ETS POST 2030 REVIEW

POSITION PAPER ON COMMISSION'S PROPOSALS: (COM 2026) 616 FINAL [link] AND ANNEX [link]

Brussels, 17 September 2026

Background

European Aluminium welcomes the Commission Proposal to review the ETS Directive, together with the separate legislative proposal allowing for the adjustment of the ETS Free Allocation fallback benchmarks for the 2026-2030 period (See separate position paper here).

The proposed rules move in the right direction towards the objective of driving competitive and cost-effective European decarbonization, while introducing flexibilities on the ETS Cap trajectory to preserve the competitiveness of European industry.

Nonetheless, significant improvements are still needed to truly support the European Aluminium industry to decarbonise while remaining globally competitive: aluminium producers in Europe are already amongst the most decarbonised in the world, but continue to face higher operating costs due to structurally high energy prices and the need to recoup investments in decarbonisation technologies. Given the global nature of the sector and the commodity's trade intensity, they operate in highly competitive international markets where cost increases cannot be passed on.

Furthermore, the necessary decarbonisation technologies are not widely available at commercial scale and, in most cases, will only become so towards the end of the next decade. Furthermore, the availability of renewable energy in sufficient amounts and at competitive prices, as well as the related dedicated infrastructure are often not locally available today. More time is needed to deliver this to ETS industrial sectors, which have limited control of the availability of the energy system's supply and related infrastructure.

This position paper highlights the key fixes needed to the Commission's legislative proposals for the European aluminium industry to continue driving decarbonization while avoiding carbon leakage and creating a supportive investment environment for a strategic value chain for Europe.

Summary of policy recommendations:

(For further explanations, the hyperlinks will lead you to the relevant section in the paper)

1) Carbon leakage protection must not be weakend:

- **ETS indirect cost compensation (ICC) must be preserved and extended to 2040 to ensure long-term visibility. No new conditionality requirements should be introduced. Indirect emissions should remain out of CBAM, given the measures inability to create a level playing field with regards to indirect carbon costs between European producers and third country producers. Adjust Article Par 6 of Article 10a of the Directive to remove the current 25 % soft cap on the share of ETS auction revenues that may be used for ICC. Where a Member**

State grants ICC, it should allocate at least 25 % of its ETS auction revenues to the scheme. Any lower amount should be permitted where the Member State provides a reasoned justification, including which alternative measures to sustainably lower indirect carbon costs in the short, medium, and long term have been considered.

- **For the Aluminium industry, the Free Allocation Phase-out must be put on hold immediately until the (i) the necessary adjustments to CBAM have been made to avoid that European producers are penalized compared to importers , (ii) the CBAM has been proven effective, and (iii) a real and comprehensive export solution that takes into account the pricing mechanism of aluminium and the effects of the measure on the cost structure of European Aluminium exporters has been introduced.**
- **Remove the mandatory 57% auctioning share to avoid the application of the CSCF.**
- **The new free allocation conditionality regime should not apply to hard to abate CBAM sectors like aluminium as it will weaken carbon leakage protection. Furthermore, it will not provide companies with the right incentives to invest. It will also unnecessarily increase administrative burden and unpredictability. Furthermore, If conditionalities remain, then derogations should be introduced.**
- **ETS Benchmarks design post 2030:**
    - **Aluminium urgently needs a new benchmarks methodology, with sector-specific approaches for alumina refining, aluminium recycling and semi-fabrication.**
    - **Primary aluminium via electrolysis and the Precursor Pre-Bake anodes should continue to have their own product Benchmarks according to the product benchmark methodology currently in force, but taking into account new flexibility mechanisms for hard-to-abate residual emissions.**
- **A permanent CBAM export solution must be introduced as part of the ETS review, compensating all additional costs that the ETS and CBAM create for exported aluminium products. If such a measure is deemed impossible due to WTO compatibility issues or fears about trade retaliation, then free allocation cannot and must not be phased out.**

2) Bring more flexibility and liquidity in the market

- **Linear Reduction Factor & International credits:**
    - **The fallback rule related to the availability of cost-effective high-quality international credits and the possibility to automatically increase the LRF back to 2.7% from 1.7% from 2036 created unnecessary uncertainty and should be removed.**
    - **Given the severe challenges currently facing European industry and the decarbonisation pathway for aluminium, the proposed sequencing should be reversed: an LRF of 1.7% should apply from 2031 to 2035, with the higher rate of 3.7% taking effect only thereafter. This would give industry essential time to stabilise, restore its competitiveness and rebuild the investment capacity needed for decarbonisation, while preserving the long-term emissions reduction trajectory.**
    - **International credits should provide more meaningful flexibility to ETS sectors and allow limited use of high-integrity international credits under Article 6.4 of the Paris Agreement for direct ETS compliance.**
- **Market Stability Reserve (MSR):**

