# CCSA Briefing Note

Thursday, 30 July 2026

## Document Basis & Register Key

- **Main EU ETS Directive Amendment:** COM(2026) 616 final (2026/0212(COD)) amending Directive 2003/87/EC and Decision (EU) 2015/1814 (here).
- **Fallback Benchmarks Regulation:** COM(2026) 619 final (2026/0211(COD)) revising heat and fuel benchmark values for 2026–2030 (here).
- **Maritime MRV Streamlining Regulation:** COM(2026) 620 final (2026/0210(COD)) amending Regulations (EU) 2015/757 and (EU) 2023/1805 (here).
- **Staff Working Documents:** Five-part Impact Assessment SWD(2026) 616 (accompanied by SEC(2026) 616, SWD(2026) 617, and SWD(2026) 618) (here).
- **State Aid Guidance:** Commission Guidance on Carbon Contracts for Difference (CCfDs) under the CEEAG (17 July 2026) (here).

## Contents

## Summary

On 17 July 2026, the European Commission officially published its long-anticipated EU ETS review package, setting the legal and financial framework for **Phase 5 (2031–2040)**. The package aligns Europe's flagship carbon market with the binding target of an **85% domestic / 90% net reduction in greenhouse gas (GHG) emissions by 2040**.

To reconcile climate stringency with industrial competitiveness, the Commission has recalibrated the system's core parameters:

- **Linear Reduction Factor (LRF):** The annual cap reduction is set at 3.7% for 2031–2035 and 1.7% from 2036 onward.
- **Dynamic Market Stability Reserve (MSR):** The MSR intake rate is halved from 24% to 12% starting in 2028, and MSR thresholds decline dynamically by **4% per year between 2028 and 2040** (e.g., lower threshold decreases from 400M to 245M EU allowances ("EUAs"); upper threshold from 833M to 510M EUAs).
- **De-risking & Reindustrialisation:** The proposal confirms a €100 billion Industrial Decarbonisation Bank (IDB), backed by a first-phase €30 billion (400M allowance) "Investment Booster" (2028–2030), and mandates Member States to reinvest at least 50% of national auction revenues into industrial decarbonisation.

**CCSA will now be drafting a Reaction Paper & Targeted Amendments. Additionally, in Mid-September, CCSA will host a dedicated member Focus Session to deep dive into the ETS review.**

## CCSA Analysis: Overall Assessment for the CCUS & Carbon Management Sector

***The proposal presents major wins for CCUS***. Four of the CCSA's most consequential long-standing asks are delivered in Level 1 legislative text:

(i) The integration of permanent carbon removals
(ii) A binding revenue earmark that names $CO_2$ capture, use, transport and storage
(iii) A downstream/midstream accounting settlement for carbon capture and utilisation
(iv) EU-level Carbon Contracts for Difference

The key vulnerability is how these will be delivered ; **almost every ask is routed through a Delegated Act, a Commission procurement decision, or an EU ETS linkage agreement that does not yet exist.**

**Alignment with other regulations – such as the IAA, the CRCF Regulation, and the CO2 Transportation & Markets Package – will also play a fundamental role in securing the success of the EU ETS implementation and the development of the CCUS value-chain.**

## Wins

- **50% Revenue Earmarking.** Member States legally mandated to spend ≥ 50% of auction proceeds on industrial decarbonisation, explicitly listing $CO_2$ capture, utilisation, storage, and transport network development (Art. 10(3)(c)).
- **EU-level Carbon Contracts for Difference are legislated.** From 2031, the Commission awards CCfDs or carbon premia through competitive bidding, over terms of **up to 10 years**, against a **400 million allowance** budget (new Art. 10ce(1), (3)).
- **The Innovation Fund is re-based and names CCUS technologies.** It is funded from **200 million allowances** (new Art. 10cb(2)), dedicated to high-TRL clean-tech, explicitly naming CCS, CCU, and DACCS (Art. 10cb(3)).
- **Permanent CDR is integrated.** The Union-wide quantity of allowances increases by **250 million allowances**, auctioned between 2031 and 2040 to fund the purchase of an equivalent volume of CRCF-certified BioCCS and DACCS units on a **1:1** basis (new Art. 9c(1)), with a further **10 million allowances** as a fiscal buffer (Art. 9c(2)).
- **LRF Exemption for CDR.** The linear reduction factor does not erode the 250M removal allocation (Art. 9c(7)).
- **Formal Recognition of "Industrial Clusters" (Art. 10(3)(b)):** The Commission explicitly introduces **industrial clusters** as priority targets for infrastructure investment, obliging Member States to direct recycled auction revenues toward decarbonisation grids and transport networks *"particularly around industrial clusters"*.
- **CDR Emitter Self-Compensation.** Installations capturing biogenic emissions via certified BioCCS may directly offset their own fossil surrender obligations up to net-zero (new Art. 14(1a)), with a corresponding cancellation from the 250 million allowances (Art. 9c(5)).
- **Downstream CCU Accounting.** Surrender relief granted where $CO_2$ is chemically bound and primarily emitted in listed Annex I activities (Art. 12(3b)(b)); carbon embedded in synthetic fuels is accounted at the point of distribution (Art. 14(1), and a new Annex I activity).
- **Entire CCU value chain in Annex I.** Expands Annex I to cover $CO_2$ capture for use, purification, liquefaction, gasification, temporary storage, transport, chemical utilisation, and e-fuel distribution.
- **Third-country CO2 storage unlocked.** From 2031, on a reciprocal basis, where the third country operates an ETS linked under Art. 25 (e.g. UK post EU-UK linkage), the Commission adopts an implementing decision confirming sufficient safeguards against the CCS Directive (Directive 2009/31/EC), and the facility is not used for enhanced oil or gas recovery (amended Art. 12(3a)).
- **Single Competent Authority for Cross-Border Transport.** Permitting authority determined solely by point of capture, or the first Member State of transit where capture occurs outside the EEA (new Art. 6a (1)); transit-Member States are excluded from permitting (Recital 28).

