EU Commission ETS proposal

Analysis of the July 2026 proposal for transport

September 2026

T&E

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Introductory remarks about the ETS1 proposal

Stay aligned to the 2040 EU climate target

- No changes to the **LRF** until 2031 is a welcome decision;
- **Lowering the LRF to 3.7% for 2031-2035 and 1.7% for 2036-2040 would:**
  - **delay EU climate targets,**
  - create an **oversupply of allowances** that would undermine the long-term price signal, and
  - jeopardise the business case for clean-tech frontrunners that have already invested in decarbonisation.
- **Cutting the MSR intake rate from 24% to 12% of the TNAC would sharply reduce its capacity to absorb surplus allowances and weaken support for the carbon price**.
- Diluting the **MSR** would:
  - break investor expectations of steadily increasing scarcity,
  - **erode the long-term price signal**, and
  - heighten regulatory risk – pushing up financing costs for precisely the industries that need to invest most in the green transition.

Prioritise internal emissions reductions over international carbon credits

- **The EU could consider including within its 2040 target the acquisition of a limited amount of high-quality, high-permanence international carbon credits characterised by stringent eligibility criteria**:
  - Respect for human rights,
  - Transparent and accurate information,
  - Only after a detailed impact assessment carried out by the Commission,
  - They should support partner third countries in pursuing GHG reduction trajectories, such as e-fuel production, compatible with the Paris Agreement's objectives, and enable strategic trade partnerships for European security of supply in clean energy transition and electrification.

Recommendation: if these stringent criteria cannot not be guaranteed, international carbon credits should not form part of the EU's target.

CDR integration must not lead to a net increase in emission space

- **Raising the cap by 250 million allowances (2031–2040) creates emission space that is certain, against removals that are contingent on price and supply.**
    - Art. 9c(3) returns unauctioned allowances to the general pool rather than cancelling them. Nothing in the text reconciles allowances auctioned against removal tonnes delivered.

Recommendation: **Unauctioned allowances should be cancelled, not returned to the cap, and any delivery shortfall recovered from future auction volumes.**

- **EU BioCCS and DACCS remain negligible at commercial scale**, and the CRCF has yet to recognise a single certification scheme, let alone certify a unit.
- **The EU ETS review must deliver a legal definition of residual emissions that the European Climate Law still lacks**
- Alongside central purchasing, the proposal would allow shipping companies and aircraft operators to compensate their own fossil emissions with CRCF-certified BioCCS from their own biogenic emissions.
- A publicly funded purchaser bidding for that CO2 at allowance-linked prices raises the cost of sustainable carbon for e-fuel plants. Procurement must not displace biogenic CO_2 from e-fuels for aviation and shipping.

EU ETS - Invest in electrification

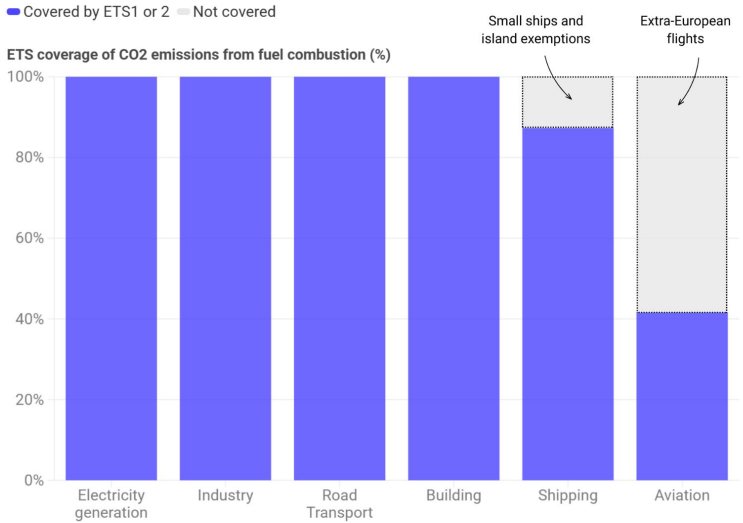
- **EU ETS revenues must be actively recycled to support the structural technological shift needed to lower industrial carbon costs over time:**
  - the European Investment Bank (EIB) should establish a dedicated facility allowing Member States to **frontload at least €100 billion by borrowing against guaranteed future EU ETS revenues**
    → to scale up European clean-tech manufacturing, including battery supply chains.
  - Out of the 50% of their national ETS revenues allocated to decarbonise ETS sectors, Member States should **ring-fence an increasing portion for direct industrial transition, renewable electricity production and end-user electrification**.
  - **The remaining 50% should be spent in actions supporting climate transition**. The transparency clause regarding the use of these revenues (Article 10(3)(l)) and Article 19(2) of Regulation (EU) 2018/1999) should be strengthened to ensure Member-States comply with the climate requirements.

Impact of the ETS proposal for the aviation sector

To date, long-haul emissions were not included in the ETS

Over half of EU aviation emissions escape pricing

ETS2 puts a carbon price on driving and heating - yet long-distance flights remain largely unpriced.



Source: UNFCCC, OAG, T&E SEA model • Chart scope (100% base): Aviation: departing EU flights; Maritime: intra-EU + 50% extra-EU voyages.
'Covered' means regulated under the ETS - some allowances are allocated free of charge.

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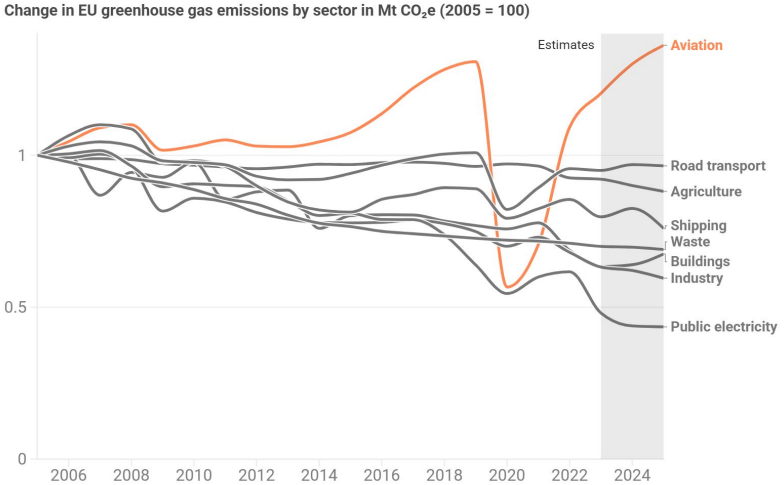
Aviation is the EU's fastest growing source of emissions

Aviation emissions have risen by more than 30% since 2005 - the start of the ETS - while emissions from other sectors have declined



Source: T&E (2026), based on UNFCCC, EEA, Eurostat, IPCC, Ember

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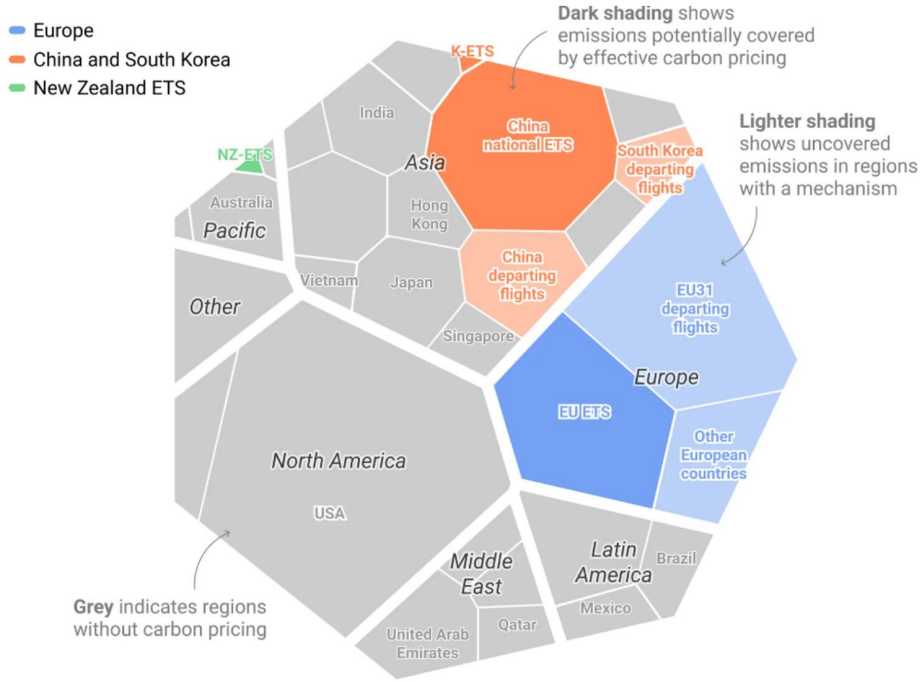
Carbon markets for aviation: Europe is not alone

- In Europe, **Switzerland** and the **UK** also cover aviation under the ETS.
- Outside of Europe, **China** is also making strides to decarbonise the sector: it has plans to include domestic aviation and cap emissions by 2027. China's commercial domestic aviation sector alone emits nearly 85 Mt of CO_2 annually.
- **South Korea** and **New Zealand** also have carbon markets covering aviation.

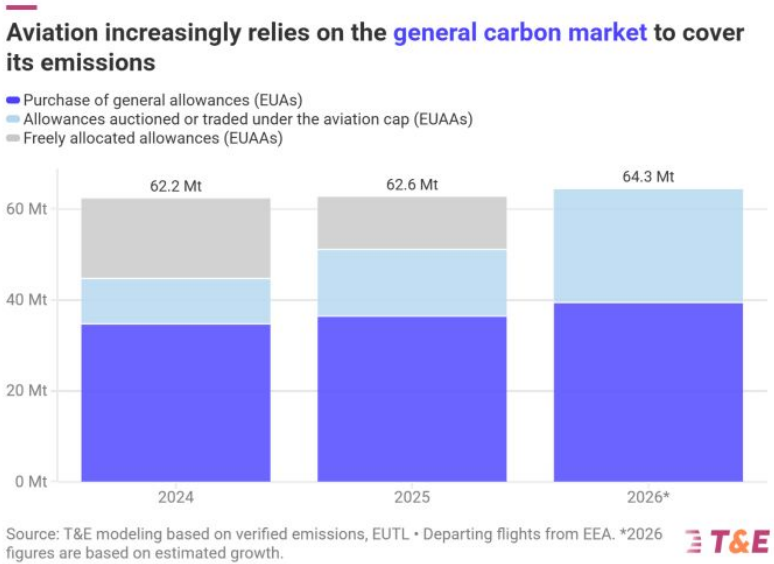
The EU is not the only region covering aviation by carbon pricing



Source: T&E (2026) • For China, the estimate is indicative as there is no national aviation carbon pricing mechanism in 2026. Coverage is limited to a few pilot schemes. The data represents effective coverage before the European Commission's proposal in July 2026.

Pre-2026: how was aviation included in the ETS?

- Aviation in the ETS since 2012, with a separate cap.
- CO_2 monitoring (MRV) on departing and incoming flights.
- **Pricing** only on intra-EEA flights (Iceland, Liechtenstein, Norway and now CH + UK), since **stop the clock decision**, extended until 2027.
- **Free allowances**: Free allocation to aircraft operators was reduced by 25% in 2024 and by 50% in 2025, moving to full auctioning for the sector by 2026.
- **SAF allowances**: 20 million ETS allowances (approx. €1.6 bn) were reserved to cover price gap between SAF and fossil fuels. RFNBOs = 95% coverage; 75% for advanced biofuels.
- **Non-CO_2 MRV**: applies from Jan 2025, calculating CO_2e per flight using flight information, aircraft and fuel properties, performance information and weather data. By end 2027, the Commission to deliver a report on the results and if appropriate, will make a legislative proposal.
- **Innovation Fund:** 5 million allowances go to the Innovation Fund.