- **The 4% annual reduction of the MSR thresholds, buffers, and release quantity should be removed. This newly introduced "dynamic" reduction would progressively tighten the market, de facto offsetting the benefits of other measures intended to address future allowance scarcity and liquidity concerns.**
- **The 400 million TNAC lower threshold should be increased. With allowance availability expected to decline substantially over time, an increased lower threshold – for example around 700 million allowances – should be considered to ensure sufficient market liquidity.**
- **Ceasing invalidation of allowances must become a structural feature of the post-2030 MSR. The Commission's April proposal to cease allowance invalidation is strongly supported. While addressed through a separate Commission proposal, this is an important feature of a future-proof MSR and should also form part of the broader discussions on the ETS revision.**
- **The MSR must be allowed to return allowances to the market in case of scarcity. Preventing further invalidation is important but insufficient on its own. The MSR must also enable the timely release of allowances when market conditions require it, e.g., to contain excessive price increases, avoid triggering the CSCF, replenish the New Entrants Reserve.**

- **Article 29a: Article 29a has never been triggered and its parameters, designed when carbon prices were significantly lower, remain too restrictive to provide an effective response to future market conditions. Article 29a parameters should therefore be revised to make the mechanism more effective.**
- **Allow International carbon credits as a direct compliance mechanism for ETS Installations: The Directive should establish limited, phased and carefully controlled compliance flexibility based on high-integrity Article 6.4 credits, restricted to demonstrably unavoidable residual process emissions where no technically available, infrastructure-ready and economically viable domestic abatement option exists.**
- **All EU Certified carbon removals should be allowed: Eligibility for direct compliance use must be widened to allow for all ETS installations to use EU-certified permanent carbon removals credits (generated by third parties) to meet ETS compliance obligations. All permanent removals certified under the EU framework should be eligible within the ETS, independently of the technology used or the cost of the removal solution.**

3) Design an Industrial Decarbonisation Bank & allocate ETS revenues for investment support tailored to the aluminium value chain

- **The 50% earmarking should be fully dedicated to supporting energy-intensive industries, ideally with a sub-target for CBAM sectors. This is because of the expected increase of exposure to carbon leakage given the loss of free allocation, the lack of an export solution and the CBAM's ineffectiveness in providing protection.**
- **Funding from the Industrial Decarbonisation Bank and the Investment Booster must be additional to, and must not replace or be made a condition for, free allocation or indirect cost compensation.**
- **The industrial Decarbonisation Bank should support both CAPEX and OPEX. Many low-carbon and renewable technologies that are being, or will need to be, deployed for industrial decarbonisation entail higher operational costs. The Commission proposal and Impact Assessment appear somewhat contradictory on this point, referring in some instances to support for both CAPEX and OPEX and in others to support being limited to the funding gap. Greater clarity is therefore needed, with the former approach to be preferred.**

- **Support periods for CCfDs should reflect industrial investment cycles. The proposed 10-year term for CCfDs support is positive, as it reflects the duration of industrial investment cycles. However, it may still be insufficient for more complex decarbonisation projects, such as CCS. Longer durations should therefore be considered where necessary to provide sufficient investment certainty.**
- **Requirements to access support should not be overburdensome for applicants. This concerns requirements related to completion and bid bonds, project implementation timelines, CCfDs payments conditional on verified GHG emissions abatement, and similar provisions to be defined in the upcoming Terms and Conditions. The T&Cs should provide appropriate flexibility and derogations where necessary. For example, project implementation timelines should account for external circumstances that may cause delays beyond companies' control.**
- **Dedicated earmarking and individual calls for CBAM sectors should be introduced. Competition for support should ideally take place within sectors rather than between fundamentally different ones, which face different technological solutions and decarbonisation challenges. The upcoming T&Cs for the Booster and IDB should explore ways to reflect these differences. For CBAM sectors, the Impact Assessment and Commission texts point to the role of the IDB in addressing their residual carbon leakage risk, yet no concrete mechanism is provided to ensure that support reaches them. Dedicated earmarking for CBAM sectors should therefore be considered to help address this gap.**
- **Cumulation and top-ups should be possible, not only between different EU funding instruments but also through additional support from Member States.**

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1) Carbon leakage protection must not be weakened

1. Maintain and extend ETS indirect cost compensation post-2030 for aluminium

The main competitiveness challenge for aluminium producers in Europe stems from the structurally higher electricity, grid, and system costs compared with competing regions, including the proven impact of ETS carbon costs on European electricity prices. Aluminium primary smelters consume very large amounts of electricity and cannot pass additional costs on to customers because the price if aluminium is set by the global market through the London Metal Exchange (LME).

