CONSULTATION RESPONSE: LEGISLATIVE PROPOSAL ON CARBON REMOVALS IN THE EU EMISSIONS TRADING SYSTEM (EU ETS) – NOVEMBER 2026

Executive summary: The Commission proposal for EU ETS review marks a promising start for the co-legislative procedure

Overview of the Carbon Gap assessment of key provisions in the ETS proposal

	Summary
Praise	Carbon dioxide removal (CDR) is integrated indirectly through a purchasing programme funded mainly by polluters via earmarked ETS revenues.
	The proposal implies a 250 Mt CDR volume mandate.
	Financing plan: There is explicit recognition that CDR, especially in the early 2030s, will not be commercially viable and will need additional financing compared to revenues obtained by a one-to-one auctioning of EU Allowances (EUAs). Additional allowances earmarked for CDR and access to other funding and investment support (such as the Industrial Decarbonisation Bank and/or the Innovation Fund) within the proposal are crucial.
	Strong, principles-based considerations around what qualifies as an ETS eligible removal, and the restriction towards high-quality and proven high durability methods (namely bioenergy with carbon capture and storage (BioCCS) and direct air carbon capture and storage (DACCS)) that feature methodologies under the Carbon Removals and Carbon Farming Regulation (CRCF) that we deem compatible with the ETS logic concerning monitoring & liability. This makes them well suited to provide the flexibility needed to address residual, hard-to-abate fossil emissions covered by the EU ETS.
	A review of the chosen parameters for linkage between ETS and permanent CDR (pCDR), including considerations around a path towards more direct, operator-led integration as well as other market mechanisms around CDR compliance instruments, such as a removal compliance obligation. Given the substantial CDR volumes required in EU climate-neutrality scenarios, a 2034 review is well timed to provide certainty on post-2040 funding mechanisms.
More work needed	Delivering pCDR at scale from 2031 onward requires more work concerning funding and purchasing certainty in the years before. The delegated act on purchasing must allow and seek provisions to start offtake agreements by 2028 latest, whilst acknowledging the payment on delivery (2031-2040) provisions.
	Article 9c should legally mandate delivery of 250 Mt of CDR, not just the auctioning of 250 million allowances.
	Make the use of international credits conditional on the impact assessment and legal framework and ensure that their use does not deprioritise near-term development of domestic pCDR.
	Enshrine a more dynamic, but principles based framework for the assessment of eligible methods qualifying as pCDR. Integrity provisions for monitoring and liability must correspond to the logic of the EU ETS, as set out in Article 6 of the CRCF Regulation.
	Near term clarifications around eligibility and requirements concerning removal projects in EEA countries and pCDR projects in linked markets.
Cause for concern	An 85% net domestic target sharply increases allowance supply and gross emissions; the linear reduction factor (LRF) and Market Stability Reserve (MSR) need to maintain an ambitious climate trajectory.
	250 + 10 million allowances are likely inadequate to deliver 250 Mt of pCDR within the coming decade. An estimated EUR 20–40bn funding gap remains and must be addressed, e.g. by raising the allocation to at least 60 million allowances and prioritising CDR in other funding mechanisms, including Member State funding.
	The 2034 review needs corrective powers: extra funding, a mandatory action plan, a pause on further CDR-backed breathing space and, as a last resort, a tighter LRF. The 2034 review should not open the ETS to nature-based removals or carbon farming: their temporary storage cannot credibly offset fossil emissions.
	Returning unused CDR allowances to the market under Article 9c(3) could release up to 250 million allowances not balanced by CDR. This needs pause/cancel powers, regular reviews, a 250 Mt roadmap and adequate funding.

Context: The EU ETS 1 review is an important opportunity to be seized on for European carbon removals

The publication of the European Commission 2026/27 review of the EU ETS 1 is a **critical opportunity to create a large-scale demand signal for CDR in the EU**. As such, it must get a few things right.

Since 2021, the EU has repeatedly outlined that carbon removal at scale will play a role in achieving climate neutrality by 2050. As a result, important policy progress has been made focused primarily on governance and voluntary market development, with the CRCF as a flagship policy. **Yet for megatonne-scale removals to be realised in Europe,** policies that create reliable demand at scale are essential. In this context, ETS integration is a critical next step.

