



Knowledge grows



The EU ETS revision – an evolution, not a revolution

Executive summary

The EU Emission Trading Scheme (ETS) is delivering real emission reductions. Its review should therefore reinforce the system's ability to drive cost-effective decarbonization, to preserve an effective carbon price signal and support Europe's industrial transformation. Importantly, the rules should not be changed in ways that weaken investment incentives.

Against this backdrop, our key policy asks are as follows:

1. **Maintain a predictable long-term carbon price signal.** This can be achieved by safeguarding the level of ambition of the Commission proposal on the Linear Reduction Factor, the Market Stability Reserve and phaseout trajectory of free allowances.
2. **Make Free allocation conditionality flexible and easy to implement.** Yara recommends setting feasible reinvestment parameters at company level, enlarging the scope of eligible projects, and extending the period of project eligibility to include the 2026-2030 ETS period. These adaptations will incentivize economically viable decarbonization investments, while recognizing the contribution of decarbonization first-movers. To ensure CBAM continues to mirror the ETS, the CBAM obligation must be adjusted accordingly for imported goods, unless these imports are already decarbonized and thus have low embedded emissions.
3. **Earmark ETS revenues and related funding instruments for the decarbonization of ETS sectors** and their value chains. A particular focus should be given to support frontrunners by removing the start-of-work rule.

In addition, we recommend the following:

4. Keep the principles of upstream CO₂ accounting in Carbon Capture and Use (CCU) and surrender obligations unchanged for ammonia to preserve regulatory simplicity.
5. Maintain indirect emissions cost compensation post-2030 to support continued investments in electrification and low-carbon technologies.
6. Support the integration of carbon removals in the ETS and maintain a limited use of international credits under strict EU criteria.
7. Support the inclusion of smaller vessels in the ETS and the enshrined incentives for the production of low-carbon maritime fuels.



I. Introduction

Political and regulatory certainty is essential to help industry navigate the impacts of today's geopolitical tensions and economic uncertainty. Recent geopolitical shocks, such as the closure of the Strait of Hormuz, underline how critical it is to maintain strong domestic industries in Europe. While global crises are inherently destabilizing, it is within the responsibility of the EU institutions to ensure a stable, predictable, and credible regulatory framework that underpins long term industrial decarbonization investment.

The EU ETS is the cornerstone of EU climate policy and has been a key driver of emission reductions across covered sectors.¹ While the transition towards decarbonization is not linear, tangible progress is being made. The first large scale decarbonization projects are being implemented, driven, and funded in large part by carbon pricing incentives that are translating climate ambition into concrete investment decisions. A strong example is the large-scale deployment of nitrous oxide (N₂O) abatement catalysts, which has resulted in extensive industrial emissions reduction in installations producing nitric acid. Across Yara's plants alone, the technology abates about 13 million tons of CO₂ equivalents annually.² Yara's CCS project³ in Sluiskil, the Netherlands, also incentivized by carbon pricing, is another tangible sign of progress. As Europe's largest carbon capture and storage project in operation, it represents a major milestone and is expected to abate up to 800,000 tons of CO₂ annually from 2026 onwards.

To ensure first movers get rewarded, and not penalized, **Yara calls for regulatory stability and predictability in the implementation of European climate legislation, in particular the ETS and the CBAM.** Industrial transformation involves long planning and investment cycles as well as significant commitments to capital. A stable and predictable EU ETS framework, combined with a robust CBAM, helps companies assess risks and opportunities associated with lower carbon technologies. If first-mover investments become structurally disadvantaged due to policy volatility, this would undermine investor confidence across the Union. Companies will reassess the reliability of the EU's policy framework when taking final investment decisions, increasing the perceived policy risk premium and delaying or diverting future low-carbon investments. **Together, the ETS and CBAM are crucial to incentivize decarbonization, prevent carbon leakage and ensure a level playing field between domestic production and imports.**

II. Key issues and recommendations

1. The carbon price signal: Linear Reduction Factor (LRF), phaseout of free allowances, and Market Stability Reserve (MSR)

Preserving a predictable, transparent, and non-discretionary market design is fundamental to maintaining market confidence, supporting long-term investment decisions, and safeguarding the overall credibility of the EU ETS.