The extension of ETS Indirect Cost Compensation (ICC) beyond 2030 is therefore an essential step forward to make sure that European producers continue to be partially protected from the indirect carbon costs embedded in electricity prices, thereby enabling electrified industry to be competitive in Europe

Also, integrating EU Member States reporting on indirect cost compensation into broader reporting on auction-revenue use under the upcoming amendment to the Governance Regulation is welcome.

Policy Recommendations:

- **ICC should remain in place as proposed by the EU Commission. Power market analyses show that there will continue to be an ETS price effect on European electricity prices until and beyond 2040. The legal text should specify that ICC is extended to 2040 to provide long-term visibility and the post 2030 ETS Guidelines should be reviewed accordingly, with no new conditionality requirements. Indirect emissions should remain out of CBAM scope for aluminium, and ICC should not be phased out, since the CBAM (which deals with emissions) is structurally unable to create a level playing field with regard to indirect carbon costs, which are not correlated with the indirect emissions of the consumed electricity.**
- **Adjust Article Par 6 of Article 10a of the Directive to remove the current 25 % cap on the share of ETS auction revenues that may be used for ICC. Where a Member State grants ICC, it should allocate at least 25 % of its ETS auction revenues to the scheme. Any lower amount should only be permitted where the Member State provides a reasoned justification, including which alternative measures to sustainably lower indirect carbon costs in the short, medium, and long term have been considered.**
- **In the future revision of the ETS State Aid Guidelines post 2030, no new conditionality requirements should be added for accessing compensation schemes, and the existing ones should be streamlined to avoid duplication and double reporting on eligible aluminium plants.**

2. A slower phase-out of free allocation for CBAM sectors is welcome…but not enough

The slower phase-out of free allowances for CBAM sectors, enabled by the 15% of allowances being reintroduced from 2034 to 2037 and a slightly higher CBAM factor in previous years , is welcome. The Commission's proposal acknowledges the continued uncertainty surrounding CBAM and its effectiveness by extending the timeline for the Free Allocation phase-out.

Further, the proposed introduction of the new conditionality regime (see section below), weakens the carbon leakage protection provided by the slower phase-out.

Policy Recommendations:

- **For the Aluminium industry, the ETS Directive should require the Free Allocation Phase-out to be put on hold immediately until the (i) the necessary adjustments have been made to avoid that European producers are penalized compared to importers[1], (ii) the CBAM has been proven effective, and (iii) a real and comprehensive export solution that takes into account the pricing mechanism of aluminium and the effects of the measure on the cost structure of European Aluminium exporters has been introduced (See point 6 below).**
- **Remove the mandatory 57% auctioning share to avoid the application of the CSCF.**

3. The new free allocation conditionality regime should not apply to CBAM sectors like aluminium and will unnecessarily increase administrative burden and unpredictability

The proposal to make Free Allocation conditional on an EU Decarbonisation Investment Plan is at odds with the objective of protecting the aluminium industry against carbon leakage. From 2031, the Commission proposes to make free allocation conditional on installations preparing an independently verified "Invest in EU decarbonisation plan". For each five-year allocation period, installations would be required to undertake eligible decarbonisation investments in the EU corresponding to at least 100% of the economic value of the free allocation received. The investments would also have to deliver significant emissions reductions at installation level during the relevant five-year period.

Under the proposed mechanism, 80% of the free allocation would be granted following verification and approval of the investment plan. The remaining 20% would be released only after the competent authority confirms that the investments have been implemented, that the required expenditure has been made and that the applicable conditions have been fulfilled.

European Aluminium supports encouraging and accelerating investment in industrial decarbonisation. However, requiring installations to invest an amount equivalent to 100% of the economic value of their free allocation would effectively transform a carbon leakage safeguard into a conditional investment mandate. By making Free Allowances conditional to an installation's ability to identify and implement qualifying investments within a prescribed period will undermine carbon leakage protection. **This approach does not sufficiently reflect the circumstances of hard-to-abate industries like aluminium because:**

- For certain process emissions, technically mature and commercially viable abatement solutions are not yet available before 2040 or even 2050. In the limited cases where solutions might be available before, their CAPEX and OPEX may significantly exceed the economic value of the allowances received. Further, an installation may not have sufficient eligible projects capable of delivering the required emissions reductions within the relevant five-year period, even where it has a credible longer-term decarbonisation pathway.