Purpose of this document

On 17 July, the Commission published an Impact Assessment and legislative proposal for the ETS review. The proposal covers a range of topics including scope expansion, changes to the cap and LRF, and new mechanisms for channelling ETS revenues. The proposal also assesses and lays out plans for the inclusion of carbon removals as a flexibility.

Whereas Carbon Gap has already delivered an initial reaction to the Commission's proposal in July (here), this document provides an updated assessment of the proposal as part of the open public consultation. With the proposal subject to negotiations between European Parliament and Member States, our updated assessment revisits some of the key positives and issues identified in our initial reaction. Whilst the overall assessment of the Commission's proposal remains positive for removals, our view of its ability to deliver on what we perceive to be the two key objectives for CDR integration in the ETS is more nuanced and **contingent on specific changes being made to the proposed text**.

Delivering on the twin objectives for integration: Scaling the CDR industry without undermining the reduction path

Any CDR integration process for the EU ETS should be designed to meet the twin objectives **of (1) introducing permanent carbon removals as a flexibility in line with the European Climate Law, whilst ensuring no adverse impacts of CDR on the effectiveness of the ETS** as the EU's central decarbonisation tool; and **(2) driving CDR to scale**.

To achieve Objective (1), the ETS needs an appropriately ambitious cap, safeguards against mitigation deterrence, and complementary support for investment in CDR projects. An ambitious cap means that the LRF and MSR should keep the ETS carbon budget aligned with European climate targets and sustain a strong carbon price signal to continue incentivising (planned) reductions and not rewarding climate laggards. It also means CDR should not be used to create extra "breathing space", but to instead target a portion of emissions that are expected to be harder to abate. Safeguards are essential so that where CDR under-delivers, the overall ETS target can still be achieved. Deployment support is needed to ensure CDR projects attract sufficient finance to be delivered at the scales needed so that net targets are not missed.

To achieve Objective (2), the integration needs to provide **predictable, bankable demand at scale**. Scale means demand should be on an order of magnitude relevant to expected ETS residual emissions. Predictability means there should be a well-defined overall market size and reliable price trajectory. Bankable demand means giving certainty that CDR will be purchased, rather than simply creating the option for it to be purchased. Additionally, demand must come in a timely fashion, frontloaded where possible, and should limit administrative complexity for CDR suppliers.

The most promising elements of the proposal

The legislative proposal published on 17 July could be truly groundbreaking for European CDR. CDR-relevant provisions are set out across Article 9c, Article 14(1a), and the recitals. Notable elements include:

- **Indirect integration** through a purchasing programme, funded mainly by polluters by earmarking ETS revenues.
- An (inferred) **volume** of 250 Mt.
- A **financing plan** for CDR. This includes the earmarking of 250 million allowances, supplemented by a further 10 million from the Union-wide quantity of allowances, plus access of certain removal projects to the Industrial Decarbonisation Bank and others to the Innovation Fund.
- A **focus on the most robust CDR methods** – namely "those removals for which reversals are subject to monitoring" (Recital 32), identified as BioCCS and DACCS.
- An **emerging vision for longer term market development**, including considerations around a carbon removal compliance system and assessments for a possible transition towards more direct, operator-led integration over time (Art. 9c(8)). These are important elements, alongside positing a role for novel mechanisms to pay for CDR beyond 2040 (Recital 31). We are also encouraged to see scope expansions, especially across aviation and waste incineration – sources of residual emissions that will increasingly rely on CDR towards 2050.

Taken together, these elements present a globally unique and promising signal for carbon removals. It positions Europe to become a leading CDR developer that is willing to invest in this critical, but still emerging industry at a time when it is most needed. If and when such policy leadership is accompanied by further support and planning for CDR beyond the EU ETS and beyond the 2040 time horizon, Europe is best positioned to reap the welfare benefits associated with the development and deployment of a critical future industry.

Areas where more work is needed

On CDR, the initial elements put forward in the proposal are promising, but there are several areas where **more work is needed**.