## Risks & Vulnerabilities

- **Everything commercially decisive is deferred to secondary legislation.** Six critical CCUS-relevant delegated act empowerments (Arts. 9c, 10a(3e), 10cb(9), 10cc(6), 10cd(7), 10ce(9)) enter the Directive with no statutory adoption deadlines. The Art. 10ce(8) empowerment over CCfD implementing rules is omitted from the replaced Art. 23(2) list.
- **Short IDB CCfD Contract Terms (Up to 10 Years):** Article 10ce(3) limits CCfD contracts to a maximum duration of *"up to 10 years"*, which is misaligned with heavy industry capital investment cycles and debt amortisation periods. Comparative national support frameworks provide substantially longer revenue certainty to secure private debt and FIDs: **United Kingdom: 10+5 years** under Industrial Carbon Capture (ICC) contracts; **Denmark: 15 to 20 years** under its CCUS Fund; **Germany: 15 years** under its Climate Protection Agreements (Klimaschutzverträge).
- **The 250 million allowances for CDR are a Commission procurement budget, not market access.** Operators cannot purchase removal units into the ETS. Direct operator integration is deferred to a feasibility report due **before 31 December 2034** (Art. 9c(8)).
- **Low Bankability of CDR Contracts.** Art. 9c(1) mandates "payment upon delivery of certified units". SWD(2026) 616 Part III, Annex 8 Part II p.35: BECCS units become cost-competitive against the allowance price only in **2036–38**, and **Cost projections for DACCS units in the Commission's Impact Assessment Report do not reach cost competitiveness within the period**.
- **Self-compensation was legislated without being impact-assessed.** SWD(2026) 616 Part III, Annex 8 Part II, footnote 17 to CR4, p.29 addresses it in a single footnote and dismisses it: "The decision would be uneconomical in most cases, given the expected price differential." Art. 14(1a) is **BioCCS-only**; DACCS self-use is not provided for.
- **The 20% Free Allocation cliff.** From 2031, 20% of free allocation is withheld pending verified execution of decarbonisation investments worth **100% of the economic value** of the allocation (Art. 10a(3c)). Unclear whether a CCS project reaching FID but not yet operating satisfies "significant emissions reduction within the 5-year period".
- **EU-UK ETS Link Negotiations Urgency.** Without a formally concluded EU–UK linkage agreement under Art. 25, EU emitters cannot use UK North Sea storage for compliance.
- **$CO_2$ Shipping Offshore Exposure.** Amended Art. 3ga(1) brings offshore support vessels into maritime ETS scope. Dedicated $CO_2$ shuttle tankers serving offshore injection wells may incur 100% surrender on intra-EU routes and 50% on extra-EU routes.
- **Absolute 30-Month Construction Start Deadline.** IDB Investment Booster projects must start physical construction within 30 months upon approval of the funding allocation (excluding FEED and permitting) or face full completion bond forfeiture (Art. 10cd(4)).

- **No grandfathering.** Operational $CO_2$ transport, processing and liquefaction assets enter Annex I without transition, and projects already at FID receive no protection from the Art. 10a(3b) conditionality.

## Comparative Analysis: CCSA Strategic Demands vs. Official Proposal

| CCSA Strategic Demands | Official ETS Review Proposal<br>European Commission | CCSA Regulatory Assessment |
|---|---|---|
| **1. Revenue Earmarking**<br>Mandate Member States to earmark national ETS revenues for hard-to-abate sectors and CCUS transport and storage networks.<br>*(ETS Benchmarks response, May 2026; Statement on the Future of the EU ETS, Feb 2026)* | Amended Art. 10(3) obliges **Member States to use ≥ 50% of auction revenues** for priority purposes, explicitly including $CO_2$ capture, use and storage of the development of the $CO_2$ transport network" (point (c)), and grids "particularly around industrial clusters" (point (b)). Revenues must be disbursed by the third year after generation; reporting is via Reg. (EU) 2018/1999. | **Strong Win.** Corrects historical revenue misallocations and guarantees national infrastructure capital. The Commission finally enshrines "industrial clusters" into Level 1 EU climate law. |
| **2. Upfront Revenue De-risking**<br>Expand and streamline ETS-funded instruments – Innovation Fund, future CCfDs, and a dedicated mechanism to de-risk the EU industrial $CO_2$ value chain.<br>*(Statement on the Future of the EU ETS, Feb 2026)* | New Arts. 10cb–10ce: **Innovation Fund** re-based on 200 million allowances with CCS, CCU and DACCS named in Art. 10cb(3); **Industrial Decarbonise Bank (IDB)** established from 2028: 400 million allowances for the Investment Booster 2028–2030; 400 million allowances for CCfDs and carbon premia 2031–2040. | **Strong Win / Commercial Risk.** Bypasses competitive bidding delays to bridge near-term FID gaps. However, the 10-year CCfD limit is severely misaligned with heavy industry CAPEX lifecycles, falling short of national benchmarks (UK 10+5 yrs, DE 15 yrs, DK 15–20 yrs). |
| **3. CCUS-dedicated funding mechanism**<br>The IDB Phase 1 "Investment Booster" must explicitly prioritise $CO_2$ capture, transport and storage FIDs<br>*(ETS Benchmarks response, May 2026)* | Art. 10cc(1) covers "emission reductions **or removals** in stationary installations", expressly including waste incineration, and Recital 61 extends it to combustion | **Partial.** CCUS is explicitly eligible under Art. 10cc(1), but the text lacks a dedicated sub-allocation |

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|---|---|---|
| | activities below 20 MW. Allocation is chronological by completion bond submission (Art. 10cd(1)). | or ring-fenced percentage for CCUS, forcing projects to compete in a technology-neutral, first-come-first-served funding pool (Art. 10cd(1)). |
| **4. Innovation Fund Expansion**<br>The Innovation Fund's CCUS allocation of €2.4bn is inconsistent with the 50 Mtpa mandate and must be increased.<br>*(ETS Benchmarks response, May 2026)* | Art. 10cb(2) sets the Fund at **200 million allowances**, with a top-up route where fewer than 50 million remain under Art. 10a(5b). No CCUS-specific allocation or floor is set. | **Partial.** Not sufficient to meet CO2 storage target. |
| **5. Mitigation of Double-Burden**<br>Establish EU-level guarantees against the "double burden", where emitters bear both infrastructure costs and ETS allowance costs when a value-chain segment fails.<br>*(Feedback on the Industrial Accelerator Act, June 2026; CCSA EU Market Study 2026 Action 2.c)* | **Not addressed anywhere in the package.** No force majeure relief, no temporary exemption, no MSR-based reserve for capture-chain disruption, no EIB guarantee mechanism. | **Risk.** Remains to be addressed. |
| **6. Permanent CDR Integration**<br>Integrate only permanent carbon removals meeting rigorous permanence criteria – DACCS, BioCCS and products permanently chemically binding $CO_2$<br>*(The Integration of Carbon Dioxide Removal within the EU ETS, July 2025)* | Art. 9c(1) confines Commission purchase to BioCCS and DACCS units certified under Reg. (EU) 2024/3012. Permanently chemically bound $CO_2$ is relieved separately under Art. 12(3b)(a). Nature-based removals and carbon farming are deferred to the Art. 9c(8) report. | **Strong Win.** Formally recognises permanent CDR into the EU ETS. |
| **7. CDR Cap Integrity & Non-Inflation**<br>CDR integration must not increase the gross cap; one fewer EUA per removal allowance integrated *(CDR paper,* | Art. 9c(1) **pre-increases the cap by 250 Mt** against a binding purchase commitment; Art. 9c(7) exempts that volume from the LRF; Arts. 9c(5) (6) cancel allowances and | **Win.** A different mechanism from CCSA's |