What does the CORSIA assessment find?

By July 2026, the Commission had to carry out an **assessment** of whether more action is required for flights to and from Europe, based on two criteria:

- Environmental effectiveness of CORSIA
- Global participation in CORSIA (>70% global participation)

The Commission's CORSIA assessment concludes that the mechanism is not a credible alternative to the EU ETS, as the two key criteria were not met:

1. **The level of participation**. In 2024, CORSIA participation stands at 51% coverage of international aviation emissions. Accordingly, the condition is not fulfilled.
2. **Environmental integrity.** The assessment of the environmental integrity of CORSIA-eligible offset credits reveals significant challenges when considering the types of activities identified above and methodologies used.

However, the proposed scope does not reflect the assessment. Instead, it extends the "stop the clock" exemption on departing flights until at least 2032 under the guise of "encouraging CORSIA".

The level of participation **insufficient**

Environmental Integrity **insufficient**

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Scope: a half-hearted step towards pricing international flights

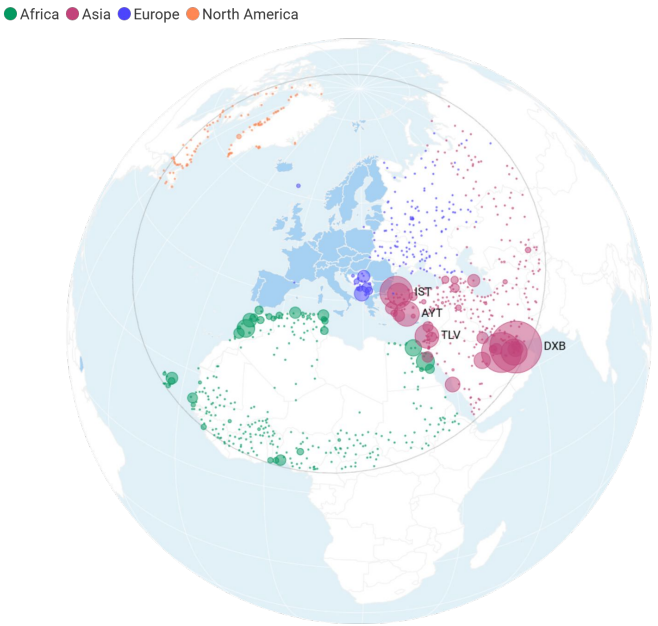
The new scope covers all departing flights to airports within 5,000 km from Frankfurt airport.

- A Paris to Dubai flight is in the scope. A Paris to New York flight is not. The scope avoids Chinese and US airports, reducing the risk of geopolitical retaliation.
- The scope will bring competing hubs into the system - European carriers and airports no longer have to compete on an uneven playing field for routes to Dubai, Doha and Istanbul.
- The scope's carbon leakage impact is 0.009% of in-scope emissions, even less than the current scope. For Europe to Asia routes, this scope leads to positive carbon leakage (0.44% increase), meaning key European hubs will benefit.

Recommendation: T&E accepts this proposal as a pragmatic first step that protects European interests. But Member States and the Parliament should support an ETS extension to all departing flights, as of **2028** (rather than 2029), given that CORSIA is not an effective mechanism to reduce aviation emissions.

A 5,000 km radius ETS covers departing flights to European, Middle Eastern and North African destinations

Circle size shows the CO_2 emissions from EEA departing flights



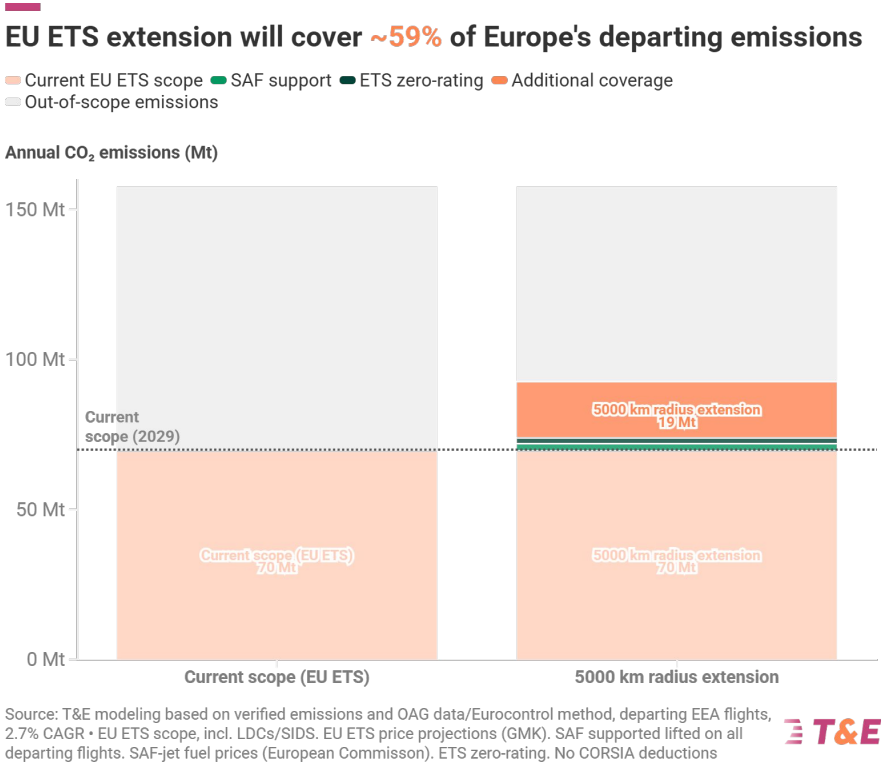
Source: T&E modeling based on OAG data and Eurocontrol method • Eligible airports <5,000 km from Frankfurt and located in non-EEA countries

Scope: how many emissions are covered under the proposal?

The 5,000 km scope covers ~59% of Europe's departing aviation emissions, up from 44% today.

- The increase in coverage will apply from 2029.
- SAF allowances will offset part of the increase, reducing the proportion of priced emissions to 57% in 2029. So nearly half of Europe's aviation emissions still carry no carbon price and airlines get financial support for buying SAFs.

Recommendation: Aviation is the only polluting sector whose emissions are not fully priced. More emissions should be priced under the ETS, by extending the scope of the carbon market to all departing flights. Pricing of more flights should begin in **2028**.



Source: T&E modeling based on verified emissions and OAG data/Eurocontrol method, departing EEA flights, 2.7% CAGR • EU ETS scope, incl. LDCs/SIDS. EU ETS price projections (GMK). SAF supported lifted on all departing flights. SAF-jet fuel prices (European Commisson). ETS zero-rating. No CORSIA deductions

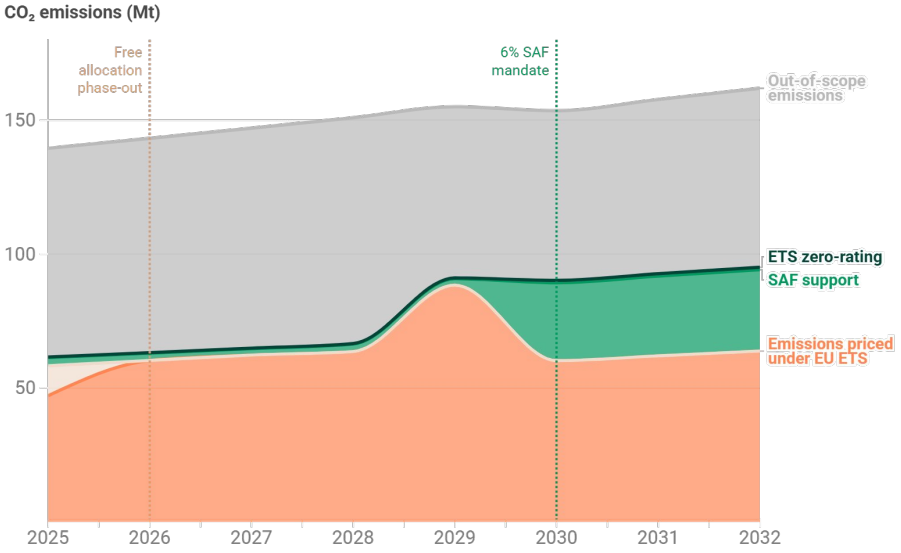
Scope: how do SAF allowances affect emissions coverage?

Money going back into the sector via 110 million SAF allowances heavily cushions the carbon price and the impact of additional emissions covered in the 5,000 km radius.

- Assuming all SAF allowances are consumed by 2032 (see later slides), SAF allowances reduce the ETS compliance cost for airlines substantially (on average, 39% between 2030 and 2032).
- An increase in SAF allowances - tied to a phase-out of UCO SAF - will promote the early deployment of more sustainable types of fuels: e-SAF and advanced biofuels.

Recommendation: Member States and MEPs should support the extension of SAF allowances, if they are used to support the early deployment of e-SAF and advanced biofuels. In the long-term, airlines must bear the cost of their full CO_2 impact with less SAF allowances.

Airlines will receive substantial SAF support, cushioning the impact of scope extension



Source: T&E modeling based on verified emissions and OAG data/Eurocontrol method, departing EEA flights, 2.7% CAGR • EU ETS scope, incl. LDCs/SIDS. EU ETS price of €120/tCO_2e (GMK). SAF supported lifted on all departing flights (assuming 110m reserve front-loaded; consumed by 2032). No CORSIA deductions.

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Scope: which airlines pay, and how much?

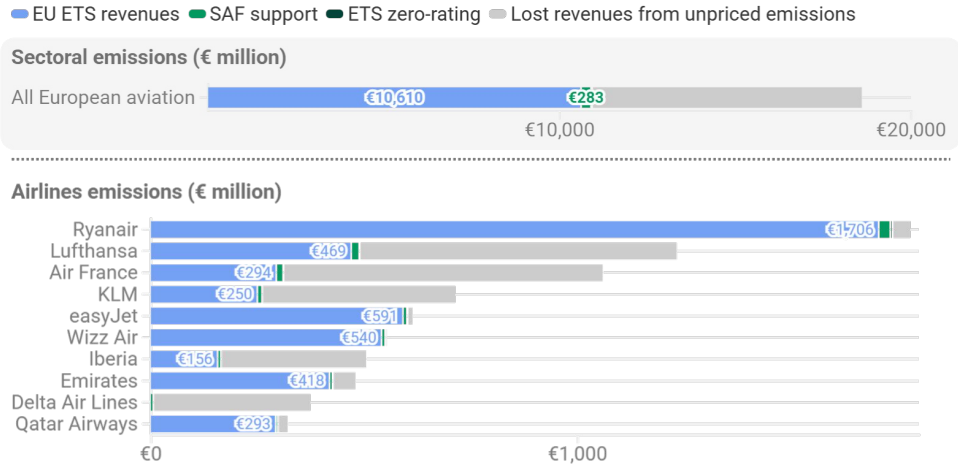
In 2029, the scope proposal would raise **€10.6 billion** in carbon market revenues, of which ~€300 million returns to airlines as 'free' SAF allowances. Though all airlines will need to pay more, the amount varies per airline and a majority of long-haul emissions stays out of scope.

- European legacy carriers only see a limited rise, as their long-haul flights remain out of scope.
- Middle Eastern and Turkish carriers such as Emirates and Qatar Airways will also be priced - correcting a long-standing imbalance with European carriers.
- Low-cost carriers pay for nearly all their emissions.

Recommendation: To generate more revenues, the scope of the ETS should be extended to all departing flights, as of **2028**.

A 5000 km radius raises close to €11 billion in carbon market revenue by 2029

Projected ETS revenues in 2029 net of SAF support and ETS zero-rating



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Scope: how will the extension affect ticket prices?