Ensuring bankable purchasing principles and modalities

Secondary legislation is to be prepared setting out the modalities for CDR purchasing. How these rules are designed will determine whether projects can secure financing: long-term offtake agreements for defined future volumes give developers and investors the revenue certainty needed to reach final investment decision on capital-intensive BioCCS and DACCS projects, whereas short-term or spot purchasing would leave that risk unaddressed.

The Commission's procurement design must balance cost-effectiveness, portfolio diversity and a fair geographic spread of investment. However, over-engineering the criteria would unduly restrict the Commission's choices, so we support settling detailed purchasing modalities in secondary legislation. But to secure the best value for the Commission's investment, the proposal should be improved in four ways.

a) First, it should **set a deadline for proposing the delegated act**, for example 6 months after entry into force, so that long-term purchase agreements can be awarded prior to 2029, with payments still made on delivery (within the 2031-2040 period).

b) Second, it should **enable long-term offtake agreements for defined future volumes**. While upholding payment on delivery, the Commission should enable contracts to be signed in the 2020s so that deliveries can begin by 2031. Given project lead times of at least three years from inception to first delivery, offtake contracting should start as soon as the purchasing delegated act is adopted.

c) Third, we stress the importance of **defining and guaranteeing an approach to deliveries after 2040**, to match the economic lifetime of BioCCS and DACCS projects and the precedents set by the Swedish, Danish and German schemes. These projects typically amortise investment over plant lifetimes of more than 20 years. Truncating demand in 2040 would undermine the investability of these projects. While we recognise that the current mandate ends in 2040, Recital 31 must signal the longer-term need for carbon removals, and the provisions required, in line with the climate neutrality objective.

d) Fourth, it should **support all eligible methods from the outset**. This follows the scientific consensus that the achievement of the foreseen pCDR volumes requires more than one pathway scaling well before 2040.[1] Therefore, diversity within eligible methods should be informing purchases alongside cost-efficiency.

Enshrining the net target as a Commission mandate

- The proposal commits to auctioning 250 million EUAs but stops short of a clear mandate to deliver 250 Mt of CDR. Because the gross cap is increased from the outset, this amounts to mitigation deterrence if the increase is not matched by CDR actually delivered. Financing CDR does not by itself secure the 85% net goal; only delivered removals do. Article 9c should thus be revised to **provide a legal mandate for a specific CDR amount to be delivered**.

International credits

- On international credits, the Commission's proposal by default uses the full five percentage points of international-credit flexibility that the Climate Law, adopted in spring, left optional. It does so before any impact assessment on international credits has been published and before the legal framework governing them exists. Furthermore, the Impact Assessment for the ETS review also assumes international pCDR by default, without testing the assumption that recurring investments in international credits will be cheaper than (partially one off) domestic investments.
- The proposal also **creates an inconsistency on quality**. Domestic removals are limited to DACCS and BioCCS, but the proposal is silent on whether comparable criteria apply to international removal credits. For example, enhanced rock weathering is currently excluded if carried out in Germany, but could qualify for the same EU market if deployed in Canada. This creates incentives to offshore CDR activity and undermines Europe's innovation ecosystem. To correct this imbalance, the Commission should set out in good time which other EU policies will drive deployment of CDR methods not covered by the EU ETS.
- Ensuring that **EEA countries such as Iceland and Norway are eligible to sell CDR credits** for use in the EU ETS without facing barriers in light of the UNFCCC Article 6 frameworks should be clarified as soon as possible, since these two countries represent a significant part of current and potential future European CDR capacity that have benefitted from European investments and subsidies to come online.
- We think the proposal could be improved in three ways.
    1) First, the use of international credits should be **made conditional on the impact assessment, the underlying legal framework and their proven availability** via the 2033 review report on international credits, rather than fixed in advance. This would allow the domestic LRF to be adjusted in line with the volume of high-integrity international credits that can reasonably be expected.
    2) Second, international credits, including removals, should seek to **converge towards the quality thresholds** equivalent to those required for domestic removals, especially concerning monitoring and long-term liability. A dedicated share of high-quality and high integrity carbon removals could be enshrined within the international credit's portfolio from the start, as is e.g. described in similar frameworks currently explored within voluntary carbon markets[2].
    3) Third, there should be explicit safeguards included that stress that the engagements on international carbon markets do not undermine the development of domestic carbon removals. We suggest following a **mitigation hierarchy** that prioritises the following activities in the following order: 1) Domestic emission reductions, 2) domestic removals, 3) International credits.

