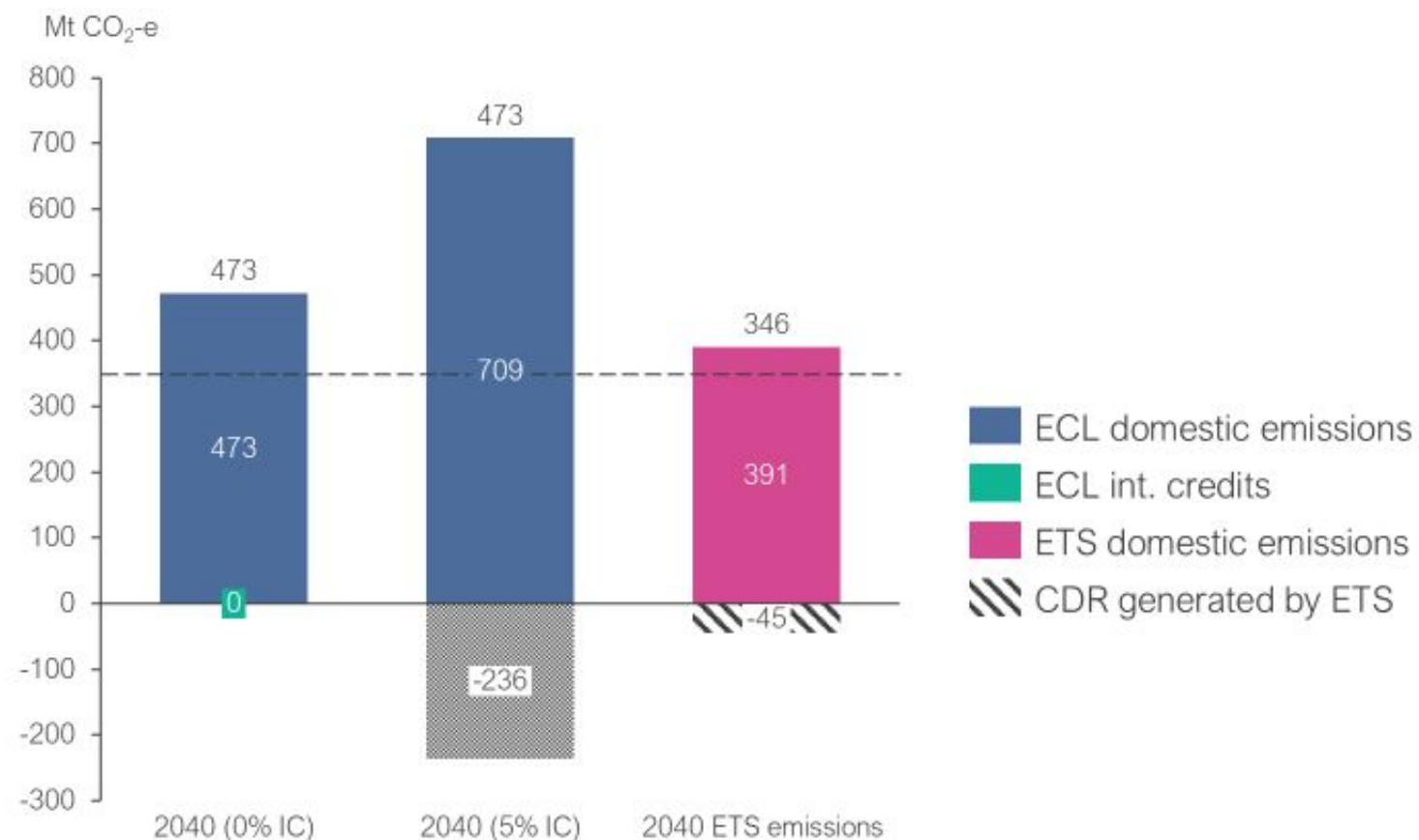
- Assumed to equal 2040 supply
- aviation emissions from outside the EEA deducted
- 2040 emissions could be increased by the available TNAC, thereby reducing the 2040 ETS emissions reduction (not included in the supply)

Limitations

- waste included in 2040 supply, but not in 2005.
- Norway and Liechtenstein included in the ETS supply but not in emissions.

ETS alone would use ~50 to 75% of the 2040 ECL budget.