- The proposed conditionality will not produce the economic incentives for decarbonizing hard-to-abate sectors like aluminium: Where the cost of the investment exceeds the cost of ETS compliance, an installation has an economic incentive to forego free allocation, and instead purchase the necessary allowances in order to comply with EU/ETS regulation. This will lead to higher cost and carbon leakage. The mechanism could therefore incentivize payment for emissions instead of decarbonisation, particularly where abatement technologies remain prohibitively expensive and are not adequately supported by dedicated funding. Whereas, If the marginal abatement cost is lower than the ETS price, then the business case is supported without the conditionality requirement.

[1] For more information please see European Aluminium Position on the CBAM Scope extension and anti-circumvention measures [link]

- The possibility to plan and implement an investment in a given technology depends on a set of "enabling conditions" that are in many cases outside the control of the company and with differences across Europe. These are for example the availability of technologies at industrial scale, the local availability of energy infrastructure and the local availability of renewable energy (electricity, hydrogen, biomethane).

- Moreover, the proposal reduces predictability for industry. It would expose installations to the loss or delayed receipt of 20% of their free allocation where the competent authority subsequently determines that the investment, expenditure or emissions-reduction requirements have not been met. Uncertainty over concepts such as "eligible costs", "significant emissions reduction" and the calculation of the "economic value" of free allocation would weaken the predictability of carbon leakage protection and leave important elements to Delegated Acts. The uncertainty around the future rules will also block investment decisions and it is challenging to prove emission reductions in aluminium goods when it comes to changes in input material or product mix from year to year

- Also, stricter access to Free Allocation must not penalise European producers compared to third-country producers affected by CBAM: the new mechanism will create greater legal uncertainty across European and global value chains that import or produce CBAM goods, given the need to adjust CBAM benchmarking rules. It would be unfair to allow third-country producers to benefit from the free allocation adjustment in CBAM while European producers have more difficult access to free allocation because of more complex and stringent rules linked to investments in decarbonisation technologies that are not available. Also, the Commission's own impact assessment did not analyse the impact of the new conditionality regime on CBAM sectors.

- The Carbon Leakage Protection ensured by Free Allocation will be weakened and fragmented because the assessment of the plans and decision of whether to grant the remaining 20% will be done at the discretion of national authorities.

- The proposal to apply a differentiated approach between the top 10% and other installations (as proposed in the final subparagraph of Article 10a(3c)) is also problematic. For certain industrial processes such as the production of primary aluminium, all installations in Europe are using the same process based on the same technologies (the most efficient currently available). As a result, the differences in their emissions are small, and the top 10% can change from year to year depending on whether they've had a good or bad year with regard to disruptions to their process (which increase emissions). Rewarding the top 10% and punishing the rest means that one installation (deemed to be within the top 10%) could keep its free allocation while another (not in the top 10%) would lose it, even if it has only emitted 1 tonne of CO2 more than the first installation.

- Investments in expanding aluminium recycling contribute directly to industrial decarbonisation: aluminium recycling requires around 95% less energy than primary aluminium production and consequently results in significantly lower CO_2 emissions. An approach focused solely on individual installations, under which such investments would not be recognised because the absolute or specific emissions of the recycling facility itself do not decrease, would create the wrong incentives and unfairly penalise genuine decarbonisation by aluminium recyclers covered by the EU ETS.

- Ultimately, investments to further decarbonize European industry cannot be incentivized by mandates, but only by securing the business case for profitable investments in decarbonization. This requires more financial support (as being proposed with the new Industrial Decarbonisation Bank), the development of the necessary

infrastructure, and more -not less- carbon leakage protection, in order to preserve a level playing field compared to producers in other countries who are not facing carbon costs or investing in decarbonization.

Policy Recommendations:

- **Given the shortcomings above, and the expectation that CBAM will not be effective for the European Aluminium industry and related design challenges to ensure equal treatment between CBAM goods produced in Europe or imported to Europe, the new conditionality regime, starting from 2031, should be removed. At a minimum, it must not apply to Aluminium companies.**
- **If conditionalities remain, then derogations should be introduced – e.g., for Booster, IDB and IF projects, the 10% best-performing installations, and zero- and low-emission installations – are important to reward frontrunners and should be maintained. However, they should be complemented by a derogation for sectors of strategic importance to Europe and contributing to the proposal's objectives of competitiveness, decarbonisation and independence, notably the production of critical materials like aluminium identified under the Critical Raw Materials Act (CRMA). Installations that outline in their plan the reasons behind the unavailability of decarbonisation technologies and energy infrastructure needed to deliver the emission reductions in the next five years should receive 100% of the amount of free allocation to the benchmark levels.**

