LSEG Carbon Research

EU ETS 2026 Review

What We Expect

Introduction

The European Union Emissions Trading System (EU ETS) is reviewed and adjusted every few years, prompted by a deadline set in the previous review or broader policy needs. The informally termed '2026 EU ETS review' has been prompted by a mix of both motivations: some formal review deadlines on certain sub-sections of the EU ETS Directive and a need to review the complete system in response to the EU's heavily-debated 2040 carbon target.

The review will also act as the primary checkpoint ahead of the transition to Phase V of the EU ETS which begins in 2031. The previous EU ETS review in 2021 was launched in response to a pair of policy events: 1) the European Green Deal in 2019, where the EU politically committed to net zero by 2050 and 2) the adoption of this agreement into European Climate Law in 2021. Subsequently, the 2021 EU ETS review kicked off later that year with agreed changes entering into force in 2023 as part of the EU's "Fit for 55" package.

The EU ETS 2026 review aims to meet the following objectives:

1. **Assessment for previous reforms**
2. **Preparation for Phase V**
3. **Alignment with new climate targets**
4. **Interactions with other climate policies**

Preparations from the EU Commission on the EU ETS 2026 review were formally kicked off in early 2025 and will eventually conclude with a 'legislative proposal' presented by the EU Commission at the end of Q3 of 2026 according to a recent communication. The proposal will then be negotiated over the following months or years (see our estimated timeline for more detail) before adoption and eventual launch.

Decisions to be Addressed in 2026

The 2026 Review is set to make 17 decisions across 10 areas of the EU ETS. The Commission may propose revisions beyond those mentioned below; however, these are the key areas laid out in the outline of the evaluation or the legislated article evaluation deadlines mandated in the EU ETS directive.

1. **Aviation**
   - Decision 1: Whether to treat extra-EU flights under CORSIA or EU ETS?
   - Decision 2: Should flights to islands, remote areas and the EU's outermost regions (OMRs) be brought into scope?
2. **Maritime**
   - Decision 1: How can we avoid a potential double burden in the event the IMO's NZF is adopted?
   - Decision 2: Should the scope be extended to include smaller ships, e.g. 500 - <5000 GT?
   - Decision 3: Is shipping evasion behavior a problem and how can it be addressed?
3. **Carbon Leakage**
   - Decision: What to do about free allocation to *non*-CBAM industrial sectors deemed at high risk of carbon leakage?
4. **The Market Stability Reserve (MSR)**
   - Decision: Review the parameters of the reserve (intake and release rates, thresholds and treatment of invalidated allowances).
5. **Non-Permanent CCU**
   - Decision 1: How should the ETS account for non-permanent CCU?
   - Decision 2: Should the ETS provide a concession for non-permanent CCU, who benefits?
6. **Permanent Domestic Carbon Removals**
   - Decision: Whether to include *domestic permanent carbon removals* in the EU ETS.

7. **Small thermal Installations (>20 MW)**
    - Decision: Should small commercial thermal installations (<20MW) be included in EU ETS 1 or EU ETS 2?
8. **Municipal Waste Incineration (MWI)**
    - Decision: Should municipal waste incineration be included in theh EU ETS from 2028?
9. **Linking with Other Carbon Markets**
    - Decision: If and how to forge links between the EU ETS and other international carbon markets.
10. **Other**
    - Decision: Cap Trajectory after 2023 and "end of the EU ETS."

LSEG Carbon Research has combined the insights from the political assessment and provisional timeline (see below), as well as industry feedback in order to provide reasoned predictions for the outcome of each decision of the EU 2026 review and the impact to the supply and demand balance of the EU ETS.

Given the vast amount of industry feedback, we conducted a dual quantitative and qualitative evaluation to capture the full breadth of insight by subject and decision. For the **qualitative** approach, we selected two to three institutions with the most authority or proximity to a given subject area and fully summarized their thoughts and suggestions. For the **quantitate** approach, we used natural language processing (NLP) to aggregate common suggestions into categories and quantify the support for each.

For a copy of the **full and unredacted report**, which includes a complete and thorough analysis on feedback by subject area and by decision, please reach out to market.response@lseg.com.

Comparing Political Contexts: 2021 and 2026

The political landscape surrounding the 2026 EU ETS Review differs markedly from that seen during the 2021 review. In the aftermath of the 2019 European Parliamentary Elections, climate policy became a greater priority, with significant support for parties like the EU Green Party and Renew Europe, which advocated for stringent environmental regulations aligned with the European Green Deal. This culminated in the Fit for 55 package, which set a legally binding target to reduce greenhouse gas emissions by 55% by 2030. COP 26 in Glasgow further solidified this commitment, with the EU reaffirming its dedication to the Paris Agreement and securing additional climate finance for 2027.