The ETS revision proposal envisages a moderate downwards adjustment of the Linear Reduction Factor (LRF) from 2031, enabling allowances to be issued beyond 2040 and maintaining an alignment with the EU's climate ambitions.

The gradual phase-out of free allocation of allowances under the ETS, aligned with the phased introduction of CBAM, represents a key policy instrument to incentivize low-carbon investments and accelerate decarbonization. The phase-out curve of free allowances for CBAM sectors is somewhat slowed down from 2028, maintaining 15% of allowances between 2034 and 2037, reaching 0% in 2038.

A well-calibrated and rule-based interaction between key ETS design parameters, namely the LRF, the Total Number of Allowances in Circulation (TNAC), and the Market Stability Reserve (MSR) intake and release thresholds is critical to maintaining a balanced and resilient carbon market. Proper and predictable coordination across these elements can help mitigate the risk of excessive price volatility or carbon price spikes, which could undermine both industrial competitiveness and investment planning.

The ETS must remain aligned with the EU's 2040 and 2050 climate targets. The Commission proposal maintains this focus with the moderate modifications of the LRF, the MSR and the free allocation phaseout curve for CBAM sectors. Any further weakening of these elements puts the carbon price signal and Europe's industrial transformation at risk and hence must be avoided.

Yara's recommendation: Maintain a predictable long-term carbon price signal by safeguarding the revision proposal's already enshrined compromise on the LRF, MSR and phaseout trajectory of free allowances for CBAM sectors.

¹The EU Emissions Trading System (EU ETS) - European Commission

² Yara Integrated Report 2023, p. 131

³ Yara invests in CCS in Sluiskil and signs binding CO₂ transport and storage agreement with Northern Lights – the world's first cross-border CCS-agreement in operation | Yara International

2. The conditionality on free allowances

Article 10a (3c) conditions 80% of free allowances upon the completion of an “Invest in EU” decarbonization plan per installation, while the remaining 20% are allocated only upon the successful implementation of a decarbonization investment corresponding to 100% of the value of free allowances for the relevant 5-year period. While intended to boost investment in the EU, the proposed conditionality framework risks discouraging certain economically viable investments aligned with the EU’s climate objectives. As proposed, the framework reduces competitiveness versus overseas producers and introduces new regulatory risks for the following reasons:

- » Free allocation is a key carbon leakage protection measure, ensuring that EU producers can compete fairly with those not facing equivalent carbon pricing. **Requiring reinvestment in full and solely in decarbonization reduces the economic impact of free allowances and thus undermines its key function as a carbon leakage protection instrument.** In addition, it excludes profitable investment cases, such as energy efficiency measures and sourcing of low-carbon fuels, even if such improvements are fully aligned with boosting competitiveness of economic operators and advancing the EU’s climate ambition.
- » **20% of free allowances are dependent on the implementation of decarbonization projects. However, this condition is not under full control of the installation operator.** The case for investments depends on many enabling factors that are beyond the control of economic operators, such as access to infrastructure, permitting, a stable and gradual upwards carbon pricing trajectory, a watertight CBAM, demand at scale for low-carbon products, export competitiveness (if a plant is exporting outside of Europe), and the availability of OpEx funding support.
- » Today, pan-European companies invest in those projects that make the most economic sense at the time, in the spirit of cost effective and optimal functioning of the EU Internal Market. **Conditionality, therefore, must be kept at company level, and not be constrained at installation level,** to provide the economic operators with enough flexibility. Well-targeted investments ensure that a company remains competitive in the long run, enabling later investments in additional locations if and when the necessary conditions emerge.
- » With major part of the decarbonization projects most readily available and having lower abatement costs already implemented, **the business case for remaining emission reductions is becoming much more challenging.** Previously,

ETS conditionality was limited to 20% worst performing installations and centered around implementation of energy efficiency measures with 3 years payback time and a 3-to-5-year period between concept and implementation. The more ambitious decarbonization efforts, as required by the proposed conditionality, have a much longer leading period of up to 8-10 years from planning to implementation and in most cases, do not improve the relative cost position versus competition. They depend on additional revenue streams including from fair levels of free allowances (not limited by conditionality), an adequate carbon price, government funding (CapEx and OpEx) or demand pull at scale for lower-carbon products.