2040: overall emission target and ETS emissions¹ under COM proposal



Key insights

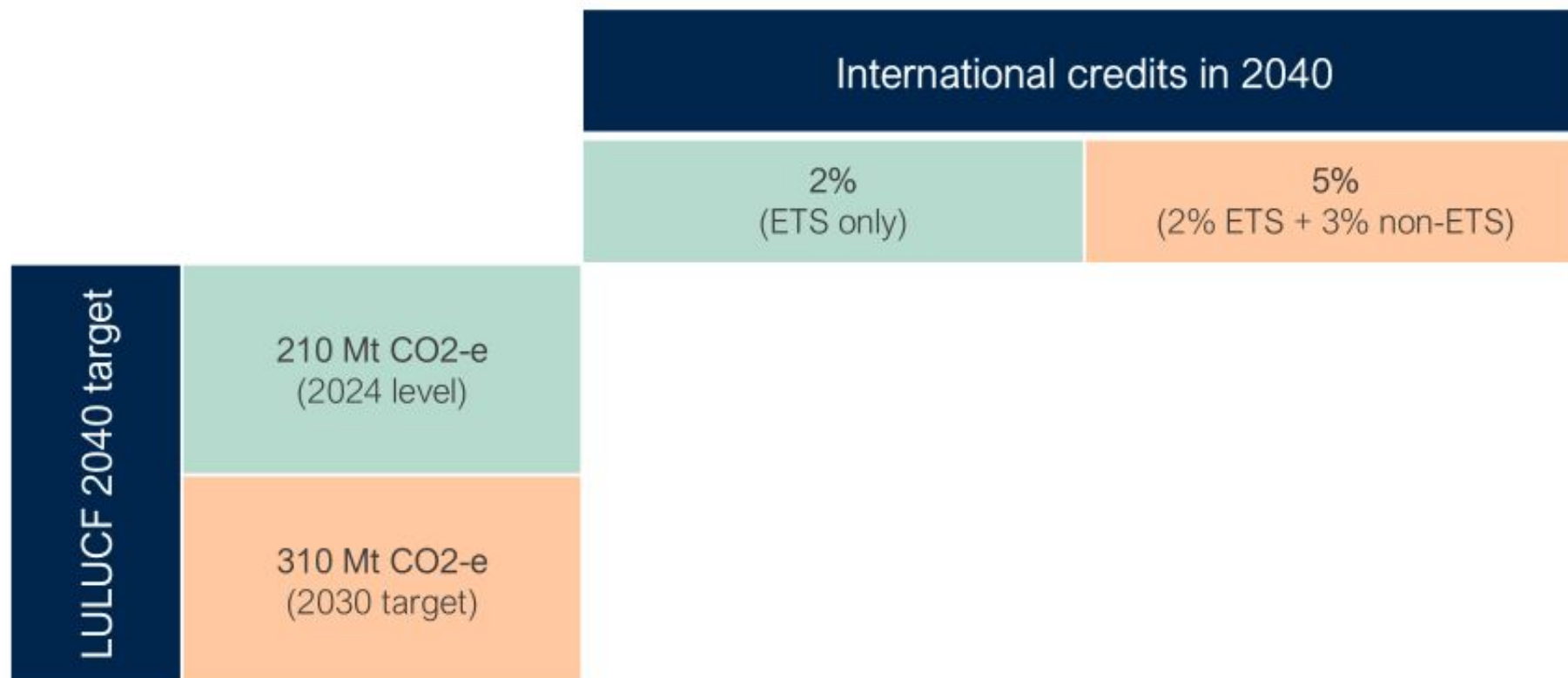
2040 architecture

To this must be

- added ESR emissions (positive)
- and LULUCF emissions (negative)

¹ ETS emission net of ETS-generated CDR

If the Commission's ETS proposal were implemented, what would be the impact on ESR, LULUCF and international credits?

