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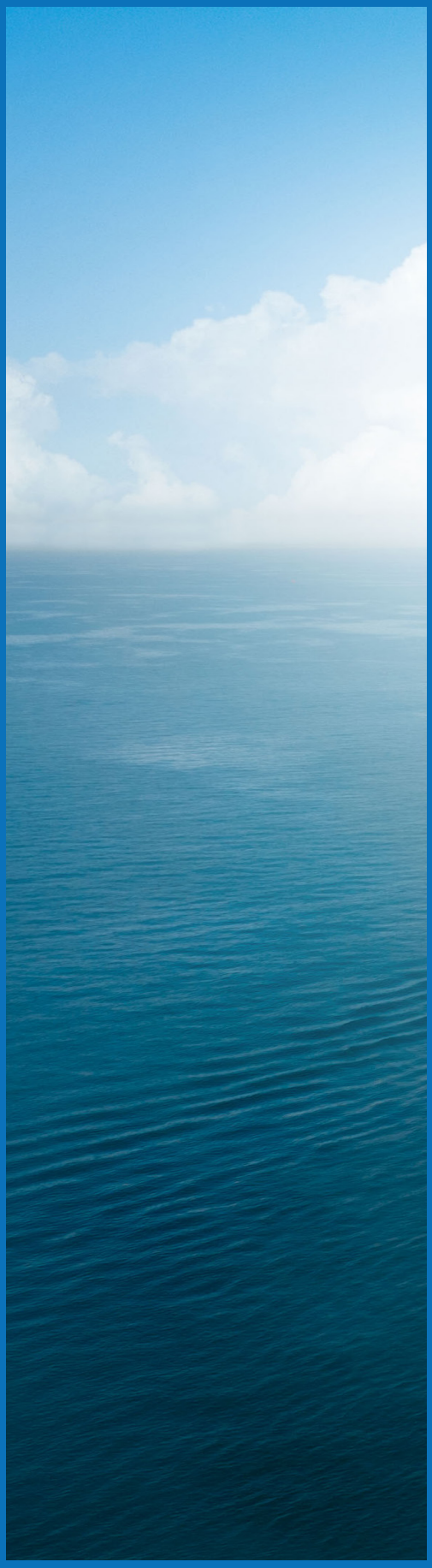

POSITION PAPER

The EU ETS:

a prerequisite for a competitive and resilient European industry

The European Commission is expected to present its proposal for the review of the EU Emissions Trading System I (EU ETS I) by July 2026. This moment will be pivotal for the EU's climate policy framework and to maintaining momentum towards the Union's decarbonisation objectives. The climate crisis is ramping up, accelerating at a speed unforeseen by climate models. It is urgent to address our dependency on high-emitting economic activities, which undermine Europe's resilience and stability at a time of high geopolitical uncertainty.

European industry is undeniably facing challenges, many of which are the results of a continuing overreliance on fossils. Therefore, pointing the finger at climate policies and carbon pricing as the main cause of today's situation is not only factually incorrect but also counterproductive to making EU industries competitive in a global market. Evidence shows that **primary pressures for industry do not arise from carbon pricing but from high and volatile energy costs, infrastructure bottlenecks, and investment uncertainty.** There is also strong evidence that accelerating renewable energy technologies uptake and infrastructure developments is an effective way to lowering electricity prices – for this to take place the EU ETS with its incentives to decarbonise must be strengthened, not weakened.

The EU ETS is the key to improve European resilience, stability and competitiveness, ensuring we correct ongoing market failures of consistently pricing emissions insufficiently in relation to their real societal costs – this includes the costs resulting from fossil price volatility and associated crises. The EU ETS should be strengthened in the upcoming review to provide a clear and predictable framework for European industry.