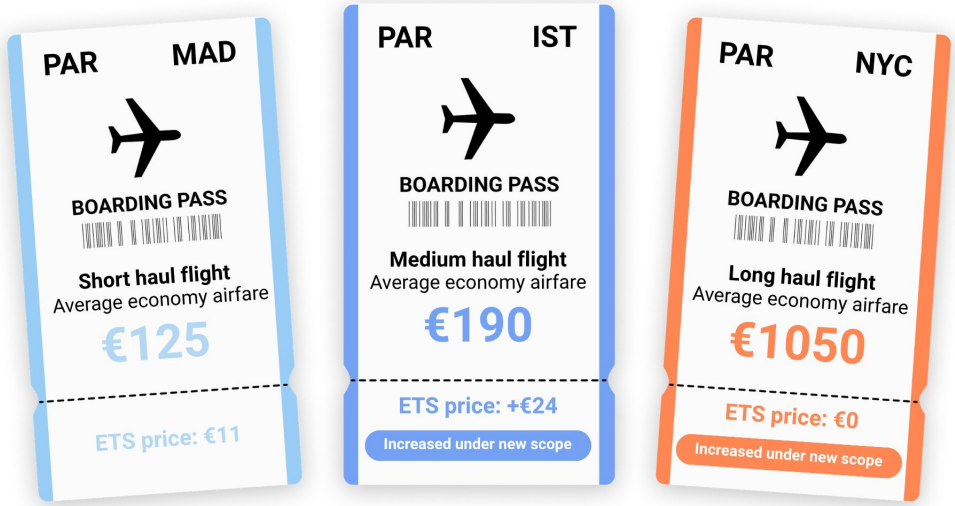
Ticket prices will increase only slightly:

- A Paris to Madrid flight will not see an increase, with passengers still paying an average of €11 in ETS costs in 2029 (€8 assuming a 70% cost pass-through).
- The scope extension includes flights to the Middle East and Turkey. This adds €24 to a flight from Paris to Istanbul (€12 assuming a 50% cost pass-through)
- Long-haul flights are still exempt from pricing, so a flight from Paris to New York remains unpriced for its CO_2.

Recommendation: Long-haul flights pollute the most, yet still pay nothing. Member States and the European Parliament must resist attempts by industry to weaken the scope, who claim that ticket price increases are too high.

ETS costs remain below 10% of ticket prices across routes within the 5,000 km scope

Average ETS cost per passenger from radius-based ETS extension (2029)



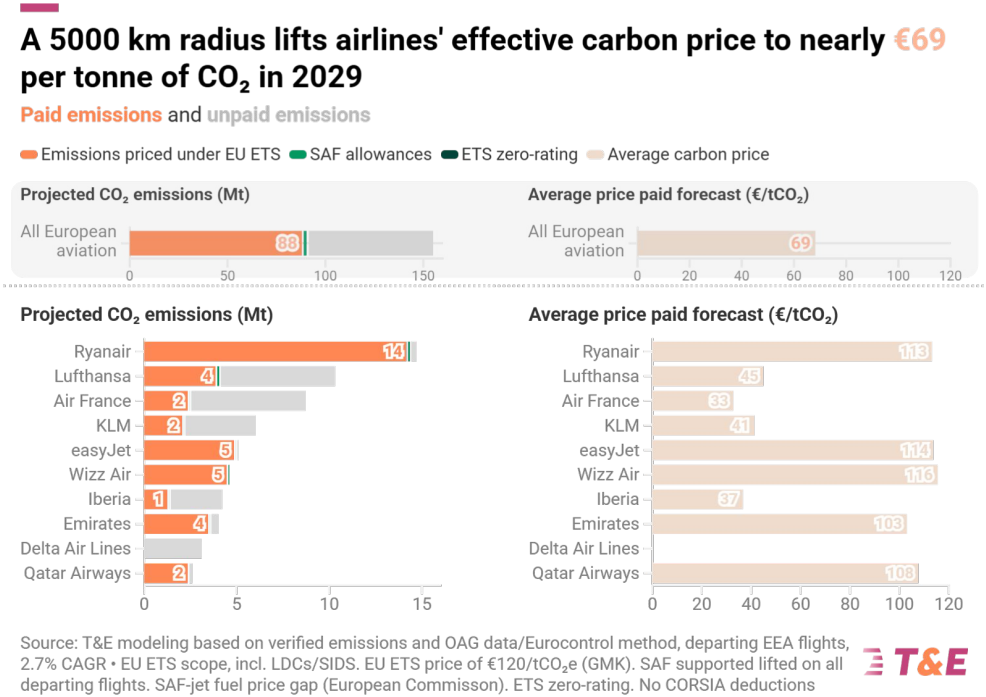
T&E modeling based on verified emissions and OAG data/Eurocontrol method, 2025 ticket prices.
EU ETS scope, incl. LDCs/SIDS. EU ETS price projections (GMK). SAF supported lifted on all departing flights.
SAF-jet fuel price gap (European Commisson). No CORSIA deductions

Scope: how does aviation's carbon price compare with other sectors?

By 2029, airlines pay an effective carbon price of nearly €67 per tonne of CO_2, once their out-of-scope emissions are averaged in.

- Other ETS sectors pay more. Power and industry pay the full allowance price, expected to be around €120 per tonne in 2029, on all their emissions. Aviation pays little more than half of that.
- The reason is coverage. Long-haul flights are out of scope, so airlines' average carbon cost trails the sectors already fully inside the system.

Recommendation: In order to level the playing field between aviation and other sectors, the ETS should be extended to all departing flights, as of **2028**.



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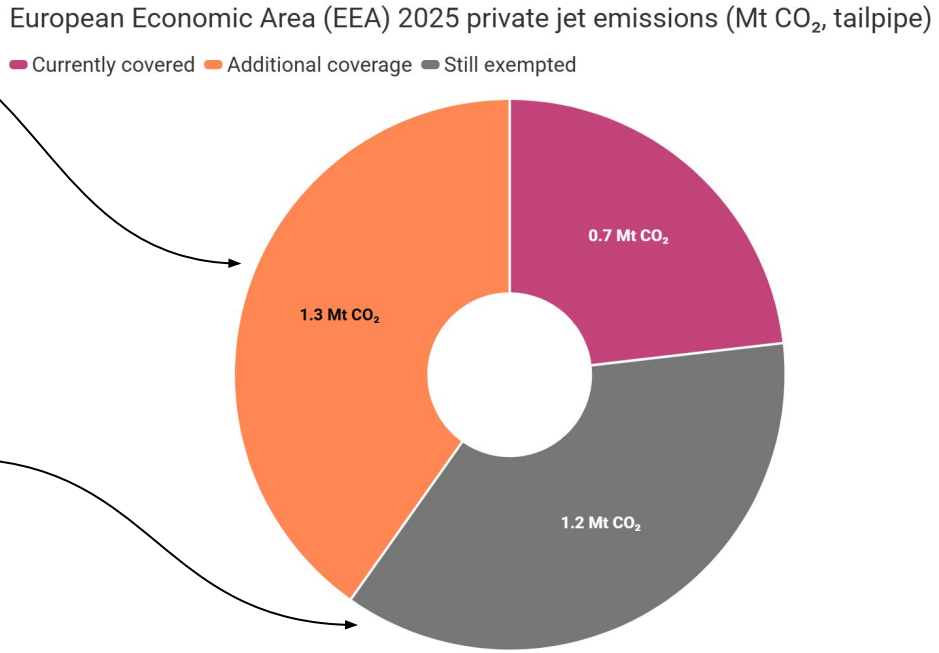
Scope: the ETS will cover 150% more private jets emissions

- **Current coverage of intra-EEA flights and flights to UK/CH is extended** in different ways:
  - All EEA private jet departures and landings are included.
  - All flight distances (beyond 5,000 km radius) are included.
  - All commercial jet operators with more than 1,000 tons of CO_2 per year are included, up from 10,000 tons in current scope. This is because the *de minimis* threshold for commercial private jet operators has been lowered.
- However, **33% of private jet emissions will still be exempted from pricing.**
- Private jets can receive allowances for electric aircraft (e-FEETs) but not SAF allowances.

Recommendation: The Parliament and Member States must support the additional coverage of private jets. The pricing should start as early as **2027.**



Source: T&E (2026), based on own analysis of Spire aviation data for 2025

Scope: the ETS will cover 150% more private jets emissions

Estimate of 2025 private jet emissions from EEA flights in Mt CO_2 (tailpipe), identified by aircraft type

Source: T&E (2026), based on own analysis of Spire aviation data for 2025 using EUROCONTROL SET

Scope: how will Member States benefit?

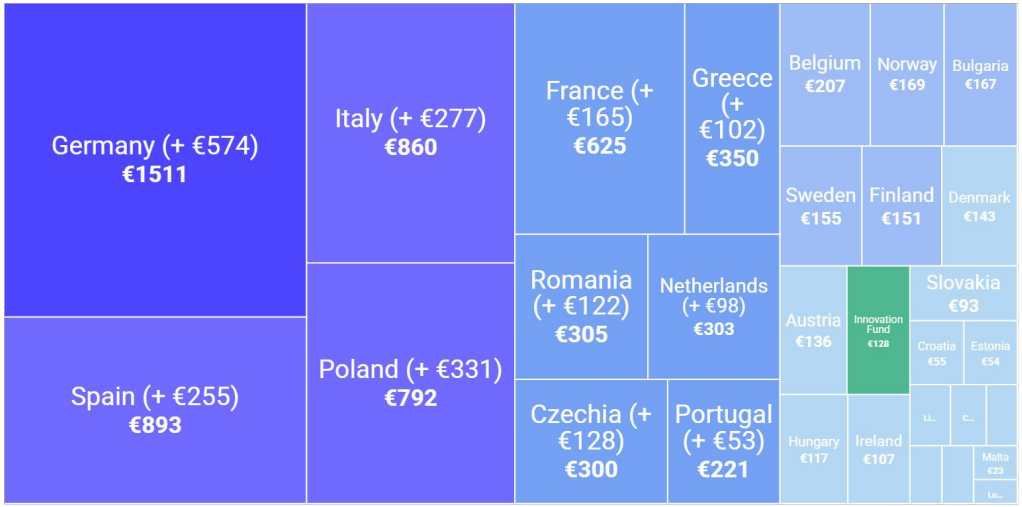
Member State revenues will increase to €8 billion in 2029:

- The biggest beneficiaries of an EU ETS extension to aviation are Germany, Spain, Italy and Poland.
- Member States are still missing out on around €7.7 billion in revenues in 2029, had the scope been extended to all flights.

Recommendation: To maximise revenues generated, Member States and Parliament must support an extension to departing flights. Part of these revenues must be reinvested in the decarbonisation of the sector.

By 2029, EEA Member States collect nearly €8 billion under a 5,000 km radius

Revenues generated under the EU ETS extension, broken down by country (€ million)



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Scope: how should the aviation ETS revenues be spent?