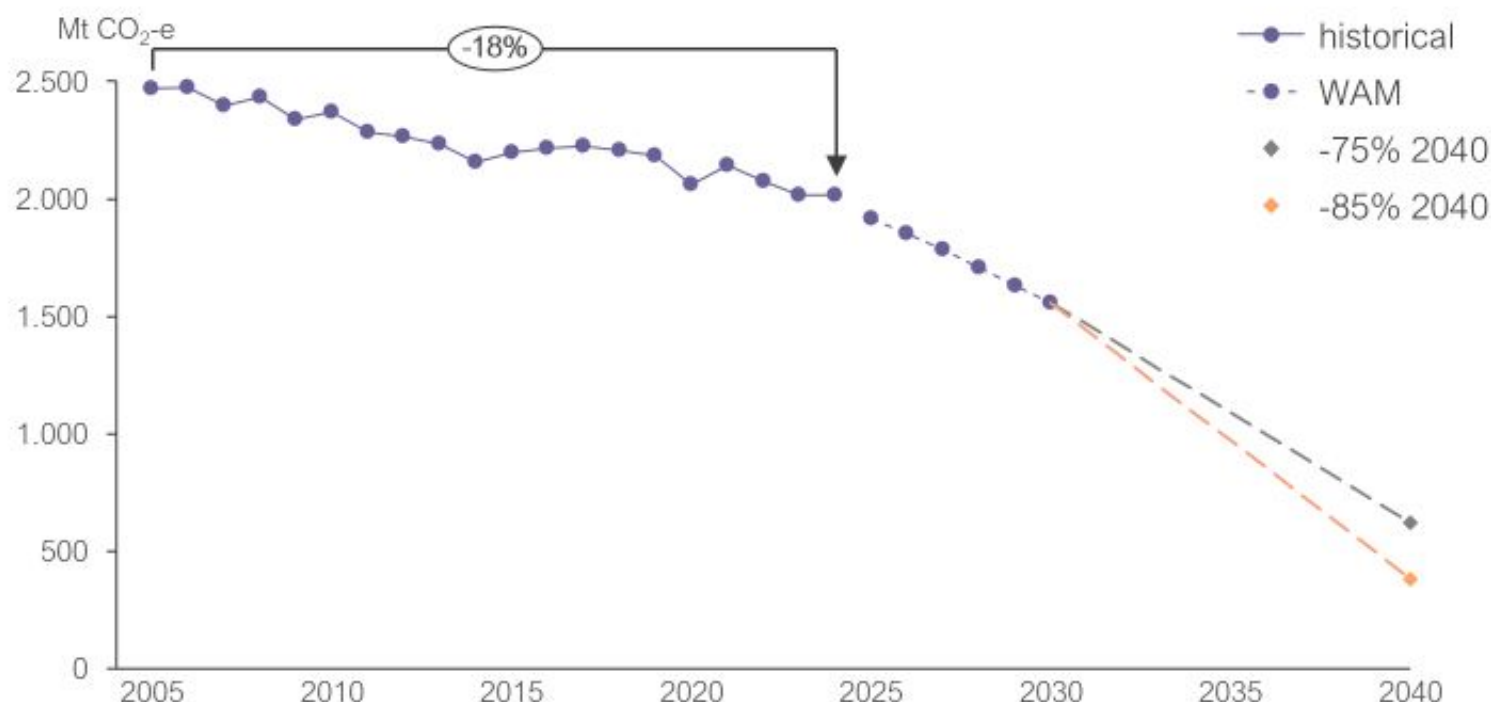


With the COM proposal, ESR must cut 75-85% by 2040, compared to 2005.

		International credits in 2040	
		2% (ETS only)	5% (2% ETS + 3% non-ETS)
LULUCF 2040 target	210 Mt CO ₂ -e (2024 level)	ESR : -85% (380 Mt CO ₂ -e)	ESR : -79% (520 Mt CO ₂ -e)
	310 Mt CO ₂ -e (2030 target)	ESR : -81% (480 Mt CO ₂ -e)	ESR : -75% (620 Mt CO ₂ -e)

ESR emissions fell by only 18% between 2005 and 2024.

ESR domestic emissions



Sources: EEA, Climact

Key insights

Comparison with past effort:

- 2005-2024: -18%, about -1% per year
- Reaching -75% by 2040: -7% per year, about 7 times faster
- Reaching -85% by 2040: -10% per year, almost 10 times faster

Comparison with ETS:

- By comparison, ETS emissions were halved (-51%) between 2005 and 2024, and are on track to meet the -62% target by 2030.