Bellona therefore strongly recommends the upcoming review of the EU ETS I to:

- **Phase out free allocation as the main instrument for carbon leakage protection;**
- **Update EU ETS benchmarks for the second allocation period (2026-30);**
- **Reform Indirect Cost Compensation (ICC) in the aluminium, steel and hydrogen sectors to make them CBAM-compatible;**
- **Strengthen conditionalities on ETS's revenues use for industrial decarbonisation;**
- **Protect an ambitious and effective Market Stability Reserve (MSR);**
- **Not increase cumulative emissions in any Linear Reduction Factor (LRF) modification;**

- **Expand linkages of the EU ETS with other international carbon markets such as the UK;**
- **Exclude international credits;**
- **If unavoidable, only allow an indirect interaction between permanent carbon removals and the ETS;**
- **Include municipal waste incineration plants;**
- **Implement robust accounting of captured CO_2.**

In this position paper, Bellona Europa outlines the background and justification for these recommendations. Drawing on scientific evidence, extensive expertise on industrial decarbonisation, as well as on insights gathered through direct interviews and continuous engagement with industrial stakeholders.

The EU ETS, crucial for competitiveness, resilience, stability and climate

The upcoming review of the EU ETS marks a pivotal moment for European competitiveness, stability, resilience and climate ambition. Indeed, as most of EU ETS's central elements are being reconsidered, also its role as a driver of European industrial decarbonisation is at risk.

POWERING EUROPEAN COMPETITIVENESS

Strong carbon pricing under the EU ETS enhances competitiveness by rewarding efficiency, innovation, and investments in low-carbon production processes. When paired with complementary policies such as the Carbon Border Adjustment Mechanism (CBAM), extending the EU ETS's carbon cost signal to imports, emissions performance becomes a criterion for competition and market access. This increases the competitiveness of low-carbon products[1].

Let there be no doubt: the EU ETS makes European industries more competitive, strengthens European stability and resilience, and is our most powerful tool against the most devastating effects of climate change.

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1 https://network.bellona.org/content/uploads/sites/6/2025/09/AEF-Research-Facility_Policy-Report_Competitive-Interdependence_CAP-A-ECDPM-Bellona_2025.pdf

The EU ETS has historically reduced emissions efficiently while providing a predictable long-term signal that supports investment in low-carbon technologies and industrial transformation. **Weakening the EU ETS would send a negative market signal destabilising such investments and penalise first movers already investing in decarbonised technologies and projects**[2]. Industry agrees, as seen in a letter signed by around 150 companies and investors to the Heads of State and Government in Europe, in which they state that *"undermining [the EU ETS] would not aid the competitiveness of European industries – it would erode investment certainty and damage Europe's industrial future"*[3].

In this context, the EU ETS should be seen not as a limitation on the competitiveness of the European industrial sector but rather as a prerequisite and strategic opportunity. With adequate climate safeguards, part of the revenues generated by the EU ETS are reinvested in European industries to unlock necessary decarbonisation technologies and strengthen their position in global markets still highly dependent on volatile fossils. Therefore, the priority must be to **ensure that the EU ETS continues to provide a strong and predictable clean investment incentive for businesses,** which in return boosts innovation and competitiveness in frontier clean technologies.

ANCHORING EUROPEAN STABILITY

Reducing reliance and dependencies, as well as ensuring strategic energy and industrial supply chain autonomy, has become a crucial priority in the current destabilised geopolitical context[4]. As Bruegel puts it, this objective can only be achieved by reducing – and ultimately eliminating – the EU's reliance on imported fossil fuels and investing in domestic renewable energy production[5].

Both with the recent war in Iran, and the 2022 Russian invasion of Ukraine, we have seen substantial spikes in fossil energy prices[6]. Recent developments in Iran were described by the IEA as "the biggest energy security threat in history"[7]. Therefore, it is clear that Europe's overreliance on fossil commodity markets characterised by unpredictability and substantial volatility is having a substantial and negative effect on both Europe's resilience, stability and competitiveness[8].

