

EU ETS Outlook: Carbon Prices, Competitiveness and Investment

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The question this session answers

Should an industrial operator commit capital to decarbonisation now, and can its free allowances help pay for it?

WHY NOW

The rules changed in July

From 2031, free allocation is issued only against a verified decarbonisation plan. That plan must be filed in 2029. The funding rules are being written this quarter.

WHAT I WILL COVER

Price, then consequence

Where prices go, why the price is not the deciding factor for industry, what changed on 17 July, and where the capital actually comes from.

WHAT THIS IS NOT

Not a trading view

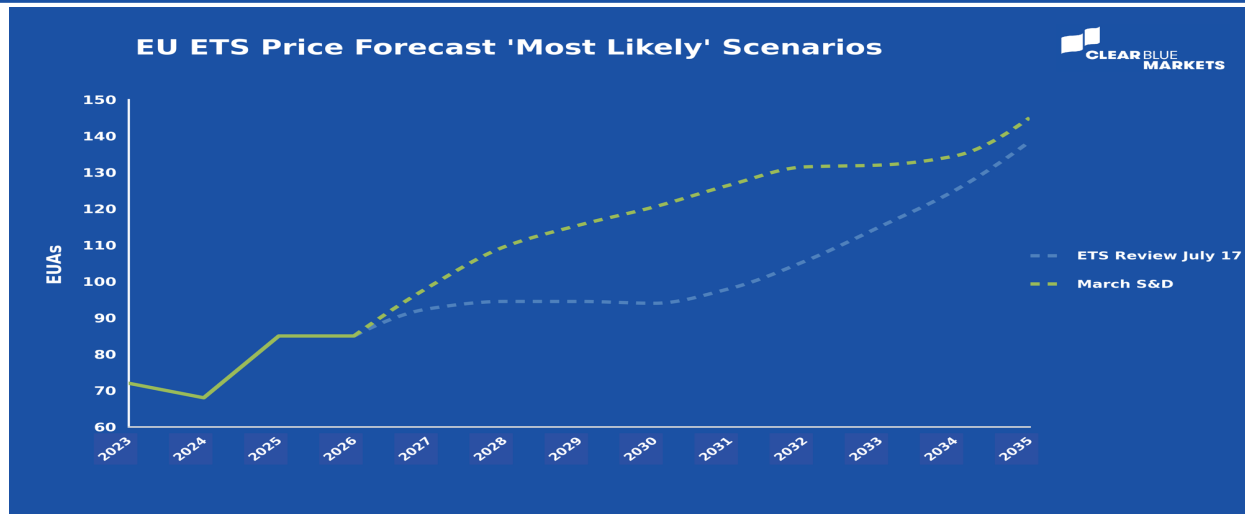
This is a strategy lens for procurement, finance, and operations teams. Direction and mechanism, not a price call for next quarter.

01

The price, and what it cannot do

Five flat years, then a climb. Neither solves your problem.

The balance loosens to 2030, then re-tightens



+80 Mt

Revised heat and fuel benchmarks, 2026 to 2030, delivered retroactively

+60 Mt/yr

Our working assumption for Investment Booster supply, 2028 to 2030

-14 Mt/yr

Slower cap decline from 2031: 76 Mt a year instead of 90 Mt

ClearBlue Markets, July 17 scenario against current legislation extended into phase five. The Market Stability Reserve is expected to stop absorbing surplus after 2028.

The price will not fund your transition

About EUR 213 per tonne is the level that makes three quarters of Europe's remaining abatement commercially viable. No credible forecast reaches it this decade or the next.

EUR 95

Price through 2030

Delivers 55 to 60 percent of available abatement, mostly outside heavy industry

EUR 139

Price in 2035

Still well below the level at which industrial measures break even

EUR 213

Price required

To make 75 percent of remaining abatement pay for itself

Marginal abatement cost curve for the EU-27, 128 measures, EPICO and Forschungsstelle fuer Energiewirtschaft, August 2026. Full abatement would require over EUR 1,000 per tonne.

02

What changed on 17 July

Free allowances become investment allowances

Free allowances become investment allowances

1 · THE RULE

Plan filed 2029, allocation from 2031

- Free allocation issued only against an approved, published decarbonisation plan.
- 80 percent released annually once the plan is approved.
- 20 percent released only on delivery, verified at period end.

2 · WITHOUT A PLAN

The allocation is simply not issued

- No plan means no allocation at the affected sites.
- The 20 percent is all or nothing, not pro-rated.
- Relocation outside the European Union triggers claw-back of the value.