Agenda

COM proposal

ETS and 2040 climate targets

2040 architecture scenarios

Take-home messages

Take-home messages

01. The Commission's ETS proposal puts the 2040 architecture at risk.
02. The method used by the COM to calculate the ETS 2040 target has important limitations.
03. With 5% of international credits, ESR still needs -75% to -79% by 2040, a pace 7-8 times faster than in the past. That scenario also relies on hundreds of millions of credits.
04. With credits limited to the ETS (2% in 2040), ESR must reach -81% to -85%, a pace 8-10 times faster than in the past.



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on **climate change**

Thank you.

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CARBON MARKET WATCH

Overreliance on CDR and international credits

More risks to the EU climate architecture and ETS1

Wijnand Stoefs, EU Team Lead at
Carbon Market Watch

EU COM picture: **overly rosy** on CDR and int. cred.

- **Big problems on top of Climact findings**
 - Due to extra emissions allowed due to CDR and int. credits
- **Important and flawed assumptions** on CDR and int. credits
 - They will be:
 - *High quality/high integrity, Cheap, and Available*
 - All three at the same time? Across both CDR and int. credits?
 - **If not: Another risk to EU climate framework**
- **Negative impacts of int. credits and CDR on ETS funds**
 - lower auction revenues + at least 50 billion euros spent on both



EU COM picture: **overly rosy** on CDR and int. cred.

- **European Commission logic is troubling**
 - More flexibility or 'emission space' through CDR and int. credits
- **The goal is not to foster an EU CDR sector or Article 6 market that works for the climate**
 - BUT: to **make ETS cheaper for industry**, and offset as much as possible
- **Sets the EU up for lowest possible quality criteria rather than highest**



International credits

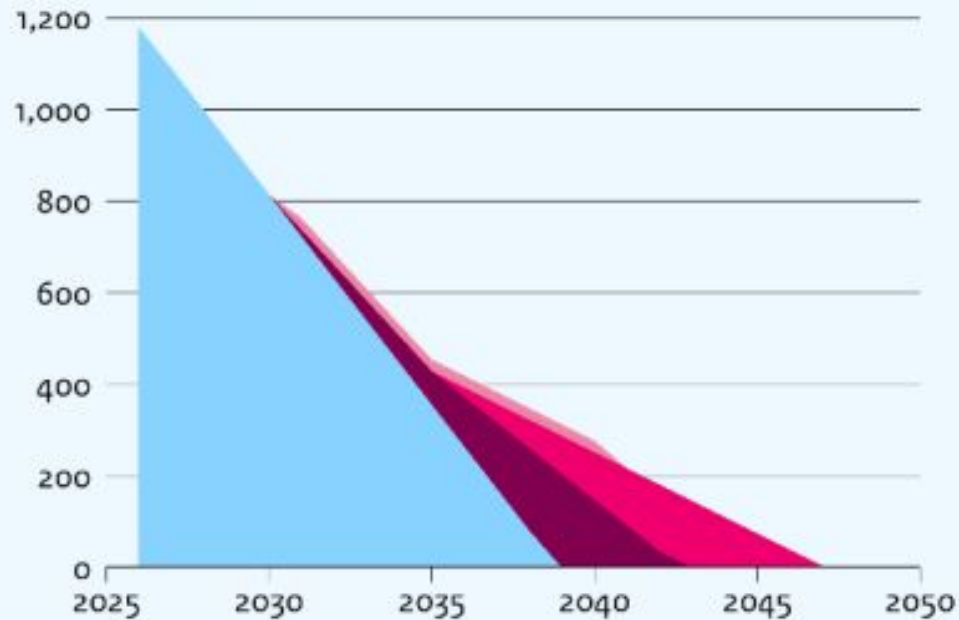
- 'Up to' 260 million EUAs sold to purchase international credits
 - likely **well over 25 billion EUR**
 - Will this actually be spent?
- Cost-equivalence presumed
 - Not a lot of real-world data to go by
 - PACM still being set up
- 'up to 5%' in EU Climate Law is now **'definitely 2% for ETS'**
 - by 2040: more than a quarter of ETS emissions offset



International credits: outlook

Raising the EU ETS emissions cap

million allowances



baseline
additional: uncompensated
additional: intl. credits
additional: EU carbon removals

Emissions (cumulative, until 2050)

current 8.77 Gt

additional 2.89 Gt (+33%)

additional allowances
otherwise invalidated

0.55 Gt

additional
direct supply ...