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| *July 2025)*; refined to "limited substitution within the existing cap, adjust the cap only if necessary" *(EU Market Study 2026, Feb 2026)* | units on self-use or purchase. Gross emissions space is guaranteed; the net target is gross emissions minus removals purchased (Recital 33). | design, but it achieves the integrity objective |
| **8. Direct Operator CDR Access**<br>Carbon removal projects must have a clear perspective to access the EU ETS directly once competitive; any intermediary role must be transitional.<br>*(CDR paper, July 2025)* | Art. 9c(8) requires a report **before 31 December 2034** assessing "the feasibility to gradually transition, from an integration managed by the Commission, towards a direct integration by operators". Art. 14(1a) grants own-BioCCS self-use only. | **Win.** Commission's approach recognises its transitional role. |
| **9. CDR Central Intermediary Authority**<br>Establish a supply-management mechanism through an intermediary authority that procures and strategically auctions removal credits<br>*(CDR paper, July 2025)* | Art. 9c(1) and (3) does exactly this: the Commission auctions allowances, purchases units, and Art. 9c(4) governs auction timing to smooth integration toward 48 million allowances in 2040. | **Strong win.** Directly implements CCSA's recommended intermediary procurement mechanism. |
| **10. International Credit Guardrails**<br>Restrict international credits under the 2040 target to permanent removals with strict Article 6 MRV. | **Partial:** Earmarks up to 260M allowances for Article 6 credits; quality criteria and sector-specific eligibility deferred to future implementing acts. | **Unknown:** Requires strict quality whitelisting during trilogues to protect EU investments. |
| **11. Downstream CCU Accounting**<br>Eliminate double pricing for circular carbon and recognise multimodal transport. | Art. 12(3b)(b) defers surrender obligations downstream; Art. 14(1) deems carbon bound in synthetic fuels emitted by the distribution activity; Annex I is extended across the CCU chain. Recital 69 confirms direct use without chemical binding remains accounted upstream. | **Strong Win.** Secures accounting logic for carbon recycling, synthetic fuels, and non-pipeline transport. |
| **12. Permanent Bound $CO_2$ Products**<br>Recognise products permanently chemically binding $CO_2$ as a permanent removal method within the ETS<br>*(CDR paper, July 2025)* | Art. 12(3b)(a) preserves relief for $CO_2$ "permanently chemically bound so that they do not enter the atmosphere under normal use, including any normal activity taking place after the end of the life of the product". Recital 69 | **Partial.** Relieved from surrenders, but excluded from Art. 9c central purchase facility. |

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| | adds that "the permanent capture of carbon dioxide in physical objects that are not products, should also be recognised". | |
| **13. EU–UK ETS linkage to include CO2 T&S**<br>Coordinate CCUS regulatory regimes and recognise $CO_2$ transport and storage under both *(Joint Letter, Sept 2025; Open Letter, June 2026)* | Amended Art. 12(3a) opens third-country storage **conditional on an Art. 25 link**, on a reciprocal basis, not before 2031, and subject to a Commission implementing decision. Recital 25 states that Art. 25b "would also facilitate the implementation of the ETS linking agreement being prepared with the United Kingdom". Recital 68 accepts the economic logic of third-country storage. | **Partial.** The legal recognition and baseline exist, but operational access is subject to linkage negotiations. |
| **14. Cross-border Permitting**<br>Clarify cross-border $CO_2$ transport permitting<br>*($CO_2$ transport consultation response, Jan 2026)* | Single competent authority determined by capture location; transit Member States excluded from permitting (Recital 28). | **Strong win.** Eliminates transit State vetoes and streamlines cross-border pipeline/shipping permitting. |
| **15. Benchmark Protection**<br>Introduce sector-specific fallback benchmarks to prevent Cross-Sectoral Correction Factor (CSCF) penalties. (*ETS Benchmarks response, May 2026)* | **COM(2026) 619:** Injects ~80M allowances into fallback benchmarks for 2027–2030 (excluding NACE 0610, 0620, 1920, 4950). Sector fallbacks empowered for 2031+. | **Partial Win.** Short-term relief granted; post-2031 sector-specific benchmarks reopened. |
| **16. Waste Incineration Inclusion**<br>Bring municipal waste incineration into ETS scope by 2028<br>*(ETS Benchmarks response, May 2026)* | **Annex I & Art. 12a:** Non-hazardous waste incineration (>3 t/h) phased in from 2031 (25% to 100% by 2034). Art. 12b national opt-out to 2035. | **Partial Win.** Start date delayed from 2028 to 2031; opt-out clause risks local price signals. |
| **17. Harmonisation of Hydrogen Accounting.**<br>Extend zero-rated emissions calculations to all low-carbon hydrogen injected into the gas grid; treat low- | Annex I row 24 clarifies hydrogen production "**including production of hydrogen as by-product only**" above 5 t/day is in scope (Recital 86). Arts. 3gaa(2)(c) and (9)(c) | **Risk.**<br>Beyond the scope clarification and the |

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|---|---|---|
| carbon hydrogen on carbon intensity rather than production route<br>*(Low-Carbon Hydrogen, Dec 2024; ETS Benchmarks response, May 2026)* | recognise low-carbon hydrogen and fuels under Dir. (EU) 2024/1788 for **80%** of the maritime price differential, subject to Art. 3gaa(6) origin conditions. | maritime price differential, nothing CCSA asked is delivered; SWD(2026) 616 contains no treatment of low-carbon hydrogen at all. |

## Key Outcomes

### A. Funding: The Industrial Decarbonisation Bank, the Investment Booster, the Innovation Fund and Revenue Earmarking

#### A1. Auction revenues

*(Amended Art. 10(3))*

- **The 50% Binding Baseline:** Member States must **use at least 50% of revenues** (excluding those used for indirect cost compensation) for listed priority purposes (below).
- **Explicit CCUS Eligibility:** Listed priority purposes include "(c) investments in industrial decarbonisation and enabling measures for such decarbonisation, including investments in industrial electrification, clean industrial production technologies, **the capture, use and storage of CO2 and the development of the CO2 transport network"; (i) lead markets for low-carbon and circular products;** (j) related research and development. The **remainder** may be used for a second list, whose point (a) is **"permanent carbon removal methods, such as direct air capture and storage".**
- **Mandatory Disbursement Schedule:** Revenues must be disbursed by the third year after generation, must not "prolong reliance on fossil fuels in power generation", and are reported under Reg. (EU) 2018/1999. Art. 30m as amended strengthens visibility requirements.