Carbon removal methods that are compatible with the ETS logic

- To ensure the EU ETS has clear rules on the eligible pCDR methods over time, the Commission is encouraged to explicitly present criteria that need to be met for (future) removals inclusion within the EU ETS. This could be achieved via an empowerment to adopt delegated acts setting out the conditions under which removal methods are deemed eligible, or the reference to existing frameworks focussing on the quality criteria for removals. As the CRCF was designed for the voluntary market, its suitability as a quality benchmark for compliance markets should first be assessed and, where needed, clarified. Nevertheless, its strong alignments with the logic of the CCS Directive and secondary legislation concerning carbon that is permanently bound within products entailed within Article 6 make for promising outlooks. Unfortunately however, Carbon Gap sees issues in the way these principles have been translated towards the methodology for biochar. For the same reasons, **carbon farming methods certified under the CRCF as temporary storage should not be considered for ETS eligibility**, including at the 2034 review.
- Therefore, **we agree with the current restriction to BioCCS and DACCS for the initial period** but would hope to be able to refer to the CRCF and/or similar frameworks that make for a high-quality and high-integrity eligibility benchmark that allows for a more dynamic inclusion of novel pathways over time.
- The safeguards should deliver a level of environmental integrity and enforceability equivalent to geological storage under the CCS Directive, while remaining proportionate to each method's storage mechanism and risk profile. To keep pace with the evidence, we see benefits with higher degrees of interoperability between European quality requirements. In line with the more dynamic nature of the CRCF, the list of eligible methods for the EU ETS should be dynamically assessed. In doing so, the Commission is encouraged to draw on technological developments, new scientific evidence and practical experience from deployment that could become enshrined within certification methodologies approved under the CRCF.

[1] https://www.nature.com/articles/s41467-026-72691-3#Tab1

2 See for example the ongoing emissions responsibility framework presented by SBTi. Within the mandatory requirement to engage on carbon markets from 2035 onwards, SBTi is earmarking an increasing share of those activities to stem from permanent CDR.

Causes for concern

CDR integration comes at a time of much wider change to the EU ETS, with a focus on "breathing space", "flexibility" and a general need to ensure European competitiveness considering geopolitical struggles and a backlash on climate policies more broadly. A few aspects within the EU ETS review proposal stand out as concerning nevertheless:

- Regarding **overall ETS ambition**, the proposal targets an 85% net (domestic) reduction for the ETS. This approach will dramatically increase allowance supply, and thus gross emissions, relative to the Fit for 55 baseline, despite the current oversupply in the ETS.[3] A stronger LRF and MSR are needed to ensure ETS sectors contribute fairly. Changes to the course set for Climate neutrality by 2050 and a more relaxed 2040 climate ambition will furthermore penalise climate frontrunners and their investments, to the benefit of climate laggards.
- The proposal foresees that the 2034 review will assess the possible inclusion of nature-based removals and carbon farming in the ETS. **We caution against this.** Carbon stored in soils and biomass is vulnerable to reversal from drought, fire or land-use change, and cannot be monitored or held liable over the timescales relevant to fossil CO_2 emissions; the CRCF itself treats carbon farming as temporary storage. Using such credits to offset ETS emissions would weaken the cap and amount to mitigation deterrence, contrary to Objective (1). Carbon farming has an important role in the EU's climate architecture, but should be supported through the LULUCF Regulation, the Common Agricultural Policy and the voluntary market, not ETS compliance. The 2034 review should instead focus on additional pCDR methods with storage durability, monitoring and liability equivalent to geological storage.