However, in 2025, the EU's political priorities have shifted. Geopolitical tensions—in particular the Russian invasion of Ukraine and ongoing conflict in the Middle East—have redirected focus towards energy security and defence. Additionally, the re-election of Donald Trump and the US's revoked commitment to the Paris Agreement has thrown new uncertainties into global climate cooperation and affected the balance of international leadership on climate action.

Governing the EU ETS

The 2026 EU ETS Review faces a more challenging political environment, with diminished momentum for stringent climate action compared to the 2021 review. LSEG Carbon Research has built a **Climate Voting Index (see below)** to visualize and demonstrate the degree to which oppositional voices have grown in the European Parliament in the past five years.

For a copy of the **full and unredacted report**, which includes the LSEG Climate Voting Index methodology and a full analysis of the current voting trajectory in the EU Parliament, please reach out to market.response@lseg.com.

1. **EU Parliament:** Climate Voting Index to assess climate leniency / cohesion. Taking into consideration European Political Family manifesto commitments, voting history on major pieces of climate policy legislation (e.g. Fit for 55), and rates of voting unity within political blocks.
2. **EU Council:** Qualitative assessment of overall landscape + specific priorities of the rotating Council presidency.
3. **EU Commission:** Not part of political / climate leniency assessment as intended to be more objective. Constraints will differ by decision, addressed in 'LSEG Predictions for Decision Outcomes' chapter.

LSEG's Climate Voting Index

LSEG Carbon Research's **Climate Voting Index** provides a structured way to assess how political families in the European Parliament align with the EU's climate policy. It is designed to highlight not only what parties say, but also how they act, how cohesive they are, and how they position themselves in relation to the EU's climate leadership. The Index combines four complementary indicators into a single ranking framework:

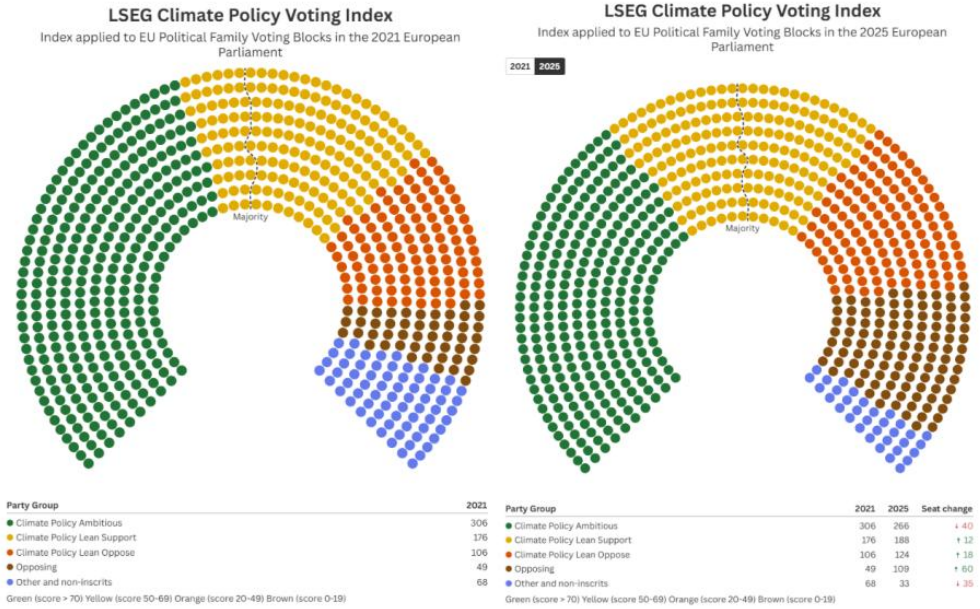
1. Voting Record on Climate Legislation
2. Manifesto Commitments
3. Support for Current Commission President
4. Unity Factor

The LSEG Carbon Research Team looks at these four factors in the Climate Voting Index and applies a numeric value between 0-10 on a qualitative-to-quantitative scale ranging from highly supportive/ambitious to opposing/obstructive.

The initial Climate Voting Index then produces an unweighted score between 0-40, after which we calculate a weighted product between 0-100 which take into consideration the four relevant metrics and their relative weights, given their significance in progressing climate legislative files in the EU Parliament. The results are then grouped into 5 categories:

- Climate Policy Ambitious
- Climate Policy Lean Support
- Climate Policy Lean Oppose
- Opposing (0-19 points)
- Other and Non-inscrits –> for MEPs that are not part of a larger EU Political family.