**CCSA Analysis:**

- **The CCSA strongly welcomes the binding 50% earmark.** Art. 10(3)(c) is the first time EU law has obliged Member States to direct a fixed minimum share of carbon revenue toward $CO_2$ transport network development – an ask the CCSA has pressed consistently, most recently in our *Statement on the Future of the EU ETS* (February 2026) and our response to the ETS benchmarks consultation (May 2026). Member States currently channel roughly 5% of ETS revenues into industrial decarbonisation, and SWD(2026) 616 Part I §6.2.5 p.74 estimates total auction revenue of "between approximately EUR 600 to over 800 billion" for 2031–2040. The practical value of a 50% earmark spanning eleven purposes will be determined not in Brussels but in national NECP updates and budget processes. The CCSA will work with members and national associations to ensure $CO_2$ infrastructure is prioritised in those national allocations.
- **Explicit Inclusion of Industrial Clusters (Art. 10(3)(b) & (c)):** Beyond naming $CO_2$ transport, processing, and storage, point (b) legally anchors the concept of **"industrial clusters"** into national revenue recycling rules. This provides CCSA members with a strong legal lever during national NECP consultations to demand that Member States allocate their 50% ETS revenue budgets directly to shared, cluster-based pipeline and grid infrastructure, rather than fragmented, isolated projects. This directly validates CCSA's long-standing advocacy for a cluster-based approach to European carbon management. Even though this is not consistent throughout, it demonstrates that the Commission is moving their thinking in

the right direction. The CCSA will continue to drive the importance of cluster-based development to reduce risks. **CCSA notes there is mention of clusters for the first time, but this is not consistent throughout – it nonetheless demonstrates that the Commission is moving their thinking in the right direction. The CCSA will continue to drive the importance of cluster-based development to reduce risks.**

**A2. Industrial Decarbonisation Bank, Investment Booster & Modernisation Fund**
*(Articles 10cb–10ce)*

- **IDB scope:** While the Innovation Fund focuses on "early-stage, high-risk technologies, the Industrial Decarbonisation Bank (IDB) should support the scale-up and roll-out of more mature technologies.
- **Phase 1 Investment Booster (2028–2030):** Frontloads 400 million allowances (~€30bn) to award fixed carbon premia per tonne avoided. Allocations are made in chronological order based on completion bond submission (Art. 10cd(1)). 100M allowances are reserved for Member States with GDP per capita below 75% of the EU average during the first 18 months.
- **The 30-Month Construction Rule (Art. 10cd(4)):** The completion bond is issued by an EU-authorised financial institution as a performance guarantee, released 50% at start of physical construction and 50% at start of operations. Projects must achieve "start of physical construction" within 30 months of award. Preparatory works, permitting, and FEED are explicitly excluded from physical construction. Non-compliance results in 100% completion bond forfeiture and total support revocation.
- **Phase 2 CCfDs & Carbon Premia (2031–2040):** Financed via **400 million allowances** (~€40bn+ at projected prices) auctioned under Art. 10(4) as external assigned revenue. Deploys 10-year competitive Carbon Contracts for Difference (CCfDs) compensating the difference between the contractual strike price and the prevailing auction carbon price (note Risk below).
- **Modernisation Fund Distribution Keys (Annex IIb):** Receives 2% of the total cap plus an extra 0.5% dedicated to IDB investments in 12 beneficiary Member States. Annex IIb sets binding national shares: **Poland (38.14%), Czechia (13.02%), Romania (9.92%), Greece (8.42%), Portugal (7.26%), Hungary (5.78%), Bulgaria (5.44%), Slovakia (4.78%), Croatia (2.43%), Lithuania (2.17%), Estonia (1.62%), and Latvia (1.01%).** At least 95% of revenues must support priority investments, explicitly including $CO_2$ infrastructure and CCS/CCU.

**CCSA Analysis:**

- **The CCSA welcomes the frontloading of ~€30bn through the Investment Booster**, which responds directly to our call for immediate de-risking tools rather than reliance on future funding instruments (*Feedback on the Industrial Accelerator Act*, June 2026). **We flag,**

**however, that the Booster rewards permit-readiness, not project merit.** Allocation under Art. 10cd(1) is chronological by completion bond submission. Members with FEED complete, permits in hand and a bond arrangeable will capture the fixed premium; members still permitting will not, regardless of project quality , access to full CCUS chain or abatement cost. This inverts the usual competitive dynamic and strongly favours the CCS projects closest to FID today. Members with a 2027-2029 FID window should treat completion bond arrangeability as a critical path item now.

- **CCSA assesses the 30-month deadline as the sharpest single risk in the funding architecture.** Art. 10cd(4) excludes permitting, FEED and site clearance from "start of physical construction", so the clock runs on precisely the activities a project does not control. **Permitting is the clearest exposure:** a capture project whose national permit procedure overruns forfeits its completion bond in full, loses the award and loses all entitlements, for a delay that is administrative rather than commercial. **The same risk runs across the $CO_2$ chain,** where a transport and storage operator cannot responsibly break ground before its anchor emitter is committed, yet its own clock runs from its own award date. The CCSA notes the inconsistency: the Commission's own Impact Assessment records that what prevents CCS uptake is "planning for CCS plants and the legislative requirements for such plants being set too high from day one" (SWD(2026) 616 Part V, Annex 15 §4.1.1.1.2 p.31), and the Industrial Accelerator Act extends NZIA-style streamlined permitting to energy-intensive industry decarbonisation projects for exactly that reason; yet the Investment Booster penalises projects for permitting delay. **We will seek a suspension or extension mechanism where delay is attributable to permitting or to another link in the $CO_2$ value chain, and will press for the Terms and Conditions under Art. 10cd(2) to set the full 30 months rather than a shorter period.**

- **CCSA welcome the legislation for EU-level CCfDs against a 400 million allowance budget – this is a hugely positive step forward**, and delivers on an ask the CCSA has made consistently since our *Statement on the Future of the EU ETS* (February 2026). **However, the timescale of 10 years under Art. 10ce(3) is likely to be too short, given existing CCfDs in the market are 10+5 years (UK Industrial Carbon Capture contracts), 15 years (Germany, Klimaschutzverträge) and 15–20 years (Denmark, CCUS Fund).** This is severely misaligned with heavy industry capital investment cycles and debt amortisation periods. The CCSA will push for the contract term to be extended in line with these national benchmarks, and with the industry reality.