By putting a price on carbon, the EU ETS creates a structural incentive for European industries to invest in clean, domestic energy sources, thereby directly reducing the EU's exposure to volatile fossil fuel imports. **Maintaining and strengthening the ETS is therefore crucial to securing Europe's long-term energy autonomy, industrial stability and geopolitical resilience.**

2 https://www.bruegel.org/analysis/europes-emissions-trading-system-ally-not-enemy-industrial-competitiveness
3 https://www.cleantechforeurope.com/policy/open-letter---european-industry-needs-the-predictability-of-a-robust-ets-to-compete-and-invest
4 https://www.ecb.europa.eu/press/blog/date/2026/html/ecb.blog20260407~dfa96b8bfc.en.html
5 https://www.bruegel.org/first-glance/how-will-iran-conflict-hit-european-energy-markets
6 https://www.bruegel.org/first-glance/how-will-iran-conflict-hit-european-energy-markets
7 https://www.cnbc.com/2026/04/23/oil-markets-prices-fuel-shortages-iran-war-iea-chief.html
8 https://www.cnbc.com/2026/04/23/oil-markets-prices-fuel-shortages-iran-war-iea-chief.html

DELIVERING FOR THE CLIMATE

The evidence is clear: the EU ETS has causally reduced GHG emissions at scale[9][10]. A credible and predictable carbon price forces emissions down in real time. Moreover, by tightening the cap year after year, the system not only reduces current emissions but prevents future ones by reducing incentives for new high-emitting investments and the risk of long-term lock-in. Thus, maintaining a strong EU ETS is vital to prevent further global warming and the devastating effects of climate change.

Bellona Europa's recommendations for a revised EU ETS:

Phase out free allocation as the main instrument for carbon leakage protection

In the EU ETS, part of the allowances are free, often referred to as free allocation. Free allocation is included to protect manufacturing industries deemed at risk of carbon leakage[11]. Free allocation was conceived as a temporary measure, yet it has now been in place for over twenty years. By reducing industries' exposure to the full carbon price, it weakens incentives to invest in decarbonisation, limits cost pass-through, and undermines the behavioural change we want to see as a result of the EU ETS. Ultimately, this hampers emissions reductions, weakens the "polluter pays" principle, and results in a loss of ETS revenues that are crucial for Europe's industrial transformation. For these reasons, while recognising their role in addressing carbon leakage risks, Bellona has called for alternative solutions, and strongly supports their timely and legally enshrined phase-out.

- **For CBAM-covered sectors:** Free allocation should be phased out according to the currently established timeline, without freezing or extending the schedule. CBAM should be allowed to function as intended, and any further adjustments should be considered once the mechanism is fully operational, noting that it initially covers only a small share of free allowances.
    - **Conditionalities**: Operators should comply with the energy efficiency requirements and climate neutrality plans set out in Article 10a of the ETS Directive. These provisions should be strengthened to ensure greater transparency, enforceability, and binding effect.

9 https://academic.oup.com/restud/article/92/3/1625/7681739
10 https://www.nature.com/articles/s41467-024-48512-w
11 "The term 'carbon leakage' refers to the transfer of CO_2 emissions from one country to another when, due to strict climate policies, companies relocate their production to countries with weaker emission constraints. This can contribute to an increase in global greenhouse gas emissions." (European Commission)

- **Sectors at risk of carbon leakage and not yet covered by the CBAM**: While free allocation must keep being gradually phased out, solutions protecting from carbon leakage – such as the CBAM – should be carefully considered. When inclusion in CBAM should not be immediately feasible and no alternatives to continued free allowances should be found, their allocation must be:
    - **Proportionate**: amend the carbon leakage list to further distinguish sectors between higher and lower carbon leakage risk and distribute free allowances accordingly;
    - **Temporary**: a clear timeline for free allowances phase-out should be enshrined in the legal text;
    - **Conditional**: free allowances should be distributed pending installations' legally binding commitments to invest in emissions reduction projects. These commitments should directly contribute to the transformation of the facility benefiting from free allocations. For this purpose the existing framework for climate-neutrality plans within the EU-ETS can be further developed.

- **Sectors not at risk of carbon leakage**: free allocation should be completely phased out by 2030 at the latest with no exceptions.

For more information Bellona's work and position on free allowances, please refer to our Roadmap 2024-2029 and one of our earlier CBAM reports.