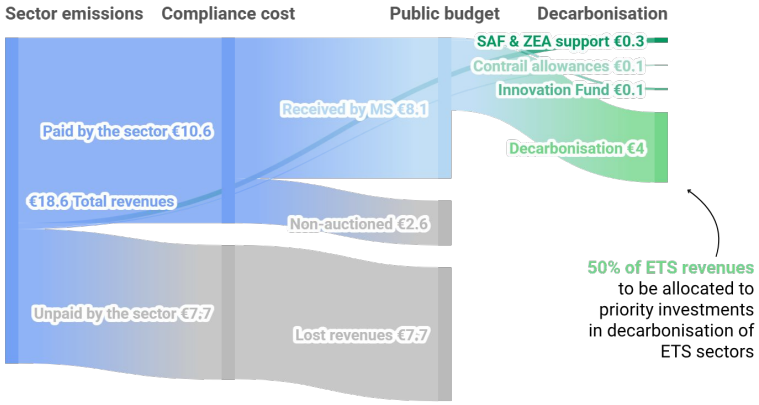
The proposal provides new guidance on ETS spending:

- 110 million allowances are earmarked for aviation between 2029 and 2040, for SAF, zero-emission aviation or contrails.
    - Much of this supports European industry. A made-in-Europe rule limits fuel support to production in Europe, with a 10% bonus for European feedstocks. Support for electric and hydrogen aircraft also backs European leaders.
    - Revision of this provision in 2032.
- 200 million allowances - contributed by all sectors - are reserved for the Innovation Fund between 2029 and 2032.
- In parallel, Member States are required to allocate at least 50% of ETS revenues to investments supporting the decarbonisation of priority ETS sectors. Aviation is considered a priority.

Recommendation: A share (e.g. 25%) of revenues should flow back to the aviation sector, particularly for e-SAF and contrail mitigation. This is important to kickstart the decarbonisation of the sector.

A share of aviation's carbon revenue backs Europe's clean-aviation industry, from home-made fuels to zero-emission aircraft

Revenues in 2029 (€ billion)



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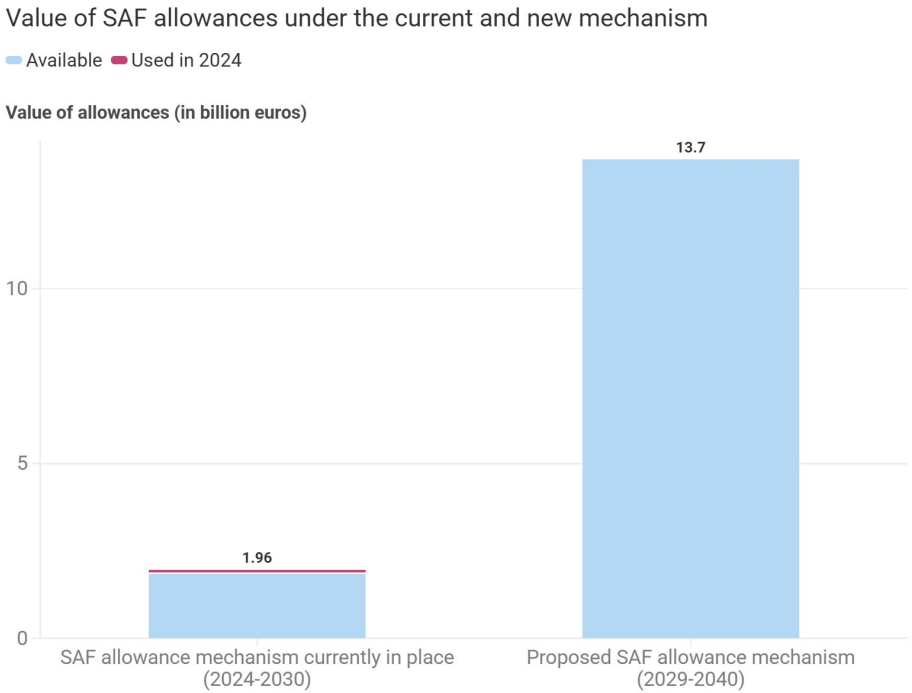
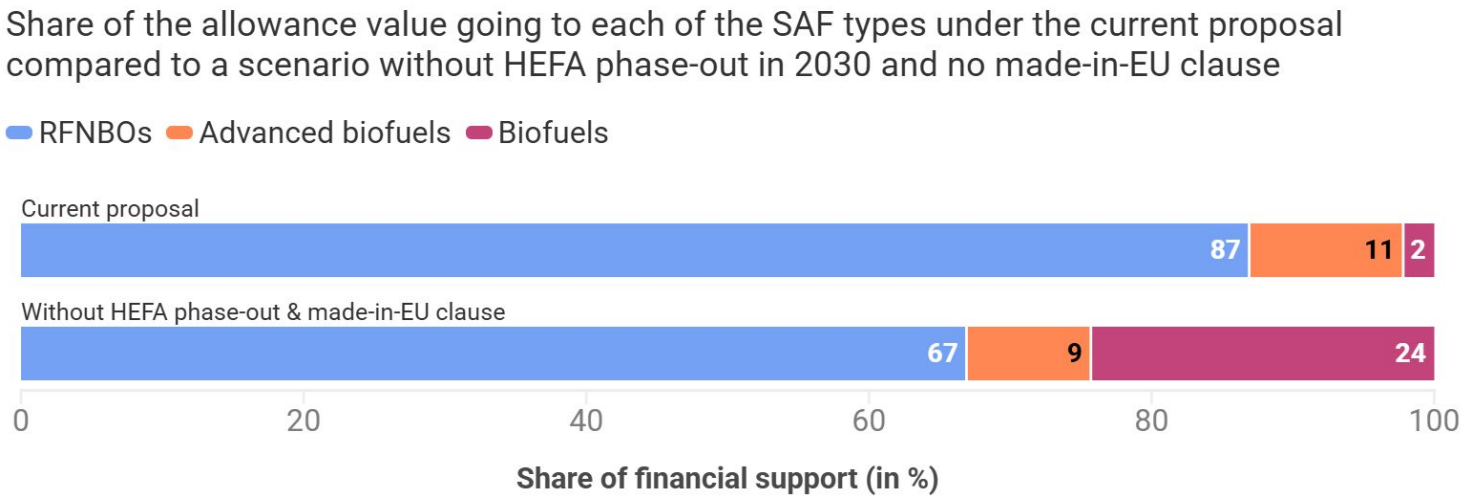
More than five times more SAF allowances, now worth over €13 billion

- **110M allowances, 2029-2040:** up from 20M under the current mechanism.
  - Up to 10M allowances may be *reserved* via long-term offtake agreements (5 years max.)
- **Coverage rates lower than before** (except for SAF uplifted from airports in outermost regions, still eligible for a 100% rate):
  - 60% instead of 95% for RFNBOs.
  - 50% instead of 70% for advanced biofuels.
  - 30% instead of 50% for other fuels (i.e. UCO- and animal fat-based SAF and low-carbon fuels) until 2029.
- **Only EU-produced fuel eligible:** non-EU SAF gets no support at all.
  - *+10% bonus in coverage rates if feedstock originates from the EU.*
- **EEA proportionality no longer applies:** SAF allowances can be claimed on all flights regardless of their destination.



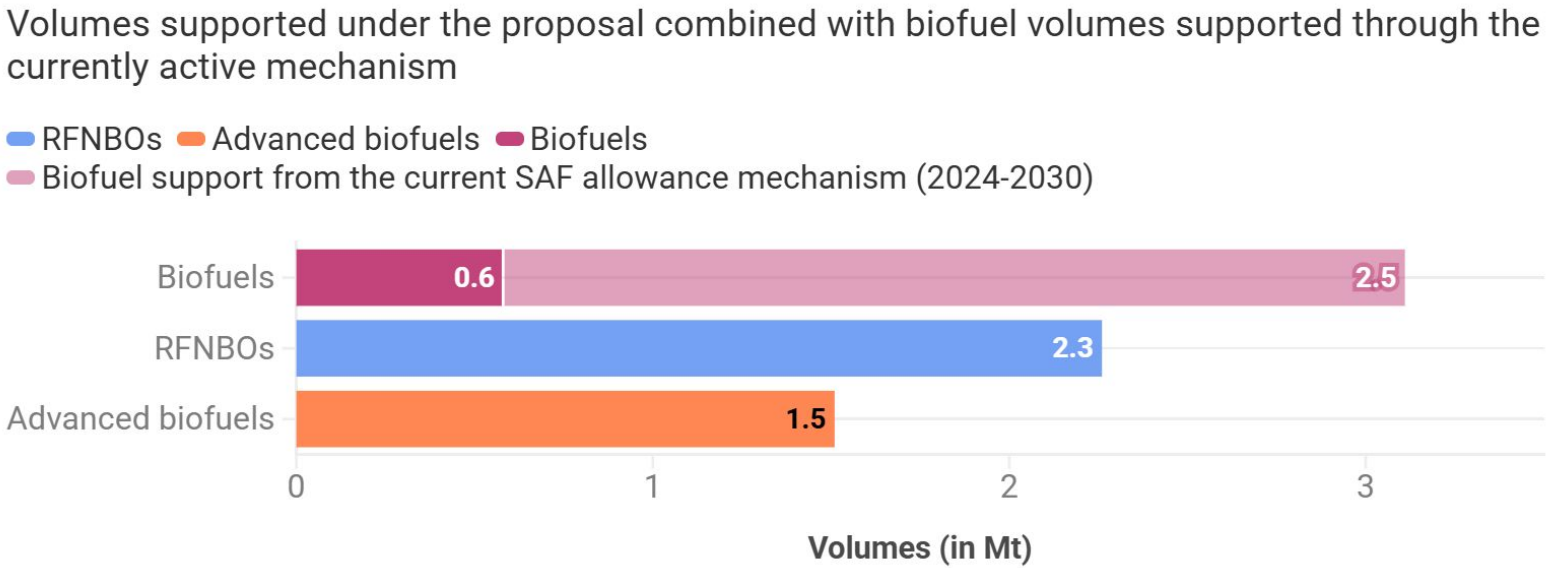
Source: EC proposal • Allowance prices per GMK, averaged over each mechanism's active years: current mechanism through 2028 (avg. €93), new mechanism from 2029 (avg. €125).

By phasing out UCO support and enforcing made-in-EU restrictions, the proposal might channel over 80% of the SAF allowances to e-SAF, a shift that earmarking would secure



Source: T&E modeling based on EC proposal. • Assumes SAF targets met annually via the modelled fuel mix. Biofuel made-in-EU clause assumptions follow EASA (2025); other fuel types assume EU-only feedstock and fuel. EU ETS prices per GMK.

The mechanism still supports higher volumes of biofuels than e-fuels, despite the UCO phase-out



Source: T&E modeling based on EC proposal. • Assumes SAF targets met annually via the modelled fuel mix. Biofuel made-in-EU clause assumptions follow EASA (2025); other fuel types assume EU-only feedstock and fuel. EU ETS prices per GMK.

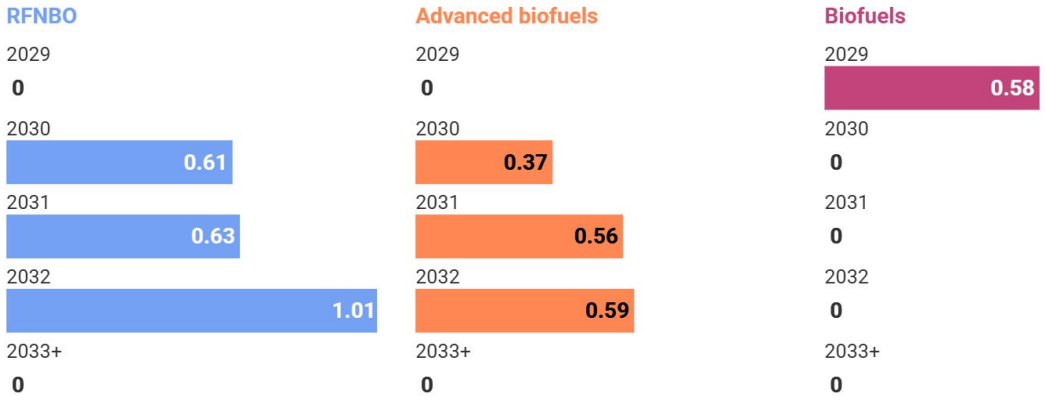
SAF allowances could be exhausted by 2032 unless coverage rates are lowered and more multi-year booking is enabled

~ 30%

of e-SAF volumes needed to fulfill the mandate until 2035 could be supported with Commission proposed rates.