- **Technology neutrality will strand parts of the CCU and e-fuels chain.** SWD(2026) 616 Part III, Annex 9 §3.4.1.2 p.185 is explicit: "processes characterised by substantially higher cost gaps, such as the production of synthetic hydrocarbons for the chemical industry or synthetic fuels for maritime and aviation, **are not awarded support in the purely technology-neutral auction simulation". The CCSA notes that the Commission's own modelling therefore undercuts the claim made elsewhere in its Impact Assessment that the IDB will support sustainable maritime fuels, and we will use this evidence to press for a CCUS earmark or dedicated window within Art. 10cc.**

**B. Free Allocation Conditionality: The "Invest in EU Decarbonisation Plan" and the 20% Cliff** *(Article 10a)*

- **The obligation**: Installations applying for free allocation must submit a verified, **publicly available "Invest in EU decarbonisation plan"**, **by 30 September 2029** (and every five years thereafter). Investments must equal **at least 100% of the economic value** of free allocation, be implemented **in the EU**, and deliver **significant emissions reduction at installation level within the period**. Offset credits are excluded.
- **The 80/20 split.** On submission of a plan verified under Art. 15 and approved by the competent authority, 80% of the free allocation is allocated annually. The remaining 20% is allocated only after confirmation by the competent authority, no later than two years after the end of the five-year period, that (a) the investments were implemented and implemented in the EU; (b) eligible costs equivalent to 100% of the economic value were invested; and (c) the Art. 15 annual reports show significant emissions reductions were achieved at installation level in the period. (Art. 10a(3c)). Operators relocating capacity outside the Union must **reimburse**.
- **Exemptions.** Installations implementing an IDB, Investment Booster or Innovation Fund project are exempt from the plan and receive the 80% without additional verification (fifth subparagraph). The 20% is released on start of construction (IDB/Booster) or on launch of Innovation Fund disbursement, and only once the competent authority additionally confirms that eligible costs equal to 100% of the allocation's economic value were invested in the EU. The 10% most efficient and zero-emissions or low-carbon installations are exempt entirely (sixth subparagraph).
- **Joint** "**Invest in EU decarbonisation plan**". Operators may form a pool under a "joint decarbonisation investment agreement" to meet the investment requirement jointly, including across Member States. The agreement must be concluded before the allocation application, cover at least the full five-year period, and the pooled investment must equal 100% of the pooled allocation's economic value. New members may join only in the next period (art. 10a(3d)).
- **Art. 10a(3e) delegated act.** eligible costs, definition of "significant emissions reduction", methodology for economic value, qualification as zero-emissions or low-carbon, pooling liability.
- **UK approach to Free Allowances:** The UK Government has stated commitments to phase out free allowances for sectors operating in the UK. As it stands, the phase out of free allocation for UK CBAM sectors will begin in 2027, aligning with the start of the UK CBAM, with the indicative trajectory for the phase out of all free allocations culminating in 2035. In November 2025, the UK Government stated the trajectory and pace of the phase out will be aligned with the EU's approach, supporting consistency in carbon pricing and leakage mitigation across

both jurisdictions. They also noted that it is possible the UK's free allocation policy may be subject to change following the outcome of the formal linking agreement.

### CCSA Analysis:

- **The CCSA notes that most of the decisive terms are undefined.** Whether a CCS project that has reached FID, started construction and incurred the capital cost, but is not yet abating, satisfies "significant emissions reduction within the relevant five-year period" is not answered anywhere. This can cost 20% of five years' allocation. **This will be the CCSA's priority ask in the Art. 10a(3e) delegated act**, where we will seek recognition of FID plus verified start of construction as satisfying the test, and confirmation that capture, compression and connection CAPEX qualify as eligible costs.
- **The CCSA welcomes the IDB and Innovation Fund exemption, which is among the most valuable provisions in the package for CCS retrofits,** converting an award into a partial free allocation insurance policy – it removes the plan, the Art. 15 verification and the emissions-reduction test. We note, however, that it does not remove the 100% investment test, which still gates the 20%. Members should therefore model the funding award and the free allocation exemption as one combined value before deciding whether to bid.
- **The CCSA flags that CCS project that misses the IDB faces the worst outcome:** a capital plan on the public record, a 20% withhold, and a five-year window in which reductions must actually be delivered. Long-build CCS retrofits are structurally disadvantaged against incremental efficiency measures – — the opposite of the intended effect, and a point we will press in the delegated act.
- **Regulatory compliance burden.** Every installation applying for free allocation from 2031 must produce a verified, publicly available, competent-authority-approved decarbonisation plan with quantified intermediate targets to 2035 and each fifth year thereafter, and must track eligible costs against the economic value of its allocation for five years. SWD(2026) 616 Part V already warns of "the anticipated strain on verifier resources, coupled with the evolving demands of new reporting obligations". **The CCSA flags verifier capacity a real 2029 bottleneck and members should secure verifier engagement early.**
- **Publication risk.** Art. 10a(3b) requires the plan to be made publicly available with no confidentiality carve-out. Competitors, NGOs, offtakers and CBAM counterparties might be able to read it. **The CCSA will seek a confidentiality carve-out for commercially sensitive capital and offtake terms.**

## C. Integration of Permanent Carbon Dioxide Removals (CDR) & International Credits

### C1. Integration of CDR

*(Article 9c & Article 14(1a))*

- **Volume and mechanism:** increases the Union-wide quantity of allowances by **250 million allowances**, made available to the Commission to auction **from 2031 to 2040** to generate revenues for the purchase of an equivalent amount of domestic permanent carbon removal units generated by BioCCS and DACCS activities under Reg. (EU) 2024/3012. The Commission "shall purchase those removal units prioritising a portfolio of cost-effective, high-integrity projects **with payment upon delivery of the certified units**."
- **Fiscal buffer.** Art. 9c(2) makes a further 10 million allowances available where paragraph 1 revenues prove insufficient – the legislative expression of the price gap between removals and allowances (Recital 33).
- **Cap integrity.** Art. 9c(7) disapplies the linear reduction factor to the 250 million allowances. Art. 9c(3) returns any allowances not auctioned for the purpose to the Art. 9 quantity before 2041. Recital 33 states the principle: "The net target of the EU ETS is the equivalent of the gross emissions minus the permanent carbon removals that are subject to integration."
- **Auction profile:** This architecture directly implements CCSA's core recommendation to utilise a central intermediary procurement body. By purchasing removal credits via public tenders and fixed premiums, the EU provides guaranteed public offtake agreements, bridging the bankability gap for high-CAPEX projects without exposing traditional industrial emitters to spot market price volatility.
- **Self-Compensation for Emitters:** Industrial installations (operators, aircraft operators and shipping companies) capturing biogenic $CO_2$ via certified BioCCS are permitted to directly compensate their own fossil emissions within the ETS framework, unlocking immediate compliance value for bio-energy retrofits.
- **Reversal liability.** "Carbon dioxide captured from the atmosphere or from sources with an emission factor of zero, shall have an emissions factor of zero, unless that CO2 is leaked, vented or otherwise released from a permanent geological storage site." (amended Annex IV, Part A).
- **Other CRCF forms:** Art. 9c(8) requires a report to the Parliament and Council before 31 December 2034 assessing purchase progress against available supply and price, "the possible contribution of nature-based removals and carbon farming sequestration units", and "the feasibility to gradually transition, from an integration managed by the Commission, towards a direct integration by operators, beyond own use".