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Update EU ETS benchmarks for the second allocation period (2026-30)

Free allocations are distributed according to different factors, with the main one being the "average emissions intensity per unit of product of the 10% most efficient installations in each sector"[12]. These benchmarks cover 52 products and include 2 fallback benchmarks for those products that are not included in the list. As currently designed, some product-based benchmarks fall short in incentivising clean technologies or means of productions. To improve benchmarks design, Bellona recommends to:

- **Update EU ETS Benchmarks for the second allocation period (2026-30)** to reflect decarbonisation development in the sectors.

- **Reform the EU ETS Benchmarks** to reward genuinely low-carbon production pathways by referring to actual carbon performance across equivalent production routes.

12 https://climate.ec.europa.eu/eu-action/carbon-markets/eu-emissions-trading-system-eu-ets/free-allocation/about-free-allocation_en#benchmark-update

- For steel, benchmarks should clearly differentiate between blast-furnace-based steelmaking, scrap-based electric arc furnaces, and direct-reduction routes, and introduce dedicated criteria for hydrogen-based DRI using renewable hydrogen**.**
- For cement, benchmarks should be set at the cement level rather than the clinker level. This ensures a level playing field between the different decarbonisation options available, avoids incentivising clinker use, and includes cement producers who do not rely on clinker production.

Reform Indirect Cost Compensation (ICC) in the aluminium, steel and hydrogen sectors to make it CBAM-compatible

ICC currently functions as a protective measure from the risk of carbon leakage arising for the carbon price on power for energy-intensive industries. ICC compensates for all electricity purchased by eligible industries regardless of its carbon content. This makes it incompatible with the CBAM's inclusion of indirect emissions for the steel, aluminium and hydrogen sectors, on top of its negative consequences from a climate, legal and competitiveness standpoint. To ensure better distribution of ICC and their alignment with wider climate targets of the EU, Bellona recommends to:

- **Reform ICC in the aluminium, steel and hydrogen sectors to make it CBAM-compatible,** limiting their coverage to the share of non-emitting electricity consumed and unjustly subjected to carbon cost.

- **Harmonise and optimise ICC distribution**
  - **EU-wide approach:** Align ICC distribution across Member States to address carbon cost spillovers from electricity prices consistently.
  - **Earmark for climate action:** Require that at least 50% of ICC revenues are spent to support climate and energy efficiency projects, guided by criteria such as climate impact, system effects, timing and scalability and DNSH.
  - **Transparency and oversight:** Publish ICC allocation per installation, including eligibility and use; the Commission should monitor compliance and provide an annual EU-wide summary.
  - **Evaluate ICC phase-out post-2030:** Reassess the need of ICC after 2030 as the EU electricity grid decarbonises and the need for indirect cost compensation decreases.

For more information on Bellona's work and position on Indirect Cost Compensation (ICC), refer to our article and policy paper on CBAM integration of indirect emissions and our consultation response on updates to the ICC Guidelines.

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Strengthen conditionalities on ETS's revenues use for industrial decarbonisation

Revenues from the EU ETS are a key source of funding for climate action. Following the 2022 revision, Member States are required to use these revenues entirely for climate-related purposes, but they have fallen short in this effort with the impact of ETS revenues remaining well below its full potential. An example of this is the ECA special report from 2026[13] that found that the EU Innovation Fund still suffers from slow deployment and less than expected emission reductions. In other words, there is room for improvement and the ongoing EU ETS I revision is a great occasion to ensure optimal revenue spending. With the announcement of the Industrial Decarbonisation Bank (IDB), the European Commission is clearly looking at reinforcing the concept that industries need help in financing their transition. While the financing streams for the IDB are not clear yet, interaction between ETS revenues and the IDB is crucial. Moreover, a substantial part of ETS revenues should be strategically earmarked for effective industrial decarbonisation projects. This would significantly strengthen both industrial competitiveness and emissions reductions, ensuring the long-term resilience and climate alignment of European industry. For ETS revenues to contribute to this aim, Bellona recommends to:

- **Prioritise EU industrial decarbonisation:** Direct a significant share of EU ETS revenues to support decarbonisation projects in EU industries covered by the EU ETS. Importantly, they should be used on real climate and decarbonisation action, not be used to purchase for example international credits. This to avoid diverting resources from supporting domestic decarbonisation. As part of this, an evaluation and assessment of how to improve existing structures, including the Innovation Fund, is crucial.