4. ETS Benchmarks design post 2030: Aluminium urgently needs a new benchmarks methodology, with sector-specific approaches for alumina refining, aluminium recycling and semi-fabrication

The Commission proposal positively includes an empowerment provision for the Commission to establish sector-specific heat and fuel benchmarks under the delegated acts referred to under Article 10a(1). This effectively allows for the Commission to design new ETS Benchmarks for Alumina refining, aluminium recycling and aluminium semi-fabrication, which is a welcome development. By grouping together installations from different sectors with very different industrial processes and decarbonisation possibilities, the current fallback benchmarks are creating millions of Euros in additional costs for Europe's alumina and aluminium recycling and tranformation facilities, since they are set at levels of CO2 emission performance that cannot be reached by installations in these sectors. This compromises competitiveness without any additional climate benefit.

Nevertheless, the current Free Allocation methodology should be reformed more broadly: A mechanically imposed benchmark reduction does not reflect technological reality and risks becoming a pure cost penalty rather than an incentive to decarbonise. Applying a mechanical reduction in which the best-performing installations have not improved in practice would not incentivise decarbonisation; it would merely impose additional carbon costs, especially on Primary Aluminium smelters.

Aluminium Fallback values: alumina refining & recycling/cast houses/semi-fabrication

Fallback benchmarks do not compare similar plants and are set by a mixture of abatement possibilities (challenges) across different sectors: our combustion installations, i.e., alumina, primary/recycling casthouses, and semi-fabrication work at high temperatures (above 400°C and up to 1050 °C). Innovative studies and pilot-scale installations continue towards developing new technologies and processes (e.g. electrification, hydrogen, biofuels, CCS), but in practice, no viable

alternative to natural gas is available for the next 10-15 years[2]. Furthermore, the sector is under extreme economic pressure due to geopolitical disruptions, the oil crisis and the knock-on effects of capacity curtailments in the Gulf region.

Since the last review of the Directive and of the Free Allocation Rules (see our detailed memo here, December 2023) the European Aluminium industry has been calling for dedicated benchmarks for alumina and aluminium recycling in order not to penalise a value chain that is strategic for Europe's circularity, energy transition and strategic autonomy objectives.

Policy Recommendations:

- **The ETS Directive should clearly mention the need to develop new product- or sector-specific fallback benchmarks for alumina, aluminium recycling and semi-fabrication. The strategic role of alumina for Europe's raw material supply as well as strategic autonomy and the circularity potential of aluminium should be included as guiding principles.**
- **The European Aluminium industry is ready to work with the EU Commission on a new benchmark design for alumina and aluminium recycling/cast houses/semi-fabrications, starting from ETS Phase V. The basis for this should be that the benchmark is based only on those best-in-class facilities that can realistically be used for comparison in terms of process, size, technology readiness, available fuel, and required temperature.**

Primary Aluminium & Pre-bake anode product benchmarks

The current technologies for reducing emissions in the sector are at their limits of what is feasibly possible: this is well illustrated by the proposed two aluminium product benchmarks, which are obtained by comparing peer performance.

In both cases, based on the data collected according to the current methodology for setting the Benchmarks, a minimum reduction rate is proposed. This point is particularly evident for primary aluminium:

Product benchmark	Average value of the 10% most efficient installations in 2021 and 2022 (t CO2 equivalents/t)	Proposed draft Benchmark value (allowances/t) for 2026-2030
Aluminium	1,489	**1,423**
Pre-bake anode	0,300	**0,290**

The fact that the average for the best 10% of installations in 2021-2022, at 1.489 tCO2e/t, is higher than the corresponding value for 2016-2017, at 1.484 tCO2e/t, indicates that primary aluminium smelters do not follow a linear decarbonisation pathway with currently available technologies.

Deep decarbonisation would require either carbon capture from very low-concentration smelter off-gases or the deployment of inert anodes, neither of which is commercially available at industrial scale today.

A mechanically imposed benchmark reduction, therefore, does not reflect technological reality and risks becoming a pure cost penalty rather than an incentive to decarbonise. For the post-2030 period, applying a mechanical reduction in which the best-performing installations have not improved in practice would not incentivise decarbonisation but would merely impose additional carbon costs on European smelters.