**CCSA Analysis:**

- **The CCSA strongly welcomes the integration of permanent carbon removals into the EU ETS.** This is a historic step and the culmination of sustained CCSA advocacy, set out in our

position paper *The Integration of Carbon Dioxide Removal within the EU ETS* (July 2025) and reinforced through our *EU Market Study 2026* and our response to the ETS benchmarks consultation (May 2026). The Commission has adopted the central intermediary procurement mechanism the CCSA recommended, has protected cap integrity by pre-increasing the cap against a binding purchase commitment, and has exempted the 250 million allowances from the LRF. **This is the first dated, legislated demand signal for permanent CDR anywhere in EU law.**

- **FID and timelines.** The first dated, legislated demand signal for permanent CDR in EU law, but the offtake instrument is a delegated act. SWD(2026) 616 Part III, Annex 8 Part II §4.5 p.80 leads us to believe that our members should not plan on meaningful Art. 9c revenue before the mid-2030s. **The CCSA's central ask on Article 9c is the payment structure:** Art. 9c(1) provides for "payment upon delivery", which the Commission's own analysis (Part III, Annex 8 Part II, Table 9, pp.82–83) rates as low bankability, while rating EU-backed offtake agreements as high and suggesting a share of around 25% paid upfront. We will press for forward offtake with partial upfront payment, and for an adoption deadline for the Art. 9c(4) delegated act.

- **CAPEX/OPEX.** Table 4 p.34 of the same Annex assumes BioCCS unit prices of **€214/t (2030) → €176/t (2040) and DACCS €428/t → €278/t.** A 250 Mt purchase funded by 260 Mt of allowance revenue implies an affordable average close to the allowance price. **The CCSA flags that, on the Commission's own cost assumptions, this arithmetic only works with a portfolio weighted heavily toward BioCCS**, and we will seek assurance in the delegated act that DACCS is not excluded by a pure least-cost procurement. We also note that Art. 14(1a) self-compensation is BioCCS-only – **CCSA proposes to extend it to DACCS self-use, as they are currently not provided.**

- **Regulatory compliance burden.** Storage site operators face a three-regime reconciliation: CRCF certification under Reg. (EU) 2024/3012, the ETS permit and monitoring plan, and the Directive 2009/31/EC storage permit and monitoring plan. The existing MRR already includes provisions for monitoring activities linked to permanent storage of CO2 and these same rules are applied to DACCS and BioCCS. The burden lies on reconciliation rather than new methodology, but the liability allocation between capture operator, transport operator and storage operator is not addressed. **The CCSA will seek clarification of reversal liability allocation across the chain in the Art. 14(1) implementing act.**

- **UK ETS integration and CRCF alignment:** The EU's central procurement approach contrasts with the UK's plan to fully integrate engineered removals directly into its compliance market by 2029 under a fixed gross cap (1:1 replacement with UKAs). CCSA supports the UK's direct-integration model for creating stronger demand signals and firmly urges the UK not to delay its 2029 integration timeline to wait for the EU. While cap divergence should not block near-term EU-UK ETS linkage, unaligned market designs risk long-term complexity. To mitigate this, CCSA strongly endorses the UK's commitment to align its CDR methodologies with the EU CRCF. Shared CRCF standards across both markets will ensure cross-border interoperability,

reduce administrative burdens for developers, and accelerate investment in European CDR and $CO_2$ transport and storage infrastructure.

### C.2 International Credits

*(Article 9b)*

- **International credits.** New Art. 9b(1): up to **260 million allowances** are made available to a facility for the purchase of up to **260 Mt** of high-quality, high-integrity international credits provided for in Reg. (EU) 2021/1119, "to contribute to the climate ambition of the activities listed in Annex I **from 2036 to 2040**", with all purchases subject to the Reg. (EU) 2021/1119 criteria. Art. 9b(3): a report by **31 January 2033** assessing (a) environmental integrity, accounting robustness and verification requirements; (b) supply and demand development; (c) implications for the functioning and integrity of the EU ETS; and (d) sectoral implications "including the risk of carbon leakage, the impacts on competitiveness, the risk of mitigation deterrence, and the consistency with the Union's economy-wide climate neutrality objective".

**CCSA Analysis:**

- **The CCSA welcomes the integration of international credits, however notes that they are competing for the same policy space as CDR.** Art. 9b makes 260 Mt of international credits available for 2036–2040 while Art. 9c makes 250 Mt of domestic permanent removals available for 2031–2040. They are however structurally different: the 260 million allowances are carved out of the Union-wide quantity, whereas the 250 million are added to it and exempted from the LRF, which means that there is no direct impact on the CDR budget. **The dilution risk is transmitted through the carbon price.** Article 9c is self-financing: removals are bought with the proceeds of auctioning those allowances. Recital 29 states that the international credits facility exists to "reduce the overall need for domestic action by up to 5 percentage points", reflected in the lower 1.7% LRF from 2036 that Art. 9b(4) reverses only if credits prove unavailable. A softer cap means a lower allowance price, and a lower allowance price means the same allowances raise less to buy removals with. The Commission's own modelling shows how finely balanced this is: the purchasing programme carries "an illustrative final fiscal cost of EUR 3 bn" under PRIMES, turning positive only where "overall removals costs are lower than the carbon price" (SWD(2026) 616 Part III, Annex 8 Part II p.48). **The CCSA supports the sequencing — domestic removals from 2031, international credits only from 2036 — and will defend it, as long as they meet** strict **quality, permanence and accounting requirements**.
- **Differing UK approach to international credits.** Unlike the EU proposal, the UK meets its climate targets strictly through domestic abatement and excludes international Article 6 credits EU reliance on Article 6 credits creates a structural divergence in allowance composition and price dynamics, threatening EUA–UKA equivalence and complicating EU-UK ETS linkage negotiations. Broad international credits also risk violating the "like-for-like"

principle, which CCSA maintains should strictly prioritise durable, engineered removals. .**the CCSA will argue that any use of international credits must be subject to stringent quality, permanence and accounting requirements that ensure equivalent integrity across both schemes.**

**D. Downstream Carbon Capture & Utilisation (CCU) & Synthetic Fuel Accounting**
*(Article 12(3b) & Annex I)*

- **Downstream Surrender Shift:** Article 12(3b)(b) waives surrender obligations at capture where $CO_2$ is chemically bound and primarily emitted in activities listed in Annex I. Surrender is deferred downstream to the point of physical release (e.g., waste incineration of end-of-life plastics).
- **Synthetic E-Fuels:** Art. 14(1) as amended requires the implementing acts to "specify the order of capture and how to account the emissions from captured CO2 from a mix of zero-rated and non-zero-rated sources" and to "specify how to account for emissions from synthetic fuels, ensuring that such emissions are accounted for and that double counting is avoided. **Carbon chemically bound in synthetic fuels shall be considered to be emitted by the activity of distribution of synthetic fuels established in Annex I.**"
- **Scope Extension:** Annex I is amended so that row 26 becomes capture of $CO_2$ from any covered activity (no longer capture for storage only); row 27 becomes transport to an installation performing a covered activity; three **new rows** after row 28 cover processing (purification, liquefaction, gasification, temporary storage), utilisation chemically binding $CO_2$, and distribution of synthetic fuels. Recital 69 confirms **direct use without chemical binding remains accounted upstream.**