...
compensated
by EU carbon
removals

0.25 Gt

total
additional
emissions
2.89 Gt

1.13 Gt

... without
compensation

... compensated by
international credits

0.96 Gt

Source: [CPB, PBL \(Sept 2026\)](#)



International credits: quality AND quantity?

- **Presumption of 'quality' and 'quantity' at the same time**
- **Many red flags across PACM**
 - Many weaknesses and holes in rulebook
 - **Climate impact** (e.g. vulnerability to lobbying & lack of permanence)
 - Human rights concerns
- **Snapback: if not enough credits, then LRF is raised**
 - Precautionary approach would have been to at least swap this around



International credits: quality AND quantity?

- But significant risk of trade offs:

Cheap enough to buy at scale

VS.

High quality to minimise damage to ETS

- We are **not confident the EU will make the right decision**
 - Political economy: significant **inbuilt pressure to have low quality criteria**



International credits - governance

- **EU COM proposal due by December on:**
 - EU quality criteria ("what are we going to buy?")
 - governance ("how are we going to buy it?")
- Yet **ETS proposal already contains reliance** on int. credits

“Cart is a mile before the horse. Criteria and governance haven’t even been proposed let alone agreed”



Carbon dioxide removals

- CDR instead of emission reductions
- ETS proposal raises funds through problematic mechanism
 - Auctioning of 250 million EUAs (**on top of cap**)
 - 10 million EUAs extra to bridge price gap (under cap)
- Logic: every sold EUA will more or less fund purchase of 1 tonne of CDR
 - (Art 9c.1: “generate revenues for the purchase of **an equivalent amount of domestic permanent [CDR]**”)



Carbon dioxide removals: cheap?

ETS IA (part 3, annex 8)

Table 6: PRIMES CDR cost estimates

EUR 23/tCO ₂	2030	2035	2040
Cost of capture & transport & storage: DACCS	518	375	251
Cost of capture & transport & storage: BECCS	171	159	148
Costs of capture from biomass processing	66	65	64

Source: PRIMES



ESABCC CDR report

Direct air carbon capture and storage (DACCS)

Annual EU potential	Current costs	TRL
20-60 MtCO ₂ (0-400)	500-1 000 EUR per tCO ₂ (450-2 000) Potential 2050 costs: 200- 500 EUR per tCO ₂	6

Carbon dioxide removals: cheap?

- Funding mechanism **will not** be sufficient to purchase the CDR, unless **ETS prices are allowed to triple or more**
 - **BUT ETS proposal aims at keeping EUA price low**
 - More supply, more free allocation, more flexibility



Carbon dioxide removals: quality?

“For most aspects that are key for ensuring unit integrity, the proposed CRCF methodology sets a **lower standard than the PACM** requirements.”

Source: [Öko-Institut](#)

- CRCF methodologies deeply flawed
 - Weaker than some VCM standards
- Impacts on LULUCF sector will be ignored
 - Biomass is (wrongly) zero rated
 - LULUCF framework itself may be gutted later this year
 - More ETS emissions/pCDR at a cost to LULUCF
- RE conditions are weak
- Concerted push for **problematic biochar** (and proposal even opens door to nature-based credits).



Carbon dioxide removals

- Will not be cheap enough
- Quality criteria are too weak
- Scale is big unknown
 - ETS integration as **the** (and currently only) tool to scale?
 - If price gap isn't dealt with: unlikely to scale
- **Entire system: doesn't respect precautionary principle**

“This mechanism is self-defeating. Create more ‘emission space’ with the promise of cheap and good CDR in the future?”



The ETS proposal is a liability for the ETS

- **Not credible assumptions** on:
 - Availability, Quality and Cost
 - of both **CDR and int. credits**
- **Pressure for weak related policies**
 - Int. credits: proposal on quality and governance by end of the year
 - CDR: reviews of CRCF
- **Overreliance is a big risk**
 - May persist after 2040
 - New dependencies created





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Summary

- Assumptions are **flawed**
- **Overreliance** CDR and int. credits
- **Pressure to weaken** resp. policies
- **Risk to 2040 target**, climate neutrality and functioning of the ETS1

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Q&A



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