- **Ensure that ETS revenues spent on industrial decarbonisation are designed in a credible way and leave no room for greenwashing**, according to the following criteria:
  - **Climate impact**: decarbonisation measures have a demonstrable climate benefit, substantially contribute to the reduction of the GHG emissions and the amount of GHGs present in the atmosphere.
  - **System effects**: decarbonisation measures do not constitute an obstacle to the decarbonisation of other sectors and are coherent with a broader industrial transformation.
  - **Timing and scalability**: decarbonisation measures can be deployed and make a positive contribution to climate action in a scalable and timely manner, while being consistent with reaching climate neutrality by 2050.
  - **Do No Significant Harm (DNSH)**: decarbonisation measures must not harm any environmental objective of the European Union and are consistent with science-based DNSH principles.

13 https://www.eca.europa.eu/ECAPublications/SR-2026-11/SR-2026-11_EN.pdf

- **Ensure transparency and accountability:** Publish clear, standardised reports on how EU ETS revenues are collected and spent, including installation-level details and justifications.

For more information on Bellona's work and position on ETS revenues, please refer to our policy brief and joint letter.

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Protect an ambitious and effective Market Stability Reserve (MSR)

The MSR is designed to remove surplus emission allowances from the market if the total number of allowances in circulation (TNAC) surpasses the threshold of 833 million. These allowances are released back into the market if the TNAC falls below 400 million at a later date or are permanently cancelled if the allowances in the MSR reserve exceed 400 million. The permanent invalidation of excess allowances has the most important impact on the carbon market. It makes the cap partly self-adjusting, as the MSR cancels certificates based on the behaviour of market participants and thus controls the quantity of certificates alongside the Linear Reduction Factor (LRF). This can serve the overall credibility of the mitigation pathway. This feature also addresses the so-called 'waterbed effect'. When additional climate policies — such as a mandated coal phase-out or renewable energy subsidies — apply to activities already covered by the EU ETS, they reduce emissions in the targeted sectors but free up allowances under the fixed cap for other market participants to use elsewhere, leaving total emissions unchanged. Permanent cancellation removes these freed-up allowances from circulation, ensuring that such overlapping policies deliver real reductions in overall emissions.

- **Permanent invalidation of certificates should be kept as a core feature of the MSR** especially to reduce the waterbed effect
- **Intake rate should be kept at least at 24%** also beyond 2030, to avoid an excessive amount of allowances and keep a good balance between supply and demand, which ultimately maintains a strong price signal.
- **Safeguard the thresholds**: the thresholds for MSR intake (833 million allowances) and release (400 million allowances) should be adjusted consistently with the LRF to empower the MSR to preserve an effective price signal.

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Not increase cumulative emissions in any Linear Reduction Factor (LRF) modification

The LRF is the mechanism of the ETS that determines how quickly the emissions cap declines each year, thereby reducing the annual number of available allowances. It is set according to the cap established in 2013 and decreases by a fixed percentage every year: 4.3% from 2024 to 2027, 4.4% from 2028 to 2030. The LRF is not yet defined after 2030. Essentially, the LRF is part of the overall long-term design of the ETS to drive emission reductions and reach climate neutrality by 2050. However, the recently revised European Climate Law explicitly calls for a revision of the LRF, which would allow for a limited amount of emissions after 2039. In this context, Bellona calls for a revision of the LRF which provides breathing space to ETS sectors, while avoiding locking in high-emission pathways.

- **Ensure the LRF does not increase the cumulative emissions resulting from EU ETS sectors**. By adjusting the LRF in a more curved shape, this could reallocate allowances over time and remove some from circulation earlier to make others available later, while keeping the cumulative emissions cap unchanged. By designing the reduction trajectory in this manner, a limited amount of emissions would be allowed to persist beyond 2040 (e.g., until 2045) and industries benefit from flexibility without compromising the carbon budget and the temperature target of the Paris Agreement. This would enable a lengthened lifetime for the functioning of the ETS before any other interventions are required, such as a possible interaction with permanent carbon removals.