- » **The final compromise for conditionality under the revised EU ETS must be fully reflected in CBAM to ensure a level playing field between importers and European producers.** CBAM has been introduced as a climate tool reestablishing the level playing field between domestic production and imports based on the embedded CO₂ emissions in products. For CBAM goods, the number of CBAM certificates to be surrendered by an importer is adjusted to reflect the extent to which free ETS allowances are allocated for corresponding products produced in the EU. Without an equivalent adjustment to the CBAM obligation for importers, domestic producers subject to the new conditionality framework are disadvantaged.
- » CBAM aims to restore the competitiveness of the EU industry against imports. To further safeguard the competitiveness of European producers exporting to the rest of the world, **a permanent export solution must be found.** This is possible under the EU ETS, via a downwards adjustment of the obligation to surrender allowances. The conditionality framework risks reducing export competitiveness even further.
- » The revision proposal lacks a definition of “significant verified reductions”, which will be the basis for evaluation of conditionality compliance. **Integrated ammonia plants, where all or part of the process CO₂ is used to produce urea, UAN or AdBlue⁴, face a particular challenge as their treatment under the proposed conditionality clause remains unclear.** Where CO₂ is incorporated in the chemical composition of the final products, it cannot be eliminated. In most cases, both the cost and technical feasibility of decarbonization measures, including CCS projects targeting the remaining CO₂ (process and combustion), become significantly more challenging, being in many cases economically or technically unviable. **The only economically and technically practical route for such installations to fulfill the conditionality requirement is via pooling with other installations.**

⁴ These products are critical for the functioning of society: UAN and urea are both used as a fertilizer, while urea also has additional applications, such as in the pharma and medical sector. AdBlue is essential for millions of diesel-powered vehicles, including ambulances, trucks, tractors, and ships.

- » In addition, these processes expose the operators to unpredictability and heterogeneous decision-making approaches by the national emission authorities. Considering the variety and complexity of installations and decarbonization technologies, not all can be defined in Commission guidelines. National emission authorities will therefore need to exercise judgement when approving submissions, and such decisions will unavoidably vary depending on the country. **This risks undermining regulatory certainty and creating an uneven playing field for companies operating across the EU.**

Yara's recommendation: Conditionality shall remain flexible and easy to implement to incentivize economically viable decarbonization investments. To ensure CBAM continues to mirror the ETS, the CBAM obligation must be adjusted accordingly for imported goods.

Yara continues to advocate for maintaining stability in the EU ETS, thereby ensuring investment predictability and preserving the business case for decarbonization investments. Should the new conditionality framework be maintained, the following improvements must be made:

- » **The reinvestment conditionality shall be limited to 20% of the value of free allowances received over a 5-year period.** In addition, the pooling provision (Article 10a(3d)) should be reinforced to explicitly state that installations within the same company could qualify for pooling. This would ensure that conditionality applies at company rather than installation level, helping to avoid potential sub-optimal investment decisions and ensuring that incentives are directed towards only economically sound and efficient investments.
- » **Decarbonization projects implemented in the prior 5-year period (2026-2030) should be recognized as eligible** to meet the conditionality requirements. This avoids penalizing first-movers, whose investments have contributed to driving innovation, reducing emissions, and demonstrating the viability of low-carbon solutions.
- » **Any final approach on conditionality must be fully reflected in the CBAM design to preserve the core principle that both instruments mirror each other.** If the EU co-legislators would decide to follow the Commission's proposal and make a share of free allowances dependent on proof of investment, then importers of CBAM goods which have not been decarbonized should not be given the full free allocation adjustment either. This would mean modifying the free allocation adjustment in the dedicated CBAM Implementing Act (EU 2025/2620) during the planned Q4 2026 review. An exemption could be provided to imports with a very low-carbon footprint (e.g., goods produced with low-carbon or renewable fuels in accordance with the relevant EU thresholds) verified based on reported real emission values.⁵
- » **For large-scale decarbonization projects, a final investment decision (FID) should be recognized as sufficient evidence for the release of the remaining 20% of free allowances** to the economic operator. This would ease the significant timeline challenge.
- » **Free allocation conditionality should allow for investments in additional measures, which can be demonstrated to be in line with EU's climate targets.** This would ensure timely and economically viable emission reductions, while the enabling conditions for the largest scale decarbonization of production processes are being put in place. Examples include energy efficiency measures with a 5-year return (extended from the present 3 years), carbon removals, sourcing of renewable and low-carbon electricity and hydrogen as well as biomethane (in addition to their onsite production). This would enable companies to take the most economically sound decision in line with the free allocation instrument's aim of restoring competitiveness, while driving decarbonization.
- » **The concept of 'significant emission reductions' should be clearly defined and take into account only the share of CO₂ which is economically and technically feasible for abatement** at both installation level and for the option of pooling installations. The share of CO₂ that is a constitutive component of products manufactured in integrated ammonia-urea plants should be exempted from the conditionality. This would ensure the continued supply of societally critical products. The pooling option should not be disincentivized by being combined with more stringent emission reduction requirements than those applied to non-pooling installations. Equivalent emission reduction requirements must be maintained for both provisions, as it is in line with the core EU ETS principle of achieving decarbonization in the most cost-effective manner.
- » **A permanent export solution shall complement the CBAM for the EU Internal Market.** This export solution shall consist of a downward adjustment of the obligation to submit emission allowances.
- » The proposal for retroactive recovery of already allocated free allowances against verified emissions must be withdrawn.
- » Rather than withholding 20% of free allowances upfront until the end of the 5-year period, the equivalent should be deducted, upon non-fulfillment of the requirements, from the free allowances of the subsequent period.