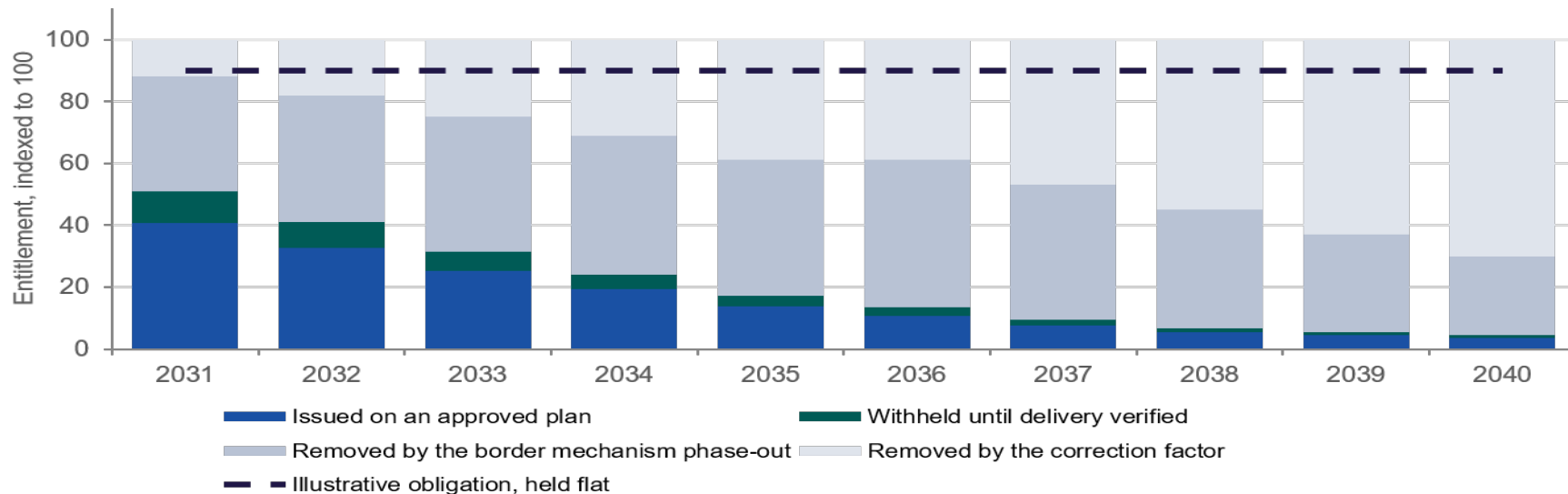
3 · WITH A PLAN

It is a spending test, not an ambition test

- Eligible capital and operating spend must at least match the value of the allocation.
- Investment you were already making counts toward the test.
- Secured public funding releases the 20 percent early.

Exempt from the plan and the spending test: the 10 percent most efficient installations, low and zero carbon sites, and any site running an EU-funded decarbonisation project.

The volume shrinks whatever your benchmark



The whole bar is what your benchmark entitles you to. Only the dark blue arrives on a plan. Only dark blue plus green arrives if you deliver.

Correction factor path as briefed by the European Commission to Member States, September 2026. Border mechanism phase-out shown illustratively, reaching 15 percent of allocation retained by 2038. Obligation held flat to isolate the allocation effect. | ClearBlue Markets

Is this really going to happen?

A proposal, not law. Council targets a position in December and agreement in the first quarter of 2027. Three blocs are pulling in different directions.

Already in force

Benchmarks tighten and the cap declines every year under current law. Allocation trends toward zero regardless of the proposal.

The pull is not one way

Poland and nine others want a much slower cap. Sweden, Spain, and the Netherlands want it tighter. Germany and France back the text.

The exposure is asymmetric

Preparing costs a feasibility budget. Not preparing, if the rules land as drafted, costs the allocation. Worth pricing both.

Know the fallback

If nothing is agreed, current law applies: a 4.4 percent cap decline and free allocation for exposed sectors ending in 2034.

03

Where the capital comes from

Capital expenditure is the constraint, not the carbon price

Everything on offer covers about half

EUR 300 to 400bn

What industry must invest

For sectors in the EU ETS to meet the 2040 target

EUR 140bn

Triggered by conditionality

The Commission's own estimate of investment the new rules unlock

EUR 130bn

From EU funding

Industrial Decarbonisation Bank across both phases to 2040

Delivery matters as much as budget: of 208 Innovation Fund projects with signed grant agreements, 16 were operating by mid-2025.

Treat announced EU funding as an option with a low exercise rate and a long lag, not as committed capital.

Where the money for industry actually sits

Member States collect the auction revenue. How much of it reaches industrial capital expenditure is the single largest open question in the reform.