Earmarking would secure this: If advanced biofuels reach the market a lot earlier than e-SAF, the actual e-SAF volumes supported might be smaller.

Theoretical SAF volumes under the current proposal, assuming ReFuelEU targets are met in full and 100% of that volume is covered by allowances, in Mt



Source: T&E modeling based on EC proposal. • Assumes SAF targets met annually via the modelled fuel mix. Biofuel made-in-EU clause assumptions follow EASA (2025); other fuel types assume EU-only feedstock and fuel. EU ETS prices per GMK.

T&E's recommendations for the SAF allowances

01 **Support the UCO phase-out & made-in-EU clause:** support the phase-out of the eligibility of SAF produced from UCO and animal fats to prioritize scalable fuels like e-SAF, while strictly enforcing the new "Made-in-EU" clause to build a domestic industry and deter fraudulent UCO imports.

02 **Extend the SAF allowances and reintroduce ETS scope proportionality:** support the extension of 110 million new SAF allowances provided the UCO phase-out is maintained, while bringing back proportionality to ensure SAF is claimable only in proportion to flights covered under the new ETS scope by applying a delta (matching the proportion of an airline's jet fuel in-scope) to determine eligible SAF volumes.

03 **Expand multi-year advance booking for offtake agreements:** expand advance allowance bookings beyond the current 10 million limit and 5-year horizon, turning the scheme into a predictable long-term cost abatement tool that unlocks long-term offtake agreements. For example, allowing up to 60% of the 110 million allowances (66 million) to be reserved in advance could support three large e-SAF plants over 10 years (instead of one in the current proposal).

04 **Lower coverage rates to maximize fuel volumes:** reduce price differential coverage rates (e.g., capping e-SAF coverage at 50%, including the EU feedstock bonus) to nearly halve e-SAF costs for airlines while maximizing total fuel volumes supported, and eliminate the 100% coverage rate for outermost airports.

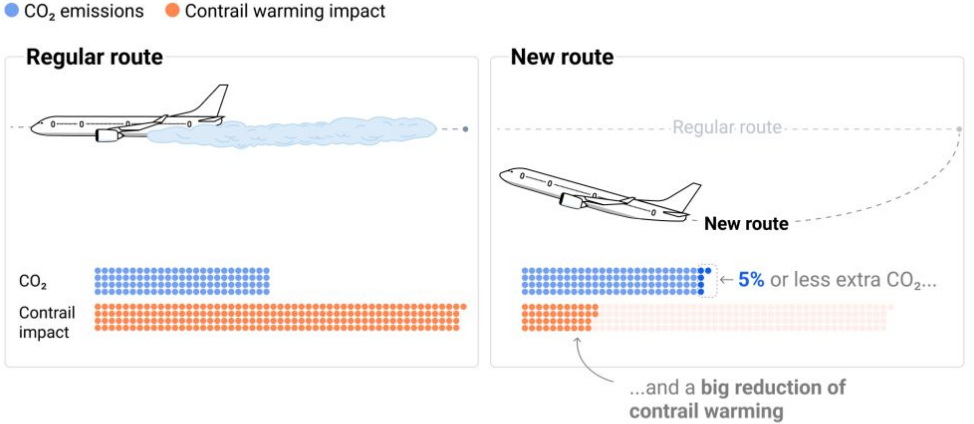
05 **Earmark allowances for e-SAF**: improve the scheme's predictability and guarantee support for e-SAF by earmarking 80% of total allowances (88 million allowances) specifically for e-SAF.

Contrail allowances: what are contrails?

Contrail avoidance is the most cost effective way to reduce aviation's climate impact.

- Contrails, short for condensation trails, are the largest component of non-CO_2 effects.
- Contrails which form in cold and humid areas may persist in the atmosphere for hours, developing into contrail cirrus.
- The warming impact of contrails on the climate is estimated to be comparable to that of aviation's CO_2 emissions.
- Rerouting just **3%** of flights can reduce **80%** of the contrail warming impact.

Net climate benefits of rerouting the most warming flights can be huge



Source: Teoh et al. (2024), Frías et al. (2024), T&E. Note: Simulation of the net climate impact of contrail avoidance for a flight within the 5% of European flights that generate 80% of contrail warming. Assumptions: GWP100 used to compare the climate impact of CO2 and contrails. Contrail warming reduced by 80%. The 5% extra fuel burn is a conservative estimate - extra fuel burn in flight tests and simulations is 2% or lower.

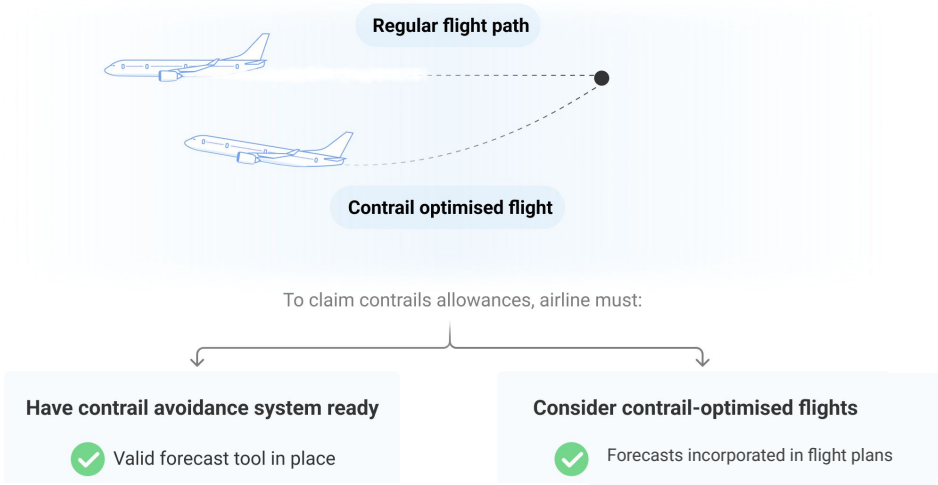
Contrail allowances: what are they?

For the first time ever, a policy has been put in place to address the climate impact of contrails.

- Airlines will receive free allowances for the use of contrail avoidance tools.
- Allowances equal to **0.1%** of all verified emissions will be provided to airlines that embed contrails forecasting models in flight planning tools and, if possible, incorporate them when filing flights.
- An additional **0.02%** of the verified emissions shall be allocated to airlines for all flights for which the airline provides additional data in NEATs.
- Yearly, **420,000 allowances** will be available, with a total cap of 3 million allowances available until 31 December 2033.
- Scope: applied on ETS scope (5,000 km radius)

Recommendation: Member States and the Parliament must support this proposal, extend them to all flights departing Europe and allowances should also support operational avoidance costs. Contrail allowances should be separated from the SAF allowance pot.

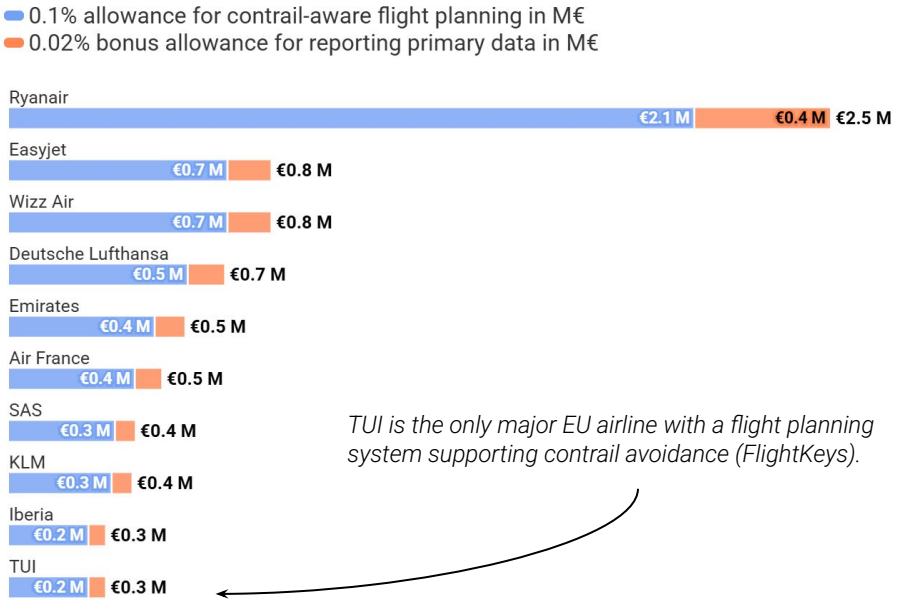
Free ETS allocation for contrail avoidance



How much will airlines benefit if they implement contrail avoidance?

- Aircraft operators that embed contrail forecasting models in flight planning receive **0.1%-0.12% of verified departing flight emissions in allowances**. They must share the forecasts with operations control and incorporate them into filed flights where operationally viable.
- T&E estimates that contrail allowances would provide support of up to €2.5M for a carrier like Ryanair and up to €0.3M for a carrier like TUI.
- Across all airlines a total of 120,000 allowances (of the available 420,000) could be allocated per year, leaving sufficient room for additional support.
- In addition, the EU Innovation Fund explicitly supports projects reducing the impact of contrails.

Estimate of 2029 contrail allowances for selected airlines based on EEA departure emissions



TUI is the only major EU airline with a flight planning system supporting contrail avoidance (FlightKeys).

Source: T&E (2026), based on OAG flight schedules for 2025 and in-house emissions model

Zero-emission aircraft allowances: how will the system work?

€0.35 per kWh*

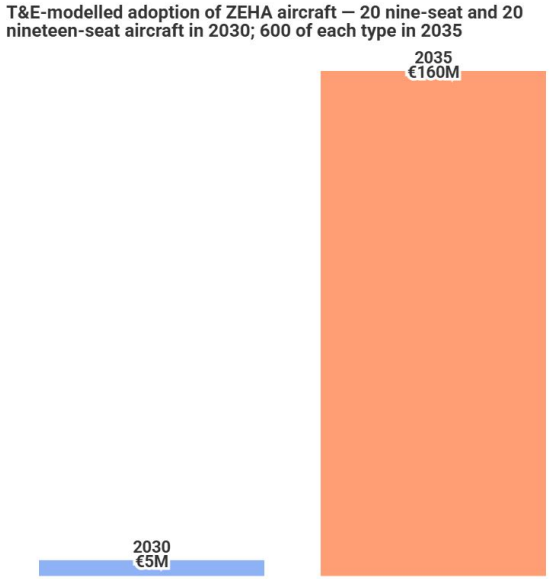
Is the subsidy that electric aircraft operators would receive through E-FEETS

Electric aircraft receive EU ETS allowances equal to the support available to aircraft using e-SAF (RFNBOs).

E-FEETS could support electric and hybrid aircraft with up to €5M in 2030 and up to €160M in 2035 every year, based on electric aircraft entry into service estimates. This is around 0.04M and 1.3M allowances respectively.

Recommendation: Member States and the Parliament should back the innovative E-FEETS allowances proposal. E-FEETS should be extended until 2040, and coverage rates should be higher until 2035, and lowered afterwards - replicating the SAF logic (95% coverage for eSAF in the beginning, reduced to 60% now). E-FEETS allowances should be earmarked.

Indicative funding for zero-emission and hybrid aircraft (ZEHA) through E-FEETS



Source: T&E (2026) • 9-seat aircraft is fully electric; 19-seat aircraft is hybrid-electric

*At EU level, average DC charging prices through mobility service providers are about €0.32 to €0.85/kWh, according to EP research

T&E recommendations for Parliament and Member States

01

Scope extension: T&E accepts this proposal as as a pragmatic first step that protects European interests. But Member States and the Parliament should support an ETS extension to all departing flights, as of 2028, given that CORSIA is not an effective mechanism to reduce aviation emissions. The extension to private jets must be maintained, but start in 2027.