**CCSA Analysis:**

- **The CCSA strongly welcomes the shift to downstream and midstream accounting**, which resolves the double-pricing problem for CCU products and synthetic fuels that the CCSA has raised consistently, including in our position paper on an EU regulatory package on $CO_2$ transport infrastructure (May 2025) and our response to the ETS benchmarks consultation (May 2026). SWD(2026) 616 Part I §6.1.1.9 p.42 confirms that the alternative would have ended zero-rating for e-fuel combustion; the midstream carve-out preserves it and enables e-fuel producers to meet the 70% GHG saving obligation under RED. **This is a genuine FID unlock for European e-fuels and CCU chemicals projects.**
- **The value of this win now depends entirely on the Art. 12(3b) delegated act.** The Commission is empowered to list qualifying and non-qualifying utilisation types, set de minimis thresholds and impose partial surrender requirements. Its evidence base is an average incineration rate of only 21.4% across non-permanent CCU products (Part IV, Annex 13 §2.4.3.1.1 pp.147-148).

- **The price of the win is regulatory scope, with no grandfathering.** Every $CO_2$ liquefaction terminal, buffer store, processing unit and chemically-binding utilisation plant will now require a GHG emissions permit, monitoring plan and annual verification. The CCSA flags that there are "currently no tailored MRV methodologies for non-permanent CCU" (Part IV, Annex 13 §2.4.3.2 p.152).

**E. $CO_2$ Transport, Storage and Cross-Border Value Chains**
*(Article 6)*

- **$CO_2$ Transport Permitting.** The competent authority for $CO_2$ transport infrastructure is that of the Member State **where the $CO_2$ is captured**; where captured outside the EEA, the **first Member State of transit**. Transit Member States are excluded from permitting (Recital 28), but Art. 6a(2) requires transit and reception authorities to exchange information for monitoring plan approval and report verification.
- **Third-country storage.** Surrender relief extends, **from 2031 and on a reciprocal basis**, to storage in a third country with an **ETS linked under Art. 25**, subject to a Commission **implementing decision** confirming Directive 2009/31/EC safeguards, and **provided the facility is not used for enhanced oil or gas recovery**. Recital 68 accepts that third-country storage "could reduce transportation costs, minimise leakage risks and accelerate the deployment of CCS".
- **Maritime offshore operations.** Surrender obligation applies to ships performing or supporting offshore operations at a worksite in a Member State's territorial sea, EEZ, continental shelf or continental shelf sea – half of emissions on voyages between a Member State port and a third-country port, and all emissions on Member State-to-Member State voyages and within a Member State port. The third subparagraph excludes worksites outside those zones.
- **The linking evidence base.** SWD(2026) 616 Part IV records that "the EU ETS is linked to the Swiss ETS and negotiations with the UK ETS have recently been launched", that "the EEA EFTA States are integrated in the EU ETS", and that linking requires "a deep degree of harmonisation".

**CCSA Analysis:**

- **The CCSA welcomes Art. 6a, which answers our January 2026 consultation ask directly.** Cross-border pipeline and shipping projects gain a single, predictable permitting authority determined by the point of capture, and transit Member States lose the ability to hold a project hostage. This is a clean win and one the CCSA has pressed for since our position paper on an EU regulatory package on $CO_2$ transport infrastructure (May 2025).

- **EU-UK ETS Linkage:** Art. 12(3a) is the most consequential provision in the package on this front, and it is entirely contingent. EEA storage is already covered as per Directive 2009/31/EC. UK storage becomes usable for EU ETS compliance only if all three conditions are met: a concluded Art. 25 linking agreement, a Commission implementing decision on Directive 2009/31/EC equivalence, and a date of 2031 or later. Members with EU capture and UK storage in their base case are carrying a binary regulatory risk with **no fallback anywhere in the text**, and **no transitional arrangement for 2026–2030**. With around one third of Europe's potential $CO_2$ storage capacity, and over 90% of planned European storage capacity is in the North Sea region, the exposure is systemic rather than project-specific.**The CCSA will continue to press both negotiating teams**, restating the asks in our joint letters of 3 September 2025 and June 2026 – mutual recognition of $CO_2$ transport and storage, compatible operating standards, and integration of permanent CDR – and will seek a Commission commitment on the timetable for the Art. 12(3a) implementing decision, so that recognition follows linkage without a further multi-year delay.
- **The EOR exclusion attaches to the facility, not the tonne.** "Provided the facility is not used for enhanced oil or gas recovery" is drafted at facility level. CCSA notes that members contracting into a storage complex with any EOR component – including a phased development where EOR precedes dedicated storage – should obtain site-level legal segregation advice before relying on Art. 12(3a). **The CCSA will seek clarification of this exclusion at reservoir or tonne level rather than facility level.**
- **$CO_2$ shipping to EU offshore storage may attract a surrender obligation on the vessel's own emissions.** 100% on intra-EU legs and within port, 50% on legs to or from a third-country port. If so, shipped chains to EU offshore sites might become materially more expensive than pipeline chains and than Norwegian destinations outside Member State jurisdiction. **This would run directly against the level playing field for non-pipeline transport that the CCSA has consistently advocated. We will seek classification on the Commission's position on whether dedicated $CO_2$ carriers fall within Art. 3ga(1), and ask members with shipped chains to provide vessel emissions data by leg type.**

**F. Benchmarks & Carbon Leakage**

- **Fallback benchmarks 2026–2030** (COM(2026) 619, new Art. 10a(2a)): maximum annual reduction rate cut for **2027–2030** using the full Art. 10a(5a) amount – **~80 million allowances** – without triggering the CSCF; the 2026 adjustment is delivered through the 2027 update using **40%** of the adjustment. New Art. 10a(2b) **excludes NACE 0610, 0620, 1920 and 4950**.
- **Benchmarks 2031–2040** (amended Art. 10a(2), points (f)–(i)): 2031–2035 values from 2026–2027 data with the rate applied 2008–2033; 2036–2040 from 2031–2032 data applied 2008–2038; maximum 2%, minimum 0.3%. A new subparagraph requires **sector-specific**

**heat and fuel benchmark definitions, system boundaries and starting values** in the Art. 10a(1) delegated acts. **Art. 10a(5a):** the CSCF buffer rises from 3% to **4%** for 2031–2040.

- **CBAM interface.** Amended Art. 10a(1a): the CBAM factor is 97.5% (2026), 95% (2027), 91.5% (2028), 81% (2029), 59% (2030), **48% (2031), 37.5% (2032), 27% (2033), 15% from 2034 to 2037**, and **0% from 2038**. Goods newly added to CBAM Annex I attract 97.9% in their first year and 95.8% in their second, then track the standard schedule from the 2028 factor. Allowances freed by the reduction are auctioned except those reserved for the Innovation Fund and IDB under Art. 10cc and the Art. 10a(7) new entrants reserve.