100 percent of auction revenue

Must be spent on climate purposes. Current approach maintained.

At least 50 percent on priority uses

Shared with grids, renewables, storage, clean tech, aviation, and maritime.

20 to 30 percent ring-fenced for hard-to-abate industry

Parliament amendment under negotiation. Not in the Commission text.

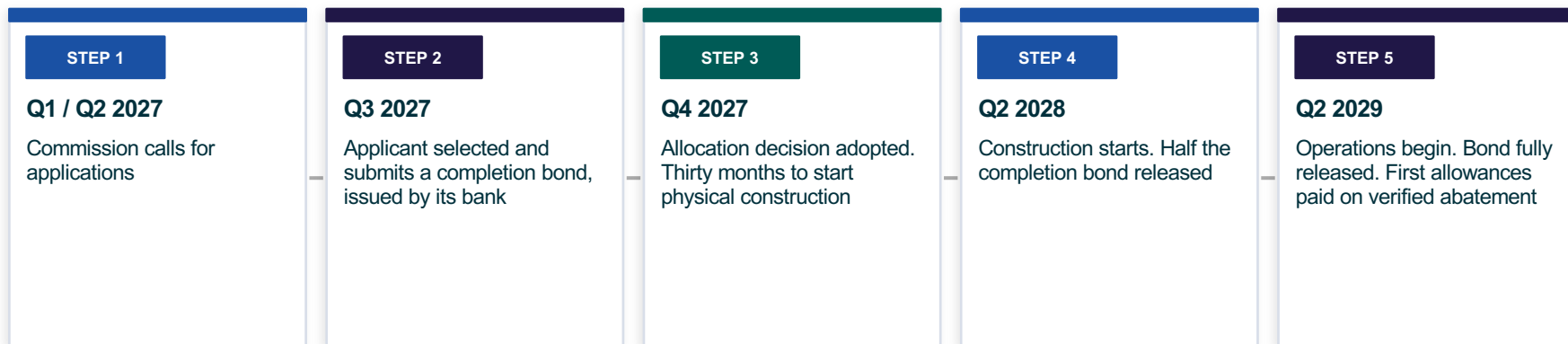
About 5 percent today

Share of national auction revenue currently reaching industrial decarbonisation.

The gap between the third bar and the fourth is where your capital expenditure case is won or lost.

The funding window opens in 2027

Illustrative path for a company applying to the Investment Booster. First come, first served: the call for applications is expected in the first half of 2027.



Preparation happens in 2026. Applications land in 2027. Money moves from 2029. Being ready is the selection criterion.

Illustrative sequence based on the proposal as drafted. On current Commission figures the free allocation buffer is fully committed, so the 400 million allowances are expected to come from the New Entrants Reserve, which holds roughly 500 million.

04

The comparison your teams should run

Two pathways, twenty years, one decision

The comparison we see industrials running

	No investment programme	With an investment programme
Free allocation after 2031	Not issued at the affected sites	Continues against an approved plan
The withheld 20 percent	Forfeited in full	Released on delivery, earlier if funded
Access to public funding	No project, no eligibility	Eligible, and exempt from the plan test
Surplus allowances	A shrinking asset you consume	A funding source for the build
Carbon cost from 2035	Full exposure at a rising price	Lower volume, lower exposure
Position in 2045	Full carbon cost, no allocation, no funding	Reduced cost, allocation retained, funding drawn

Two mechanical effects worth noting: the investment itself creates the qualifying spend, and surplus allowances can be monetised to help fund it.

Framework for comparison. The values are company-specific and depend on site portfolio, benchmark position, and project pipeline.

Four things to take away

1

The near-term balance loosened, the long-term one did not

Roughly EUR 95 through 2030, EUR 139 by 2035, against about EUR 213 to make industrial measures pay.

2

Free allocation is now matched funding

From 2031 it is issued against a plan filed in 2029, and one fifth depends on delivery.

3

Volume falls whatever your benchmark

88 percent of entitlement in 2031, 30 percent by 2040, applied to everyone equally.

4

The capital, not the carbon, is the constraint

Everything on offer covers about half the requirement, and the rules are being written now.

What we see companies doing now

01

Valuing the conditional allocation

Free allocation to 2040 on the correction factor path, with the equivalent amount carried as a capital commitment.

This quarter

02

Testing exemptions and qualifying spend

Top decile, low carbon site, or an EU-funded project sits outside the test. Capital already planned counts toward it.

This quarter

03

Engaging while the rules are drafted

The Investment Booster consultation is open format in October, and the eligibility criteria decide who is ever paid.

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THANK YOU, Q&A

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