⁵ Granting a 100% adjustment to extremely low carbon footprint imports, while reducing the CBAM obligation for conventional goods, also enhances the environmental effectiveness of CBAM. The downward adjustment of the CBAM obligation is limited to the CBAM footprint of the imported good (contrary to a domestic ETS installation operating below benchmark level, an importer cannot receive free allowances in excess). By differentiating the CBAM obligation as proposed, the difference in carbon footprint between different importers is better reflected in the difference in CBAM obligation.

3. The reinvestment of ETS revenues and the design of funding instruments

New funding opportunities are made available for **industrial decarbonization**. This is a positive and necessary step to enable the EU to deliver on the objectives of the Clean Industrial Deal. An **‘Investment Booster’** (2028-2031) will provide a fixed carbon premium using a ‘first in, first-served’ system to fast-track investments based on speed and linked to independently verified emissions avoidance. From 2031, the **Industrial Decarbonization Bank (IDB)** will feature competitive bidding procedures, awarding Carbon Contracts for Difference (CCfDs) or carbon premiums. However, the strict start-of-work rule under Article 196 (1) and (2) of the EU Financial Regulation would exclude first movers who have already invested significant capital and are seeking support only for operating the decarbonized installations or for covering CO₂ sequestration costs. **Therefore, the start-of-work rule should not apply as long as markets for low-carbon products have not yet materialized and the competitiveness of low-carbon products is undermined by an inadequate ETS price.** This is a pre-requisite to support long-term decarbonization.

Positively, the ETS revision proposal entails a more targeted reinvestment of ETS auction revenues into the decarbonization of ETS sectors and their value chains. The revised Article 10(3c) explicitly identifies industrial decarbonization, including CCS, as a priority spending area, while recital 39 states the fertilizer sector’s importance for food security, encouraging reinvestment of auction proceeds into its decarbonization (e.g., with CCS). To ensure a future-proof business case for low-carbon fertilizers, the development of lead market should be supported, including by encouraging Member States to allocate part of the revenues to the offtakers, and in the case of fertilizers, to farmers.

Yara’s recommendation: Earmark ETS revenues and funding instruments towards the decarbonization of ETS sectors and their value chains, supporting frontrunners.

- » The ETS Investment Booster and the IDB should feature an exemption from the start-of-work rule of the EU Financial Regulation. This is key to cover the operational costs related to decarbonization investments until there is a stable business case for low-carbon production at scale. Such a move will ensure that frontrunners are not penalized for committing early investments.
- » Article 10(3i) should explicitly include low-carbon fertilizers, in addition to bio-based fertilizers, as an option for Member States to support farmers adopting such products. It will complement the support for fertilizer production based on electrolytic and CCS hydrogen and facilitate a more holistic value chain approach.