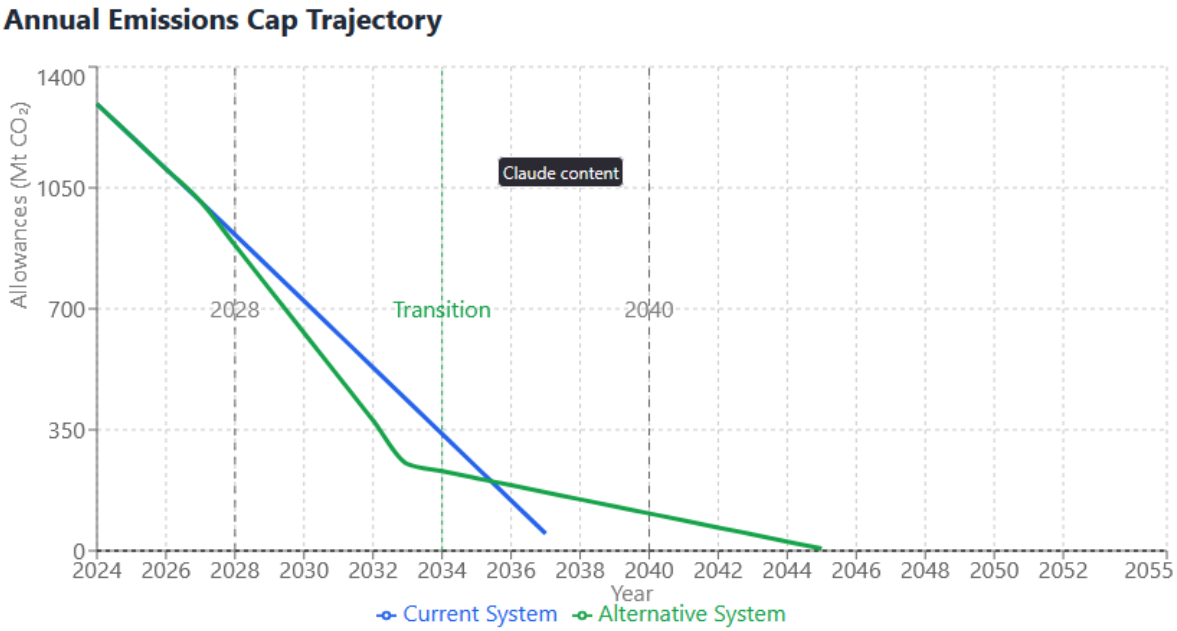

Figure 1: Illustrative graph of Bellona's proposal for the revision of the Linear Reduction Factor[14]

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Expand linkages of the EU ETS with other international carbon markets such as the UK

The EU ETS currently operates largely independently, with only limited bilateral cooperation mechanisms, such as with Switzerland. This isolation constrains market efficiency and limits the global impact and uptake of carbon pricing. Strategic linkage with other carbon markets would reduce the cost of cutting emissions, make the carbon price more stable, level the international playing field by harmonising carbon prices across jurisdictions, and support global cooperation on climate change. However, linkages with other international carbon markets, must be conditional on strong safeguards:

- The **presence of a fixed, declining cap**, which must remain central also to the EU ETS;
- Linked systems must have **comparable GHG and sectoral coverage** to ensure fair treatment and avoid competitive distortion.

14 "Current system" roughly corresponds to the current LRF, and "alternative system" is our proposal. This graph is purely illustrative, there is no modelling underpinning this graph. Artificial intelligence was used to produce this graph and to illustrate how different LRFs can have the same climate outcome.

- **Prioritise climate ambition and market integrity** in any linking negotiations. Linking must strengthen, not dilute, the ambition, the principle of polluter pays, and the credibility of the EU ETS.