Policy Recommendations:

[2] https://european-aluminium.eu/wp-content/uploads/2023/11/23-11-14-Net-Zero-by-2050-Science-based-Decarbonisation-Pathways-for-the-European-Aluminium-Industry_FULL-REPORT.pdf

Primary aluminium via electrolysis and the Precursor Pre-Bake anodes should continue to have their own product Benchmarks according to the product benchmark methodology currently in force, but taking into account new flexibility mechanisms for hard-to-abate residual emissions, including verified permanent CO_2 storage, certified permanent carbon removals and, where appropriate, high-integrity international credits under robust safeguards.

5. A real CBAM export solution is vital for the European aluminium sector

The Commission must urgently propose a solution that levels the playing field for European aluminium exporters, covering both ETS costs and CBAM-induced increases in input material costs for all aluminium producers exporting CBAM goods. This is particularly urgent as the negotiations over the Temporary Decarbonisation Fund have stalled in Council, since many Member States did not want to take a position on the new Fund as they were waiting for the proposals in the ETS Review.

Given that the entire value chain faces cost increases beyond those stemming from the loss of ETS free allocation and that the majority of aluminium producers exporting outside Europe do not fall under the EU ETS, a real export solution is needed to address export leakage caused by both increased ETS and raw material costs[3].

Policy Recommendations:

- **The Co-legislators should swiftly agree on the Commission's proposal for a Temporary Decarbonisation Fund (TDF).**
- **The Parliament's proposal to allow access to the TDF to non-ETS installations exporting aluminium CBAM goods should be maintained in the final text, as well as the possibility for Member States to grant support via the opt-in mechanism.**
- **A permanent export solution must be introduced as part of the ETS review, compensating all additional costs that the ETS and CBAM create for exported aluminium products. If such a measure is deemed impossible due to WTO compatibility issues or fears about trade retaliation, then free allocation cannot and must not be phased out.**

2) Bring more flexibility in the ETS market

The Commission proposal recognises that maintaining the current ETS trajectory after 2030 would bring the cap to zero in 2039, before cost-effective decarbonisation technologies are commercially available for all hard-to-abate industrial emissions. Its proposed changes to the Linear Reduction Factor are therefore welcome steps. However, further safeguards are needed to ensure adequate market liquidity while allowances are still needed. .

Linear Reduction Factor & International credits

The Commission proposes an LRF of 3.7% from 2031 to 2035 and 1.7% from 2036 onwards. This is a significant improvement on the current 4.4% trajectory and would allow new allowances to continue to be issued during the 2040s. It responds partially to European Aluminium's call for the cap trajectory to reflect technology readiness and commercially

[3] Unlike steel, aluminium prices are set globally at the London Metals Exchange and supplemented regionally through the European Duty-Paid Premium based on the marginal importer. Because European demand is structurally import-dependent, this premium will fully cover the CBAM-related charges. As such, CBAM induced cost increases systematically affect all aluminium transactions on the European market, including scrap, regardless of whether the metal is imported or domestically sourced. See also European Aluminium's position on the Temporary Decarbonisation Fund here (February 2026).

achievable decarbonisation, **particularly for residual emissions for which no cost-effective abatement solution is yet available.**

However, the proposed trajectory is not sufficiently predictable:

- Under proposed Article 9b, the Commission would assess by 31 January 2033 whether up to 260 Mt of high-quality, high-integrity and cost-effective international credits will be available. If it concludes that they are not available, the LRF would automatically increase from 1.7% to 2.7% from 2036[4].
- Linking the supply of EU allowances to a future and inherently uncertain assessment of the international credit market creates an avoidable regulatory risk. Investment decisions for aluminium installations have long lead times and require visibility well beyond 2033. Operators should not face the possibility that the remaining carbon budget will be materially reduced only three years before the higher LRF begins to apply.
- Details on the operationalisation of international carbon credits under the ETS are left to separate legislation and an impact assessment expected by the end of the year, making their actual benefits for ETS sectors difficult to assess. Their use is capped at 2% of the 5% flexibility available under the Climate Law, although the Impact Assessment does not clearly explain the rationale for this limit. Moreover, no direct compliance by ETS operators is foreseen, limiting their potential to create additional emissions space for covered sectors.