02

SAF allowances: Member States and the Parliament should support the extension of the SAF allowances, the shift towards more scalable fuels via the UCO and animal fat phase-out, and the made-in-Europe clause. The allowances should only be claimable in proportion to emissions covered by the ETS. More than 10 million allowances should be bookable in advance, over more than 5 years, to prevent the allowances from running out too quickly. In addition, lower price coverage rates would improve the cost-efficiency of the scheme, while earmarking would improve its predictability.

⚠️ SAF allowances should not come at the expense of double-sided auctions which are critical for the long-term revenue certainty of eSAF producers. The lack of inclusion of aviation and maritime synthetic fuels in the scope of the IDB is problematic in that regard.

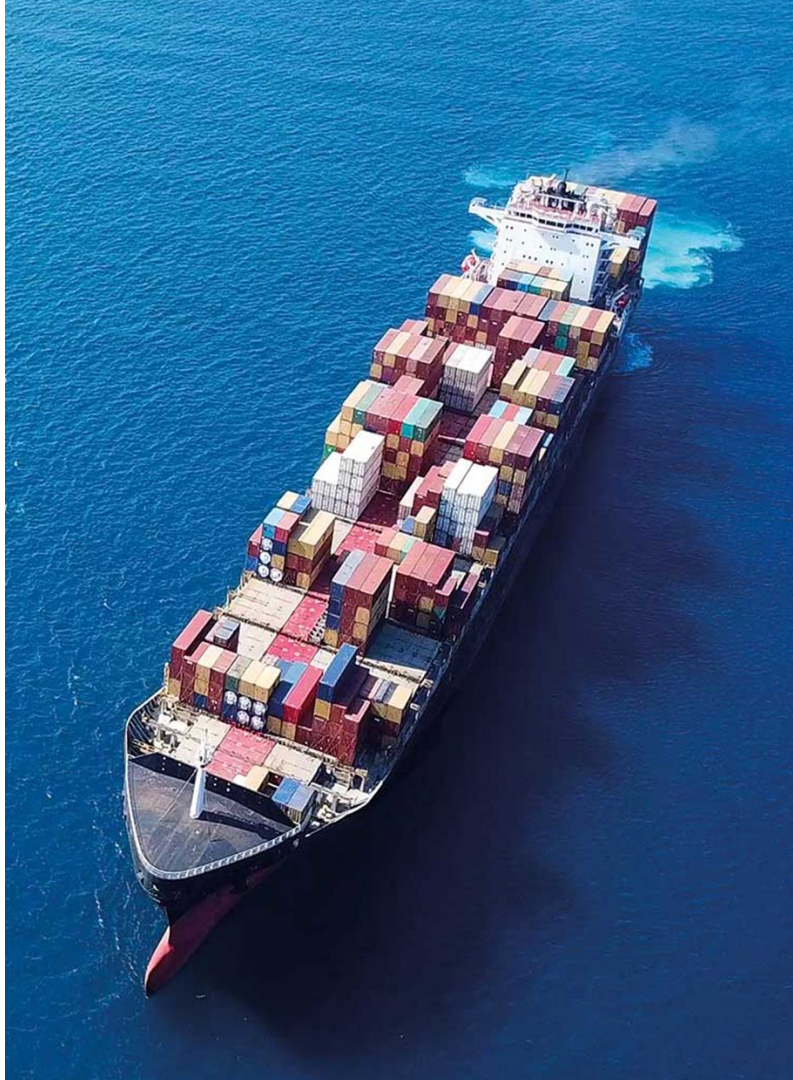
03

Contrail allowances: Member States and the Parliament should support the innovative contrails allowances proposal, extend them to all flights departing Europe, and ensure they truly support operational avoidance costs. Contrail allowances should be separated from the SAF allowance pot.

04

Zero-emission aircraft allowances: Member States and the Parliament should back the innovative E-FEETS allowances proposal. E-FEETS should be extended until 2040, and coverage rates should be higher until 2035 (100%) and lowered afterwards (same coverage rate as eSAF).

Impact of the ETS proposal for the shipping sector



How is shipping included in the ETS today?

Maritime is included the ETS since 2024 in the general cap.

Since 2026, **shipowners have to pay in full for emissions** by commercial ships above 5000 GT calling at EU ports (100% of emissions for intra-EU voyages & 50% for international voyages).

Included emissions are:

- CO_2 emissions since 2024
- CH_4 & N_2O emissions since 2026

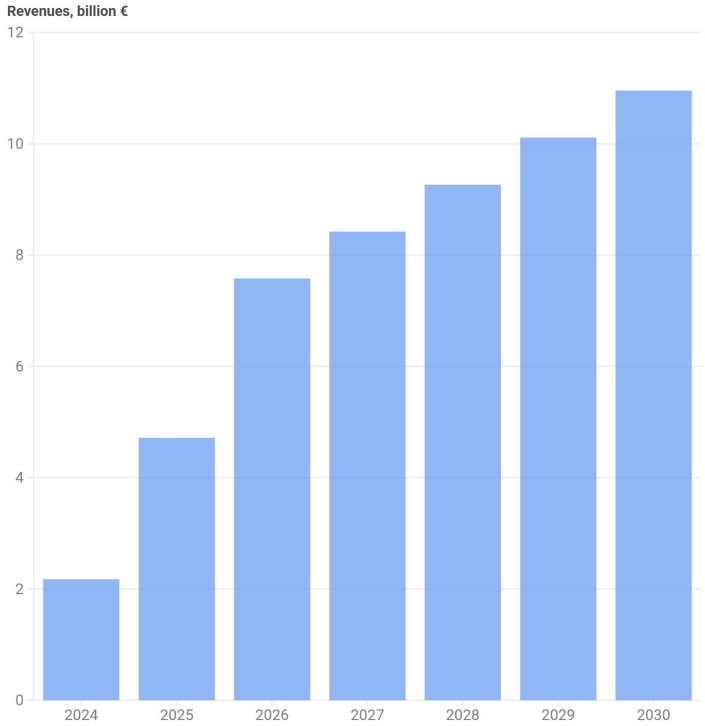
Innovation Fund: 20 million allowances allocated between 2024-2030.

The shipping ETS is the only direct regulation on EU maritime emissions. By 2030, it is expected **to raise up to €11 billion**, substantial revenues which should be used partly to support the decarbonisation of the sector.

What are some key changes in the new proposal?

- **Partial inclusion of small ships** (400-5000 GT).
- **Introduction of the SMAP allowance mechanism to support** sustainable maritime alternative propulsion.
- **Extension of the list of non-EU ports** treated as ETS relevant.
- **Introduction of an ETS discount for containerships of >10,000 TEU** operating transhipment activities.
- **Explicit reference to a deduction mechanism to avoid 'double payment'**, in case the IMO adopts a global framework.
- **Introduction of an ETS-as-a-service mechanism**.

The ETS could raise up to €11 billion from shipping emissions released in 2030



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Scope: which smaller ships are now included in the scope?

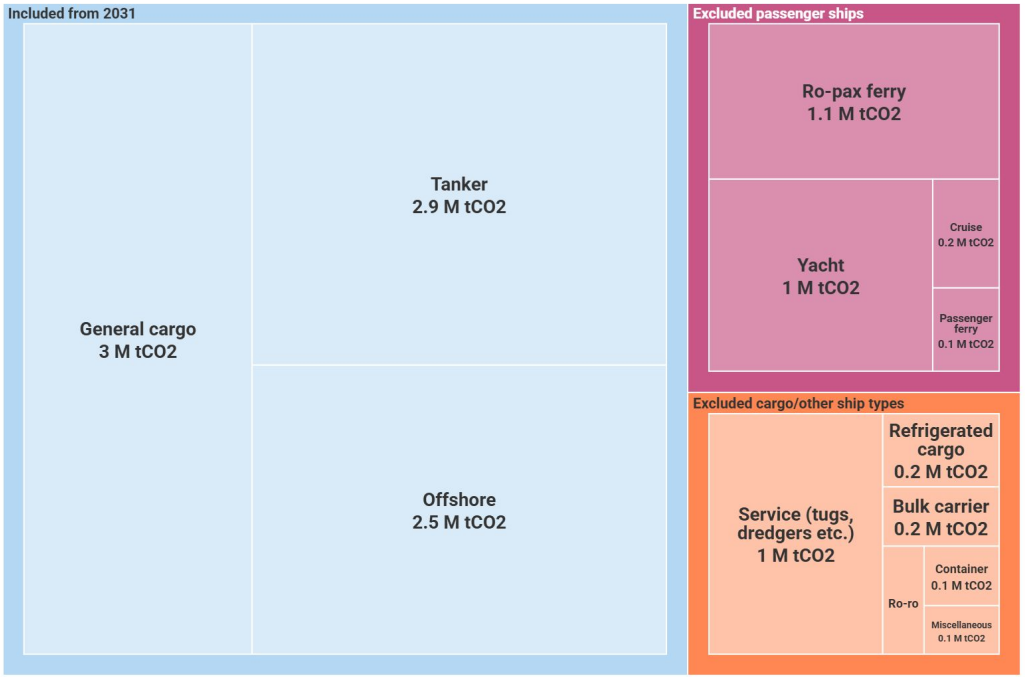
Extending the ETS scope to smaller ships (400-5,000 GT) from 2031 is an encouraging first step.

But some small ships' emissions remain out of scope:

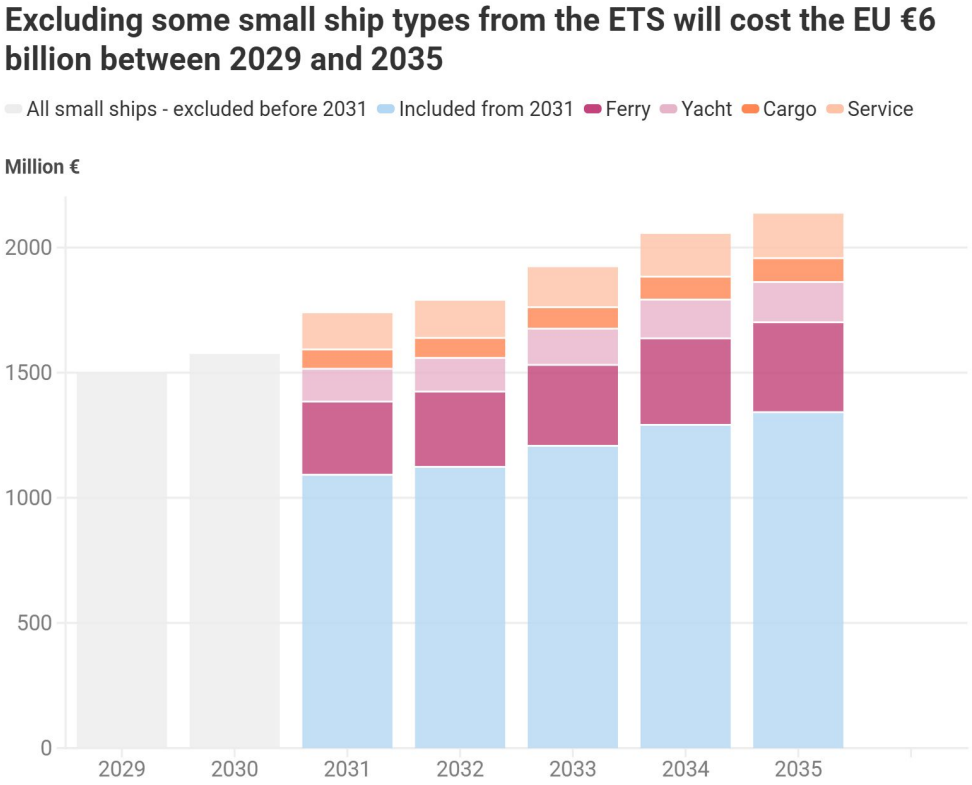
- Ro-pax and passenger ships
- Cruise passenger ships
- Bulk carriers
- Containers and reefer carriers

This leaves 1/3 of small ships emissions uncovered, including some of the most electrifiable ships.