- The proposal integrates CDR but **does not provide protection against the risk of CDR under-delivery**. The net cap setup could allow for maintaining the overall environmental integrity of the reviewed ETS, provided that the necessary volumes of CDR can be delivered in full, and on time. That makes the mechanics of how the Commission funds and procures the 250 Mt of pCDR critical to get right, to avoid undermining the net ETS cap. Otherwise, ETS sectors could emit more than expected if CDR projects fail or get delayed, for example due to inadequate financing, putting the entire ETS net reduction target by 2040 at risk. Two measures are therefore essential:
    1) **Ensure funding levels are commensurate with expected CDR deployment.** While the proposal allocates 10 million allowances to bridge the price gap, this figure is based on highly optimistic price assumptions and **several studies have found it to be inadequate**.[4] The gap has been estimated to range between EUR 20–40bn between 2031 and 2040, so additional funding is urgently needed to secure full delivery of the required CDR volumes. An increase of the allowances made available to bridge the price gap to 60 million allowances would be an important first step, with additional allowances to be allocated as necessary to deliver on the 250 Mt CDR target volume by 2040. Such increases in extra allowances could be made part of the existing review clause for 2034. The Commission should also **designate CDR as a priority sector** for funding instruments such as the Industrial Decarbonisation Bank and the Investment Booster, as well as for the use of Member State revenues to further shrink the funding gap and ensure delivery. To maximise the added value of these diverse funding streams, the final ETS text should explicitly enable the "stacking" of various revenue streams to enable projects to combine them as part of reaching Final Investment Decision (FID). Further clarity is also needed on which party may claim the removals where, for example, both the Commission and a Member State have supported the same supplier or volume of credits.
    2) **Introduce safeguards against slow CDR development.** As part of the 2034 review of domestic CDR, the Commission should address potential under-delivery of CDR credits. Actions to be taken by the Commission should include:
        - allocating additional allowances to bridge the potential funding gap to raise CDRs on offer;
        - reprioritising and frontloading the delivery of mature CDR projects eligible for funding under the Industrial Decarbonisation Bank and from Member State funding;
        - pausing the addition of further CDR-backed breathing space until delivered removals catch up, so that allowances are not released without corresponding tonnes;
        - adjusting procurement parameters, such as contract length, volume tranches and price levels, where these prove to be a barrier to project financing;
        - presenting a mandatory corrective action plan within a fixed period (for example 6–12 months) if delivery falls below a set trajectory; and
        - as a last resort, if none of the above can address the situation, empowering the Commission to increase the stringency of the LRF if the CDR market is too slow to develop (e.g. because of insufficient funding). This would mirror the approach for international credits.
- Article 9c(3) risks amplifying these mitigation deterrence issues. The Article suggests that allowances set aside to fund CDR shall be returned to the wider pool if they are not auctioned for the purposes of CDR. Such a measure would **release up to 250 million additional allowances into the market with no balancing by CDR**, increasing cumulative emissions and putting the achievement of the EU 2040 climate target at risk. The gradual integration clause in Article 9c(4) already helps manage this. Because it concentrates most of the additional breathing space after 2034, it limits the risk of mitigation deterrence: internal Carbon Management Europe analysis suggests fewer than 50 Mt could have been added by then. However, this safeguard is only as strong as the 2034 review.

[3] Recent analysis by thinktank Sandbag suggests the EU ETS ended 2025 with a total surplus worth two years of emissions, and that proposed changes to the LRF and MSR are likely to sustain this effect.
[4] Agora (2026): From pricing carbon to boosting investment - Why the EU ETS reform matters
Isometric (2026): Closing the EU ETS 20 Billion Euro funding gap

- To make the gradual integration clause more effective, the proposal should be improved in four ways. First, it should explicitly empower the Commission to **pause or cancel** further CDR-backed allowances if removals under-deliver and set out clearly what action it can and cannot take. Second, it should replace a single 2034 go/no-go moment with **regular reviews**, so course corrections can happen gradually and predictably. Third, the Commission should publish **a roadmap** setting out how it plans to reach 250 Mt. Fourth, the mechanism should be adequately funded, considering expected contributions from the Industrial Decarbonisation Bank and the Innovation Fund as well as the allowances themselves.