Policy recommendations:

- **Given the severe challenges currently facing European industry, the proposed sequencing should be reversed: an LRF of 1.7% should apply from 2031 to 2035, with the higher rate of 3.7% taking effect only thereafter. This would give industry essential time to stabilise, restore its competitiveness and rebuild the investment capacity needed for decarbonisation, while preserving the long-term emissions reduction trajectory.**
- **The fallback rule related to the availability of cost-effective high quality international credits and the possibility to automatically increase the LRF back to 2.7% from 1.7% from 2036 should be removed. It could mean that the ETS cap reaches zero several years earlier than otherwise planned. This creates significant uncertainty for the operating conditions of the ETS industry, as the likelihood of triggering the rule is very hard to forecast.**
- **Any future adjustment of the LRF to be made through the ordinary legislative procedure, following a comprehensive assessment of technology readiness, infrastructure availability, competitiveness, carbon leakage and the availability of other compliance flexibilities.**
- **The Directive should allow for more Regular reviews that may adjust the trajectory gradually, while avoiding abrupt reductions in the remaining allowance budget.**
- **International credits should provide more meaningful flexibility to ETS sectors and allow limited use of high-integrity international credits under Article 6.4 of the Paris Agreement for direct ETS compliance.**

Market Stability Reserve

[4] Commission proposal, COM(2026) 616

European Aluminium welcomes the proposal to halve the MSR intake rate from 24% to 12% from 2028. This responds directly to our concern that a mechanism designed to address historical oversupply should not continue removing allowances at the same rate as the market moves towards structural scarcity.

We also welcome the proposal to end the invalidation of allowances held in the MSR. Preserving these allowances can create a buffer for future scarcity and market disruption.

However, ending invalidation will have little stabilising effect unless allowances retained in the reserve can be released back into the market in a timely and predictable manner.

The Commission proposes that, from 2029, the MSR intake and release thresholds, and the standard release volume, decrease by 4% annually. The lower release framework would start with a 400 million allowance threshold, a lower buffer of 300 million and a release volume of 100 million allowances. While intended to reflect a shrinking market, progressively lowering the release thresholds risks making the MSR less responsive precisely when scarcity and liquidity constraints become more acute.

Policy Recommendations:

- **The lower 12% intake rate as of 2028 is welcome and should be maintained. It will help avoid disproportionately high withdrawals as the number of allowances in circulation declines.**
- **The 4% annual reduction of the MSR thresholds, buffers, and release quantity should be removed. This newly introduced "dynamic" reduction would progressively tighten the market, de facto offsetting the benefits of other measures intended to address future allowance scarcity and liquidity concerns.**
- **The 400 million TNAC lower threshold should be increased. With allowance availability expected to decline substantially over time, an increased lower threshold – for example around 700 million allowances – should be considered to ensure sufficient market liquidity.**
- **Ceasing invalidation of allowances must become a structural feature of the post-2030 MSR. The Commission's April proposal to cease allowance invalidation is strongly supported. While addressed through a separate Commission proposal, this is an important feature of a future-proof MSR and should also form part of the broader discussions on the ETS revision.**
- **The MSR must be allowed to return allowances to the market in case of scarcity. Preventing further invalidation is important but insufficient on its own. The MSR must also enable the timely release of allowances when market conditions require it, e.g., to contain excessive price increases, avoid triggering the CSCF, replenish the New Entrants Reserve. The proposal should be amended to clearly provide for this possibility.**

Article 29a

Leaving Article 29a unchanged is a missed opportunity. Article 29a has never been triggered and its parameters, designed when carbon prices were significantly lower, remain too restrictive to provide an effective response to future market conditions. The 2.4-times price trigger is too high, while the six-month and two-year assessment periods are too long to allow a timely response.

Policy Recommendations:

- **Article 29a parameters should therefore be revised to make the mechanism more effective.**

International carbon credits for direct compliance

The proposal represents an important recognition that high-integrity international credits can complement domestic action and provide additional flexibility. Proposed Article 9b would set aside and auction up to 260 million EU allowances to finance the central purchase of up to 260 Mt of international credits for the period 2036–2040. The credits would have to meet the safeguards established under the European Climate Law, including additionality, avoidance of double counting, permanence, robust monitoring and respect for environmental and human-rights standards. The European Climate Law also provides that Article 6 credits may contribute up to 5% of 1990 EU net emissions from 2036[5].

However, the proposal does not allow ETS installations to surrender Article 6.4 credits directly for compliance. Instead, credits would be purchased centrally and cancelled, while the corresponding adjustment is reflected indirectly through the lower LRF. This only partially addresses European Aluminium's concerns. It does not give hard-to-abate installations a targeted compliance option linked to their residual emissions, and it makes the entire cap trajectory dependent on the availability of the full anticipated credit volume.