One third of emissions from small ships will still be excluded from ETS



Small ships extension: too little too late



The proposal includes small ships in the MRV by 2029 and ETS by 2031.

This delay is unjustified as some small ship categories already report under MRV since 2025 (general cargos & offshore ships) and could be included earlier.

Recommendations:

1. Include small ships as of 2028 in MRV and 2029 in ETS to ensure earlier coverage of emissions and revenue generation.

2. Expand the ETS scope to include all smaller ship categories, ensuring no segment is left behind.

3. Implement additional measures in parallel to incentivise the uptake of electrification in these ships.

Scope: are more emissions covered?

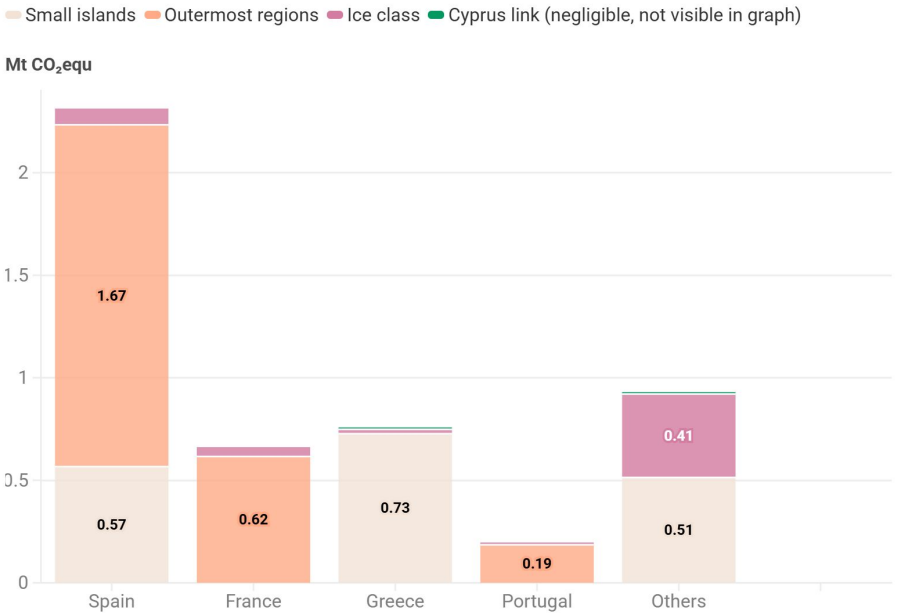
Current exemptions and derogations will be extended to 2035.

These exemptions apply to ice-class ships, outermost regions, small islands and services linking Cyprus with Greece. Extending them to 2035 would result **in a revenue loss of €3.5bn between 2030 and 2035**. The Commission is even considering extending the ice-class exemption beyond 2035.

A new derogation for containerships (10,000 TEU and above) has been proposed, and would allow shipping companies to surrender fewer allowances on some voyages that exceed 300 nautical miles (555 km) until 2035. This distorts the level playing field and could leave a large share of emissions unpriced.

Extending the exemptions until 2035 will exempt 24 Mt CO2equ from carbon pricing

Exemptions occur mostly in four countries



Carbon leakage

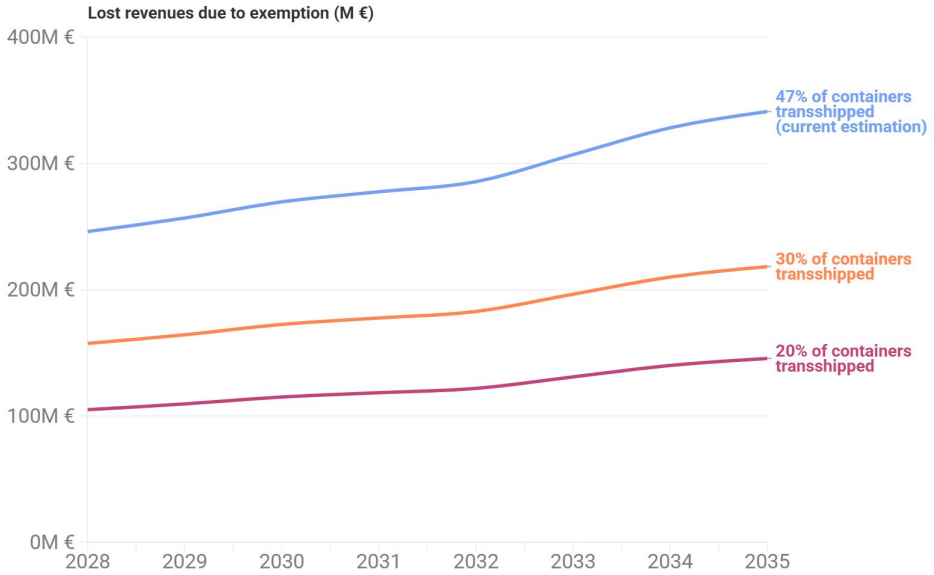
A new derogation for containerships (10,000 TEU and above) has been proposed by the Commission, and would allow shipping companies to surrender fewer allowances on some voyages that exceed 300 nautical miles (555 km) until 2035.

Depending on the number of containers transshipped, the derogations **could exempt up to 2.1 Million tons of CO2e annually** (6.4% of container ship emissions) from the ETS, and **cost the EU up to €2.3 bn of revenues, assuming 100% of the containers are being transshipped.**

This would distort the level playing field.

Excluding emissions from container ships above 10 000 TEU could cost the EU up to 2.3 bn € over 8 years

The exact amount depends on the share of transshipped containers

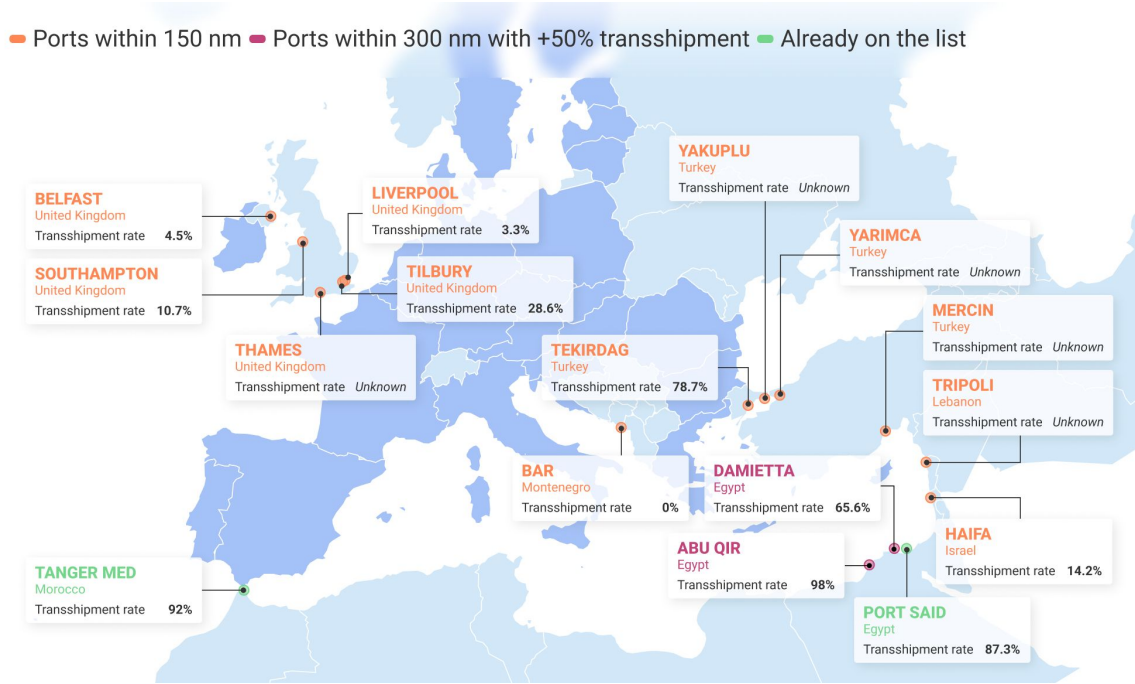


Carbon leakage: how will evasive behaviours be tackled?

Additional non-EU ports will be considered as ETS-relevant port calls to cut evasion risk.

New criteria:

1. Ports **within 300 nm** and with a transshipment share of **50%**
   OR
2. Ports **within 150 nm with relevant infrastructure** for transshipments (berth length, ship-to-shore cranes etc.)

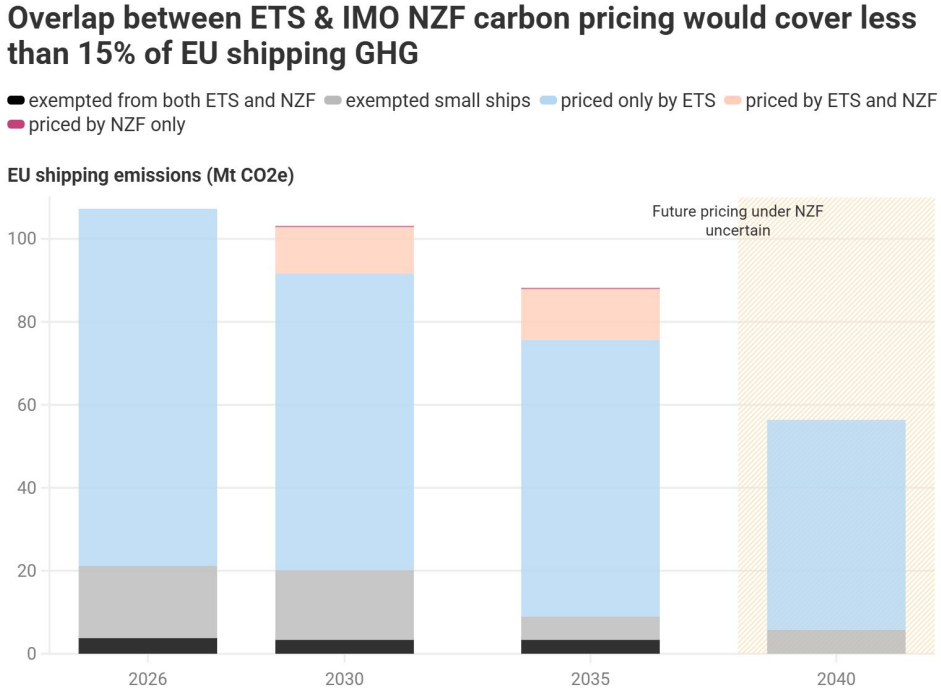


International: how does the proposal envision change should an IMO Global Framework be adopted?

The proposal includes an explicit reference to a deduction mechanism to avoid 'double payment', should the IMO adopt a global framework. More details on the possible mechanics are provided in the Commission's ETS Impact Assessment.

This is **dependent on the IMO adopting and enforcing a framework that includes a carbon pricing** mechanism. This is not currently guaranteed, or could be delayed.

If the current NZF Framework were to be adopted, the overlap with the ETS would only impact 15% of EU shipping emissions.