The LSEG Climate Voting Index is not applied to the EU Council in the index's current form because the Council does not operate through public, individual, or party-based voting in the same way the European Parliament does. Council decisions are the result of closed-door negotiations and diplomatic efforts between national governments.



The political momentum across the EU is clearly **moving away** from the "Climate Policy Ambitious" faction of the European Parliament and towards prioritization of concerns over European competitiveness and the pressing economic and security problems. In the context of the 2026 EU ETS Review, these results suggest that although there could be some structural tightening on the ten specific policy items listed above, the political math will be more challenging to further tighten the policy screws in 2026 than in 2021.

Climate ambitious policy makers in the Parliament decreased in their relative strength from their position of 43.4% of the EU Parliament in 2021 down to 36.94% in the aftermath of the 2025 European Parliamentary election—including the increase in seats in the parliament from 705 in 2021 to 720 in 2025. The biggest winners between these two electoral periods are MEPs indexed as "opposing," who have increased their relative share in the parliament from 6.9% in 2021 to 15.14% in 2025. Notably, the two opposing categories —"Climate Policy Lean Oppose" and "Opposing"—have collectively increased their relative strength in the parliament from 21.98% in 2021 to 32.36% in 2025.

Assessing the European Council Rotating Presidency

The Council's political makeup is an essential component in determining what legislation is ultimately adopted within EU Climate Law, and it can change rapidly due to the staggered nature of nation state elections. The EU is chaired by two presidents: one permanent, one rotating. The rotating presidency is held by a particular EU member state (typically, their head of government or state) and is an important political position within the EU governing framework as **it sets agendas, chairs negotiations, and brokers compromises between member states.**

EU Council Rotating Presidencies throughout the 2026 Review

Country	Timeline
Denmark	Jul-Dec 2025
Cyprus	Jan-Jun 2026
Ireland	Jul-Dec 2026
Lithuania	Jan-Jun 2027
Greece	Jul-Dec 2027
Italy	Jan-Jun 2028

For a more thorough review of the upcoming EU rotating presidencies and an analysis of their possible impact on the 2026 EU ETS report, please reach out to market.response@lseg.com for the **full and unredacted report**.

Other Political Considerations:

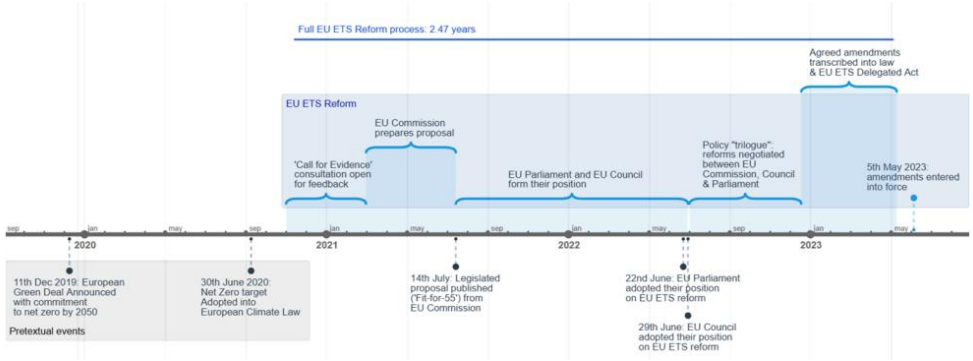
- Political bargaining will likely be framed by security and cost-of-living pressures.
- International dynamics will impact the degree of ambition—COP and US/EU coordination matter.

2026 Review Timeline: LSEG Expectation

To build a hypothetical timeline of events, LSEG Carbon Research took a look at the previous timeline of the 2021 EU ETS review and adapted it to the present-day, with amendments to reflect the current policy climate and calendar events. In conclusion, we view that changes from the 2026 EU ETS Review could be proposed, negotiated, agreed and into force as early as July 2028.

Timeline for the 2021 EU ETS Review (leading to the 2023 'Fit for 55' reforms)

Full process took 2.47 years from launch of EU Commission consultation to agreed reforms entering into force.



Source: LSEG Carbon Research, created with Time Graphics

Proposed timeline for the 2026 EU ETS review and subsequent reforms

In our baseline scenario, the EU ETS 2026 process takes approximately 3.2 years from May 2025. Despite being longer than the previous 2021 review, this is optimistic on negotiating times. The lengthier timeline overall is due the EU Commission kicking off the official consultation well in advance of their proposal.

For a detailed breakdown of the assumptions behind the 2026 baseline scenario timeline, LSEG Carbon Research has provided a detailed image and a tabular version with analysis in the **full and unredacted** version of this report. For a copy, please reach out to market.response@lseg.com.

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