Policy Recommendations:

- **The Directive should establish limited, phased and carefully controlled compliance flexibility based on high-integrity Article 6.4 credits, restricted to demonstrably unavoidable residual process emissions where no technically available, infrastructure-ready and economically viable domestic abatement option exists. Eligibility to be subject to strict EU quality, additionality, accounting, MRV, permanence and sustainability criteria, with full corresponding adjustments to prevent double counting.**
- **Quantitative limits to be differentiated where appropriate according to sectoral abatement potential and restricted to residual emissions for which commercially viable domestic abatement solutions are not available.**
- **A pilot phase before 2036 so that methodologies, bilateral arrangements, registries and purchasing channels can be tested before international credits are expected to affect the ETS trajectory.**

Carbon Removals

The integration of carbon removals into the ETS remains too narrow in scope. We support the Commission's clear commitment to integrate 250 Mt of domestic permanent carbon removals into the EU ETS. While this commitment provides some certainty to help scale up the market, it does not fully respond to the Commission's objective of creating additional "emissions space" for ETS sectors, as the direct benefits of such integration remain restricted to BioCCS installations compensating their own fossil emissions.

Policy Reccomendations:

- **Eligibility for direct compliance use must be widened to allow for all ETS installations to use EU-certified permanent carbon removals credits (generated by third parties) to meet ETS compliance obligations.**
- **All permanent removals certified under the EU framework should be eligible within the ETS, independently of the technology used or the cost of the removal solution.**

[5] Regulation (EU) 2026/667, Article 4(5)(a)

3) Design an Industrial Decarbonisation Bank & allocate ETS revenues for investment support to the aluminium value chain

We fully support the Commission's objective of ensuring that more EU ETS revenues are reinvested in the sectors contributing to the system. The 50% earmarking is a fundamental step in this direction. However, the list of priority areas remains too broad to ensure that funding reaches sectors facing the greatest decarbonisation challenges, notably energy-intensive, circular and strategic industries like aluminium. A Member State could comply with these provisions by allocating even more auction revenues to the electricity sector, without allocating anything to energy-intensive industries.

The Investment Booster and the Industrial Decarbonisation Bank are welcomed, particularly as they support mature and available technologies, complementing the ETS Innovation Fund's focus on more innovative technologies. While both instruments are positive on paper, their ability to effectively support industrial decarbonisation will ultimately depend on their design and implementation as well as external conditions like the availability of energy infrastructure and renewable energy. It must be ensured that these new instruments are fit to the technology challenges of the aluminium industry and are not designed in a way that de facto exclude aluminium plants from being eligible.

Policy Recommendations:

- **The 50% earmarking should be fully dedicated to supporting energy-intensive industries, ideally with a sub-target for CBAM sectors. This is because of the expected increase of exposure to carbon leakage given the loss of free allocation, the lack of an export solution and the CBAM's ineffectiveness in providing protection.**
- **Funding from the Industrial Decarbonisation Bank and the Investment Booster must be additional to, and must not replace or be made a condition for, free allocation or indirect cost compensation.**
- **The industrial Decarbonisation Bank should support both CAPEX and OPEX. Many low-carbon and renewable technologies that are being, or will need to be, deployed for industrial decarbonisation entail higher operational costs. The Commission proposal and Impact Assessment appear somewhat contradictory on this point, referring in some instances to support for both CAPEX and OPEX and in others to support being limited to the funding gap. Greater clarity is therefore needed, with the former approach to be preferred.**
- **Support periods for CCfDs should reflect industrial investment cycles. The proposed 10-year term for CCfDs support is positive, as it reflects the duration of industrial investment cycles. However, it may still be insufficient for more complex decarbonisation projects, such as CCS. Longer durations should therefore be considered where necessary to provide sufficient investment certainty.**
- **Requirements to access support should not be overburdensome for applicants. This concerns requirements related to completion and bid bonds, project implementation timelines, CCfDs payments conditional on verified GHG emissions abatement, and similar provisions to be defined in the upcoming Terms and Conditions. The T&Cs should provide appropriate flexibility and derogations where necessary. For example, project implementation timelines should account for external circumstances that may cause delays beyond companies' control.**
- **Dedicated earmarking and individual calls for CBAM sectors should be introduced. Competition for support should ideally take place within sectors rather than between fundamentally different ones,**

which face different technological solutions and decarbonisation challenges. The upcoming T&Cs for the Booster and IDB should explore ways to reflect these differences. For CBAM sectors, the Impact Assessment and Commission texts point to the role of the IDB in addressing their residual carbon leakage risk, yet no concrete mechanism is provided to ensure that support reaches them. Dedicated earmarking for CBAM sectors should therefore be considered to help address this gap.

- **Cumulation and top-ups should be possible, not only between different EU funding instruments but also through additional support from Member States.**