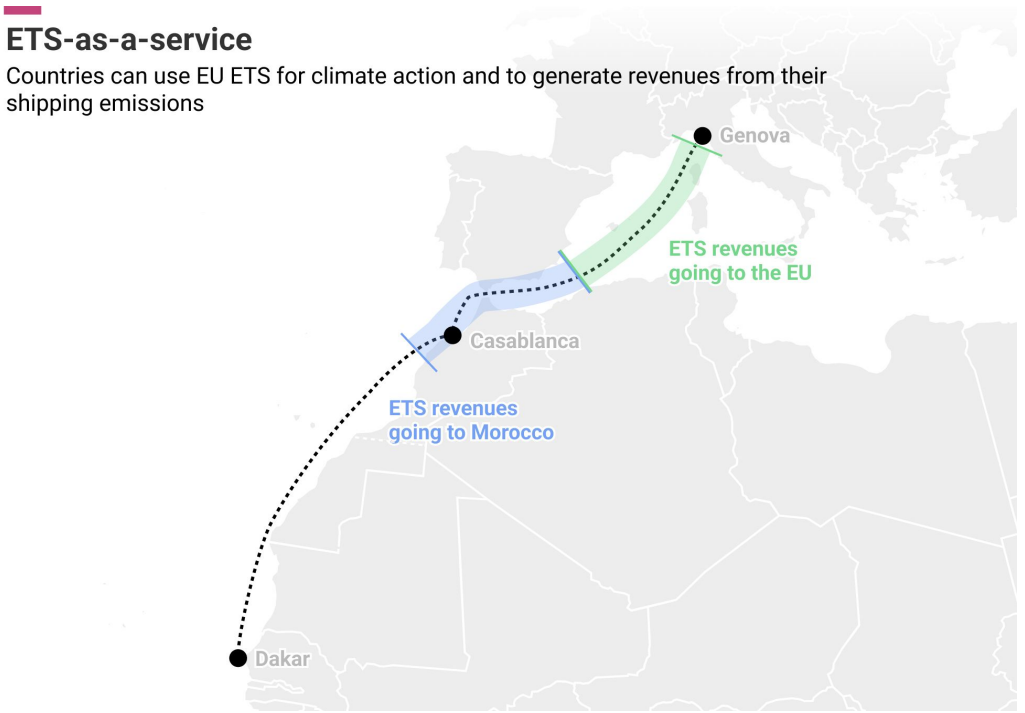
International: how will the proposal support third-countries' shipping decarbonisation?

Introducing 'ETS as a service' mechanism:
The EU can assist third countries by pricing the remaining 50% of emissions from international voyages and transferring revenues back to these countries.

Creation of a €70-100m/year reserve to support developing countries with shipping decarbonisation (LDCs and SIDS).

These provisions aim to strengthen international cooperation on maritime emissions.

In general, strengthening carbon pricing mechanisms outside the EU is likely to become increasingly important given the likely failure of the IMO to adopt a sufficiently ambitious global measure this year.



SMAP: Sustainable Maritime Alternative Propulsion allowances

Support for alternative fuels, electrification and wind propulsion

110M allowances equivalent to approx. €15 billion between 2028 and 2040 that shipping companies could claim to bridge the price gap between current fuels & propulsion technologies and pricier alternatives.

This represents **a major change for the maritime sector** meant to incentive the cleanest alternative fuels & technologies.

Scope

- EU-made & some non-EU made fuels (undefined criteria)
- EU-made clean propulsion technologies (*including but not limited to* wind & electricity)

Price difference coverage rates:

- **90%** - RFNBOs
- **80%** - Low carbon hydrogen and low-carbon fuels
- **55%** - Biogas & advanced biofuels
  + 10% points bonus in coverage rates if feedstock originates from EU
- **90%** - Clean propulsion technologies
  + 5% points bonus if technology is fitted in an EU shipyard

SMAP: Sustainable Maritime Alternative Propulsion allowances

Support for alternative fuels, electrification and wind propulsion

What is good?

- Duration of the SMAP support mechanism (13 years in total)
  → ensures long-term planning for not-yet mature fuel is possible
- Clear differentiation in coverage of price differentials between RFNBOs and other fuels, particularly biofuels.
- High level of financial support for EU-made e-fuels
  → ensures that long-term fuel options needed for maritime decarbonisation are incentivised

What is bad?

- No earmarking of allowances to different fuel types/propulsion technologies
  → risk to subsidise fuels/technologies that are already incentivised under FuelEU
  → risk to primarily subsidise advanced biofuels that are at best a short-term solution
- No 'book in advance allowances' mechanism
  → required to support long-term offtake e-fuels agreements
- Fuels used on voyages between EU and undefined non-EU 'green shipping corridor' ports could also qualify for subsidies
  → indirectly benefits non-EU alternative fuel industries
- Vague reimbursement criteria for clean propulsion technologies

Would SMAP result in the production and use of e-fuels in shipping?

A different price gap support between e-fuels and other fuels is a must, but **additional conditions are needed to guarantee the production and use e-fuels in shipping** – including European-made ones:

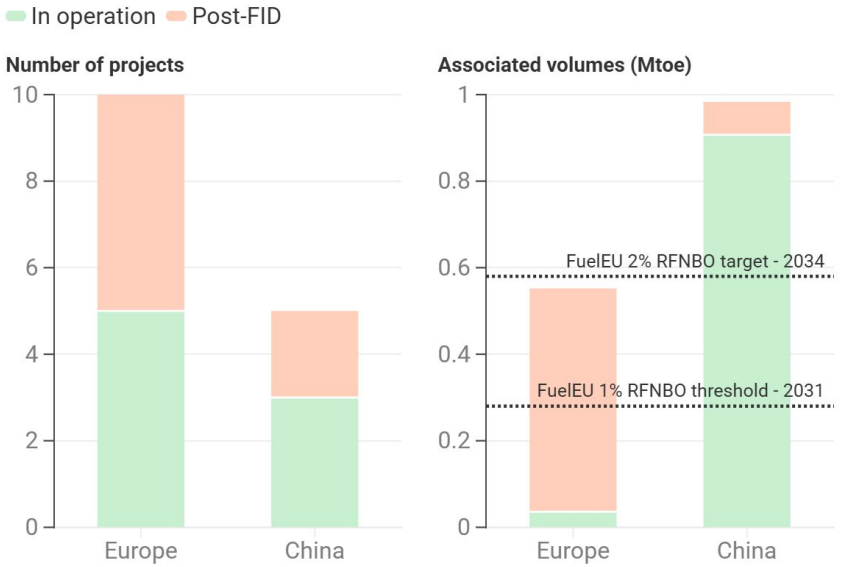
1. Risk that only biogas and advanced biofuels are incentivised as they benefit from established production sites, mature supply chains, and market availability at major bunkering hubs

2. Risk of prolonged fossil fuel lock-in through biofuels blending, making the transition from 2035 more challenging, due to a lack of biofuels feedstocks

3. Risk that e-fuels-compatible bunkering infrastructure are not set up on time compared to biofuels bunkering infrastructure

European e-fuels projects that are operational lack scale and only produce low volumes.

European post-FID projects could target maritime, but will also consider other industries



Source: T&E Shipping E-fuels Observatory (June 2026) • For China: Volumes of two currently operational e-fuels projects assume total volume production from phase 1 & 2, projected to be available by 2028 and 2029.

What is SMAP missing?

Recommendation 1: Earmarking a share of EUAs for e-fuels, including European ones.

Earmarking allowances for RFNBOs – including EU-made RNBOs – would ensure these fuels are considered from 2028 to **enable long-term decarbonisation of the sector**, especially after 2035.

→ According to the Net-Zero Industry Act (NZIA), EU-made fuels should account for at least 40% of green fuels to meet the maritime decarbonisation targets by 2030.

Recommendation 2: Establish a book-in-advance

Similarly to the ETS proposal on the aviation's SAF all, a **share of allowances should be made available for advance reservation** for EU-made e-fuels, subject to certain conditions.

This would assist shipowners in signing long-term offtake agreement with European e-fuel producers which are needed to scale nascent high-CAPEX e-fuels industry. The inability to sign long-term offtake agreements is one of the main reasons why **80% of European e-fuels projects remain at the pre-FID stage**.

SMAP could make biomethane the most attractive FuelEU compliance option

Comparing the cost of different FuelEU compliant fuel mixes shows that e-fuels become as attractive as advanced biofuels

Source: T&E analysis (2026) • VLSFO prices from DNV (2024), biofuel prices from Argus Media (2026), RFNBO prices from IONECT (2025). Alternative fuel volumes are optimised to comply with FuelEU. SMAP allowances cover 90% of the price gap for RFNBOs and 55% of the price gap for biofuels, with a 10% bonus for EU-made fuels.

Blind support for non-EU-made fuels could hamper Europe’s e-fuels industry

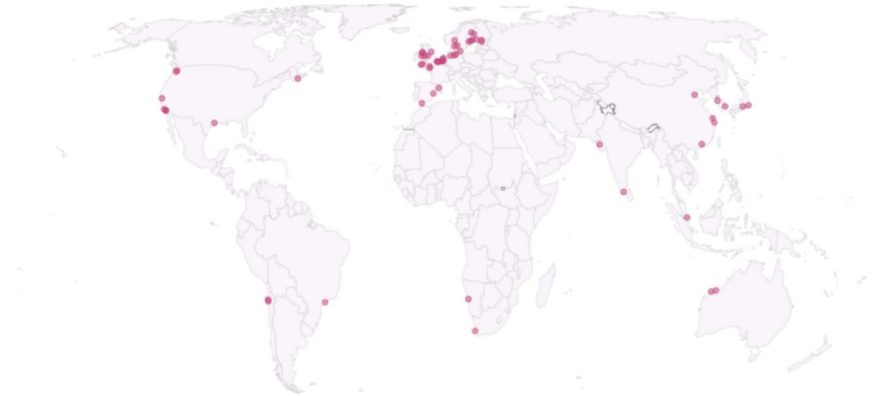
The fuel origin requirements would not matter for voyages between the EU and some third-country "green shipping corridor" ports.

This means that **non-EU alternative fuel producers could indirectly benefit** from the SMAP mechanism.

The lack of a defined list of qualifying non-European ports and non-European countries combined with the absence of legal definition of "green corridors" introduces **significant regulatory uncertainty** that could negatively impact Europe’s nascent e-fuel industry.

The SMAP mechanism is meant to take into account alternative fuels subsidies to prevent overcompensation. This assumes transparent access to that information across a range of non-EU countries, which could be in some cases unfeasible.

Non-EU-made fuels could qualify under SMAP if used on voyages linked to a green corridor and deemed strategic enough



Source: GMF (2025) Annual Progress Report on Green Shipping Corridors • Dots indicate ports currently involved in a green corridor initiative

T&E recommendations for Parliament and Member States

01

Small ships below 5000 GT: Support the extension of the ETS scope to smaller vessels with changes:

- Extend the scope to include ***all*** small ships categories
- Include small ships from 2028 in the MRV and from 2029 in the ETS to guarantee earlier coverage of emissions and revenue generation
- Implement additional measures for the uptake of electrification for small vessels.

Exemptions

- Reject the extension of exemptions and derogations until 2035, including the new derogation for containerships (10,000 TEU and above) allowing shipping companies to surrender fewer allowances than their verified emissions.

02

ETS-as-a-service: Support the proposed inclusion of an ETS-as-a-service clause to help third countries to set up equivalent ETS mechanisms, and the allocation of funding to LDCs and SIDS for shipping decarbonisation.

03

SMAP: Support the inclusion of the SMAP mechanism, including the price gap support for e-fuels, including EU-made clauses. Include the following changes:

- Earmark allowances for e-fuels and combine this with a book-in-advance mechanism for EU-made e-fuels to enable the development of an European e-fuels industry
- Lower the price coverage support for advanced biofuels which are – at best – short-term solutions
- Tighten ***significantly*** the fuel origin exemptions to prioritise EU-made fuels and prevent funding being used to subsidise non-EU biofuel producers.