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Exclude international credits

The revised European Climate Law introduces a new element: from 2036 to 2040, up to 5% of international credits can be used to meet the 2040 EU -90% climate target based on 1990 EU emissions. These credits are generated by activities outside the EU that either reduce emissions or remove CO_2 from the atmosphere. However, the quality and credibility of credits remain contested for overstated climate benefits and adverse impacts on the environment or human rights, among others. As explained in our policy briefing on the post-2030 climate framework, international credits should not be integrated into EU climate policies such as the ETS. Instead, they should be held in a separate, strategic reserve that can only be accessed as a last resort. This is why the review should:

- **Exclude international credits from the EU ETS.** The ETS should remain a domestic decarbonisation tool. The inclusion of credits would weaken domestic incentives and undermine the integrity of the market, as was the case when Clean Development Mechanism credits were allowed in the EU ETS.

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If unavoidable, only allow an indirect interaction between permanent carbon removals and the ETS

The upcoming ETS review will consider the possible role of permanent removals such as direct air carbon capture and storage (DACCS) and bioenergy with carbon capture and storage (BioCCS) under the ETS. Up until now, removals could not be used for compliance under the ETS, which has focused on driving industrial decarbonisation and reducing emissions from large points sources. More broadly, removals are not yet explicitly integrated into EU climate policy instruments and therefore cannot yet be used for any compliance with EU climate targets. However, integrating removals into the ETS raises important concerns about environmental integrity and carbon accounting, as well as the risk that removals could substitute necessary and feasible emission reductions. Instead,

removals should be deployed separately and in parallel to efforts to reduce emissions. As explained in details in our report on the interaction between permanent removals and the ETS, Bellona recommends to:

- **Support the deployment of permanent removals outside the EU ETS** in the short-, to medium-term. This should be done through a limited, dedicated EU target for permanent removals, separate from emission reductions (including the ETS and ESR) and the LULUCF (Land Use, Land Use Change, and Forestry) framework. This target must be associated with dedicated financial public support which respects the relative contribution of removals towards the overall climate targets.

- Explore an **indirect interaction between permanent carbon removals and the ETS, as an alternative to direct integration into the ETS**. Any such interaction should be strictly limited in quantity, with only high quality removals, and focused on addressing residual emissions. For example, an interaction could entail the creation of a separate and parallel system or obligation to procure CDR proportionally to an entity's emissions. Such an approach would also allow the ETS to become an instrument which enables the 'discovery' of residual emissions, while maintaining continuous pressure on operators to reduce these emissions.

- **If removals interact with the ETS, this should happen only at a later stage, once strong Monitoring, Reporting and Verification (MRV) and accounting systems are in place, the sustainability of biomass sourcing has been strengthened, and storage permanence is ensured**.
    - Removals reliant on geological storage would be the primary candidate in a first instance, given the existence of a robust MRV and liability framework for geological storage (Geological storage of CO_2 Directive).
    - For BioCCS and other biomass-based removals, this would mean first revisiting the treatment of biomass in the EU climate framework, which implies strengthening the protection of land sinks, **revisiting the carbon neutrality assumption of biogenic emissions** in the ETS, and considering the carbon payback period of biomass.
      Most BioCCS installations plan on using biogenic waste as their feedstock for waste to energy plants. From agricultural waste to municipal waste and feeds from the timber and pulp industries, **waste allocation and transparency for such inputs are crucial** for carbon accounting and quantification of the net negativity of an installation. This is also a reason why the zero rating of biogenic emissions should be revised to assess the net negativity of projects across the whole life cycle (from land use emissions to geological storage). Moreover, if waste incineration is integrated into the ETS, these industrial CCS-based removal activities will have to both comply with ETS Monitoring Reporting Regulation (MRR), as well as CRCF requirements detailed in the Delegated Act for permanent

removals at the project level. This adds a **layer of carbon accounting complexity, which should be reflected in the ETS review from the Commission**.

- **Develop a strategy to identify and address residual emissions**, including non-CO_2 emissions, in the lead-up to climate neutrality. It would include the role of permanent removals while keeping the primary focus on drastically reducing emissions and maintaining continuous pressure to minimise residual emissions.