III. Additional issues and recommendations

4. CCU CO₂ accounting

Yara supports the objective of circularity where the use of carbon-based feedstocks remains necessary. This underscores the importance of clearly defined and consistent accounting principles for ETS surrender obligations.

However, downstream accounting is not feasible for fertilizer as well as some chemical products such as urea, UAN, AdBlue even though CO₂ is released during the use phase. This has been duly acknowledged and accepted in the proposal. However, the proposal moves the obligation to surrender allowances downstream for processes listed in Annex I, including synthetic fuels. This change can potentially lead to differentiating surrender obligations between installations producing the same product (ammonia) depending upon how the CO₂ is utilized. Furthermore, this can have potential consequences for ammonia benchmark setting for future periods, thereby impacting the carbon leakage protection level for the whole ammonia sector.

Yara’s recommendation: The principles of upstream accounting and surrender obligations must be kept unchanged for ammonia independent of the utilization of CO₂.



5. Indirect emission cost compensation

Residual carbon leakage risks remain, also for CBAM sectors. This is mainly because of the limited treatment of indirect emissions under CBAM and the specific characteristics of the European electricity market, where carbon costs are embedded in power prices but not fully mirrored in the CBAM framework. This misalignment creates an uneven playing field between EU producers and third-country competitors. The European Commission has recognized this gap in its 2025 Communication as well as the ETS revision proposal, which extends the possibility for Member States to grant state aid compensating indirect CO₂ costs passed on to electricity consumers, such as the fertilizer sector.

Yara's recommendation: Maintain indirect emissions cost compensation post-2030 to support continued investments in electrification and low-carbon technologies.

- » Maintain the indirect emissions cost compensation post-2030 as suggested in the ETS revision proposal.
- » Keep the consistency between ETS, State aid rules, and CBAM design.
- » The fertilizer sector should remain included in the indirect cost compensation regime as established in the 2025 State aid guidelines.

6. International carbon credits and carbon removals

The revision proposal envisages stringent EU quality criteria for the limited use of international carbon credits to enhance liquidity on the ETS market, while ensuring environmental integrity and credibility. The approach prevents the use of such credits for compliance purposes.

In addition, the integration of carbon removals should not substitute emissions mitigation efforts but rather form part of the post 2030 policy toolbox to enhance market liquidity while providing additional flexibility for installations to address residual emissions and meet long term climate targets.

Yara's recommendation: Support the integration of carbon removals in the ETS and maintain a limited use of international credits under strict EU criteria.

- » The proposal to integrate high-quality and high-integrity international credits as well as domestic permanent carbon removal credits in the EU ETS should be maintained. The readjustment of LRF must be supported in the event of non-availability of high-quality, high-integrity and cost-effective international credits.
- » Maintain the revision proposal's approach on carbon removals, which improves ETS market liquidity and allows operators to compensate for their own emissions with Carbon Removal and Certification Framework (CRCF)-certified Bioenergy with Carbon Capture and Storage (BioCCS) removals that they generate themselves.



7. Maritime sector

The ETS revision proposal reinforces support for the transition to clean shipping by enlarging the scope of the framework to smaller vessels and establishing the Sustainable Maritime Alternative Propulsion (SMAP) mechanism. This mechanism reinvests ETS revenues in sustainable maritime fuels and clean propulsion technologies.

Yara's recommendation: Support a strengthened and coherent framework that ensures broad coverage and effective decarbonization incentives.

- » Maintain the extension of ETS to smaller vessels to avoid carbon leakage within the maritime value chain and to ensure a level playing field across ship segments.
- » Earmark a meaningful share of ETS revenues to accelerate maritime decarbonization, including scaling up low- and zero-emission fuels, port infrastructure, and enabling technologies.
- » Align with the ongoing work of the International Maritime Organization (IMO) to prevent double carbon costs for operators, while preserving environmental integrity and competitiveness.

For further information contact:

Tiffanie Stephani
VP Public Affairs EU
tiffanie.stephani@yara.com

Luc Haustermans
VP Corporate Affairs
luc.haustermans@yara.com

Yara's Transparency Register
ID-number:
68208004617-79

www.yara.com

September 2026