**CCSA Analysis:**

- The CCSA notes that while the **80 million allowance** relief is immediately cash, the **NACE exclusion removes refining and gas processing entirely** – capture projects at refineries get nothing. The **post-2031 sector-specific fallback empowerment is where that ask can still be won**: it was rejected for 2026–2030 on quantum, not principle.

**G. Cap & Market Stability Reserve (MSR)**
*(Article 9)*

- **Cap trajectory.** Art. 9 as amended: "The linear factor shall be **3.7% from 2031 to 2035 and 1.7% from 2036**." The Union-wide quantity is to be published by **September 2028.**
- **Cap and MSR:** Art. 9 LRF **3.7% 2031–2035, 1.7% from 2036**; Union-wide quantity published by **September 2028**. MSR intake **24%→12%** from 2028; upper threshold 833 m / upper buffer 947 m; lower threshold 400 m / new lower buffer 300 m; all decline 4%/yr from 2029.

**CCSA Analysis:**

- **The 1.7% LRF from 2036**, combined with the halved MSR intake rate, implies a lower and flatter forward price curve than the previous trajectory. **CCSA notes that members should re-run CCS and CDR breakeven sensitivities against a 2036-2040 price that no longer assumes a hard cap-to-zero.**
- Conversely, SWD(2026) 616 Part V records the Commission's own finding that "carbon prices have remained below the threshold needed to make transformative technologies commercially viable" – **the strongest available evidence that price alone will not deliver CCS. The CCSA will use this finding as the evidential anchor for our funding and CCfD asks throughout the negotiation.**

**H. Waste Incineration**

- **Waste:** non-hazardous incineration and co-incineration **>3 t/h from 1 January 2031**, excluding chemical recycling (Annex I); phase-in 25/50/75/100% 2031–2034 (Art. 12a); Art. 12b opt-out to 2035 on two of three conditions, **notified by 31 July 2029**, with the Member State cancelling equivalent allowances; Art. 9 cap additions **10.2 / 19.5 / 28.1 / 36 million** 2031–2034. Landfill MRV from 2031 or 2034; Commission report by **31 July 2029**; Art. 30(9) inclusion report by **31 December 2034**.

**CCSA Analysis:**

- **The CCSA welcomes the inclusion of waste incineration in the ETS**, which we called for in our response to the ETS benchmarks consultation (May 2026), although we note the start date has slipped from our proposed 2028 to 2031. **Waste-to-energy capture now has the most complete policy stack of any archetype**: a dated carbon price from 2031, CRCF-eligible biogenic $CO_2$, self-compensation under Art. 14(1a) and IDB eligibility under Art. 10cc(1). **The Art. 12b opt-out is the threat** — an opt-out to 2035 removes the price signal and the capture business case in that jurisdiction.

**I. Low-Carbon Hydrogen**

- **Hydrogen:** Annex I row 24 clarifies hydrogen production "**including production of hydrogen as by-product only**" above 5 t/day is in scope (Recital 86). Arts. 3gaa(2)(c) and (9)(c) recognise low-carbon hydrogen and fuels under Dir. (EU) 2024/1788 for **80%** of the maritime price differential, subject to Art. 3gaa(6) origin conditions.

**CCSA Analysis:**

- **Low-carbon hydrogen is the clearest loss.** Beyond the scope clarification and the maritime price differential, nothing CCSA asked for in December 2024 or May 2026 is delivered; SWD(2026) 616 contains **no treatment of low-carbon hydrogen at all**.

## Political Context & Institutional Early Reactions

### A. Member State Positions

- **The Coalition for Pragmatism (Italy, Poland, Bulgaria, Czechia, Greece, Romania, Slovakia, Cyprus, Estonia, Hungary):** On 15 July 2026, ten Member States issued a joint declaration calling for a "pragmatic review" of the system. They raised concerns over the LRF steepness, opposed strict general conditionalities on free allocation, requested extended free allocations under CBAM, and urged caution regarding ETS2 social impacts.
- **High-Ambition Member States (Germany, France, Netherlands, Nordics):** Strongly support the 50% mandatory revenue reuse for industrial infrastructure and the early €30bn IDB booster, arguing that tight conditionality is essential to keep clean tech manufacturing within the single market.

### B. European Parliament Political Groups

- **European People's Party (EPP):** Welcomes the business-oriented tone, fallback benchmark relief, and the €100bn IDB. They will push during trilogues to reduce administrative burdens surrounding the 100% free allocation reinvestment plans. On a leaked document, the EPP **strongly supports 50% revenue earmarking, but pushes for international Article 6 credits to be capped at 2% (vs 5%), fast-tracking benchmark relief, and solving CBAM export leakage**.
- **Socialists & Democrats (S&D) and Greens/EFA:** Support mandatory revenue earmarking for $CO_2$ networks and waste incineration inclusion. However, they express sharp concern over the slowing of the LRF post-2035 (1.7%) and the inclusion of up to 260M international Article 6 credits, warning against diluting carbon pricing signals.
- **European Conservatives and Reformists (ECR):** Endorse benchmark protections and the extension of free allowances, but will fight for greater Member State flexibility in national revenue usage and delays to ETS2 rollout.

## Institutional Negotiation Timeline

- **EU ETS Directive Review:**
  *Rapporteur:* MEP Liese (EPP, Germany)
  - European Parliament will start debating and drafting their position on the ETS Directive Review at the beginning of September, and is expected to reach and adopt a negotiation position at the end 2026/early 2027.
  - Council is currently discussing the proposal – Informal meeting of Environment and Climate Ministers took place on 23-24 July; Competitiveness Council and Environmental Council to continue discussions in September-October – with a Targeted General Approach expected in December.
  - Trilogues are expected to start in the Q1 2027, with implementation expected from 2028.
- **ETS Review Free Allocation Benchmarks (2026–2030):**
  *Rapporteur:* Likely to be MEP Jarubas (EPP, Poland)
  - ENVI Coordinators have agreed to request an urgent procedure.
  - Aim for adoption in October 2026, and publication in the Official Journal before the end of 2026, allowing revised benchmarks to apply as early as possible.
- **Market Stability Reserve (MSR):**
  *Rapporteur:* MEP Maran (S&D, Italy)
  *Shadow Rapporteurs:* MEP Hansen (EPP, Luxembourg); MEP Knotek (PfE, Czechia); MEP Vondra (ECR, Czechia); MEP Wiesner (Renew, Sweden); MEP Bloss (Greens/EFA, Germany); MEP Andersson (The Left, Finland).
  - ENVI will be the lead committee and is expected to adopt its targeted report in September, followed by the EP plenary vote.
  - Council is currently discussing the proposal – Informal meeting of Environment and Climate Ministers took place on 23-24 July; Competitiveness Council and Environmental Council to continue discussions in September-October – with a Targeted General Approach expected in December.