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Include municipal waste incineration plants

Municipal waste incineration emissions are currently covered by national policies and measures under the Effort Sharing Regulation, in which only a few Member States have taken action to integrate a carbon pricing mechanism. The ETS review of 2026 will include an impact assessment of integrating such waste under the ETS and laying out the different policy options. The main concern is the diversion of waste to landfill and illegal exports outside of the EU to maximise cost efficiency. **Bellona supports the inclusion of municipal waste incineration in the EU ETS** from 2028 at the latest. This would be the logical next step after mandatory MRV and the review clause already embedded in the revised ETS Directive. Inclusion of waste incinerators in the EU ETS will give equal framework conditions and also give an increased incentive to prevent and recycle waste, such as plastics, and more broadly incentivise material efficiency and circularity. Moreover, if waste Bio-CCS installations interact with the ETS and scale up removals, integration of such waste seems an appropriate intermediary step.

- A strong regulatory design includes carbon pricing to drive emissions down, stringent and transparent waste allocation, reinforcing by circular economy policies and producer-oriented policies upstream to more fairly manage carbon accounting and allocate responsibility. **Inclusion of Waste to Energy (WtE) in the EU ETS must be accompanied by parallel safeguards** to prevent diversion to landfill and carbon leakage, e.g., including landfills in the EU ETS or a union wide ban on landfills.
- **ETS costs borne by waste incinerators should be (at least partially) covered by those responsible for the generation of fossil fuel derived waste** from which fossil CO_2 emissions are generated upon combustion. This implies some form of Extended Producer Responsibility to ensure that the responsibility to reduce the generation of fossil-fuel derived waste is allocated where it may actually have an effect. Carbon pricing at the end-of-pipe applies a carbon price

where there is no ability to affect the upstream production of waste.

- **Assessing the inclusion of hazardous waste incineration** under an equivalent carbon-pricing framework is a good step forward, but only with safeguards that preserve the safe treatment of hazardous waste.
- **Inclusion of waste incineration into the EU ETS should not preclude the appropriate accounting and pricing of CO_2 emissions resulting from CCU.**

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Implement robust accounting of captured CO_2

The ETS Monitoring, Reporting and Verification system defined under the ETS MRR sets the annual requirements for ETS installations that covers CO_2, CH_4 and N_2O emissions. Under these rules, ETS installations must differentiate and calculate the exact share of biogenic and fossil CO_2 emissions from the flue gas (often performed by carbon isotope analysis). Biogenic emissions generated from sustainably sourced biomass (as defined under the Renewable Energy Directive III) are given an emission factor of zero. Meanwhile, if an ETS installation generates fossil CO_2, it must surrender allowances, unless the CO_2 is captured and geologically stored (in line with the CO_2 Storage Directive) or permanently chemically bound in a product under normal use and end of life (as defined by a delegated act). On the other hand, where CO_2 is captured for the purpose of utilisation in non-permanent products (e.g. fuels or plastics), an ETS allowance must be surrendered where that CO_2 was generated and captured. This enables fossil CO_2 used in the production of synthetic fuels to count as Renewable Fuels of Non-Biological Origin (RFNBOs) since the CO_2 emission is already accounted for.

From a carbon accounting perspective, the issue complexifies if removals and waste installations are integrated into the ETS. If the mixed stream is split between permanent storage and utilisation, this leaves the operator to maximise ETS compliance or removals credits optimisation with different markets (compliance vs VCM based) and carbon prices.

- **CO_2 that is generated must be accurately reported, and a liability must be assigned for emitting that CO_2 in the atmosphere.** Where CO_2 generated in the EU ETS is captured for the purpose of utilisation in a product which does not permanently chemically bind the CO_2 away from the atmosphere, it must be treated as a full EU ETS emission in the system. To whom the liability is attributed in the value chain remains an open question, but the full carbon price must be paid within the EU ETS on that captured and emitted CO_2.

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Bellona Europa is an independent, non-profit organisation that meets environmental and climate challenges head-on. We are result-oriented and have a comprehensive and cross-sectoral approach to assess the economics, climate impacts and technical feasibility of necessary climate solutions. To do this, we work with civil society, academia, governments and polluting industries.