



EU Emissions Trading System 2026 Review

Ammonia Europe's Position

The European Emissions Trading System (ETS) 2026 review presents an opportunity to recalibrate the instrument in a way that strengthens European industrial competitiveness and the clean energy transition.

Ammonia is a critical molecule in this transition whose domestic production is strategic for:

- Food security: Ammonia is the precursor to mineral nitrogen fertilisers. European food production capacity is dependent on domestic ammonia supply.
- Chemical manufacturing security: Ammonia is a fundamental chemical building block for pharmaceuticals, plastics, resins, explosives and refrigerants.
- Energy security: Ammonia is emerging as one of the most promising hydrogen carriers for the decarbonisation transition and it can be used directly as a clean fuel for shipping and power generation.

For stationary installations, the current ETS design and high energy costs are creating compounding pressures on ammonia production and an accelerated risk of carbon leakage. For the maritime sector, where ammonia can be a clean fuel, the ETS should go further to prevent circumvention and boost decarbonisation. The ammonia sector is committed to decarbonisation and recognises carbon pricing as a legitimate and necessary tool, but the EU ETS instrument, in combination with the Carbon Border Adjustment Mechanism (CBAM), must be designed with consistency, recognising the importance of European industrial capacity while actively supporting European ammonia capacity to decarbonise both industry and the maritime sector.

Ammonia Europe believes that for the ETS 2026 review the following should be addressed in two sectors: stationary installations, the existing value chain for ammonia production; and the maritime sector, where ammonia is emerging as a decarbonised fuel and consider these asks as complimentary to the support and reprieve needed for continued Europe production of this critical molecule, as identified by the Critical Chemical Alliance.



Key Policy Asks

Stationary Installations

- Slow the Linear Reduction Factor (LRF) to prevent EU Allowance exhaustion before 2040
- Implement more gradually the reduction of free allowances pending commercially viable decarbonisation pathways and force majeure protections, and in parallel the CBAM factor should also be applied more gradually
- Reform the Market Stability Reserve (MSR) to include a crisis response mechanism with pre-agreed triggers for additional allowance release
- Increase the availability of funds and make the link more direct between ETS revenues for industrial installation's decarbonisation
- Encourage greater application and consistency of indirect carbon cost compensation for the ammonia sector
- Ensure the ETS framework allows for further carbon capture and storage (CCS) and carbon capture and utilisation (CCU) deployment
- Further incentivise domestic decarbonisation by 'ETS credits' for proven measures taken to reduce GHG emissions thereby doubling the positive effect

Maritime Sector

- Extend maritime ETS coverage to vessels in the 400–5,000 GT range
- Assess measures to prevent EU ETS circumvention by “port evasion”
- Direct maritime ETS revenues to fund alternative fuels' port bunkering infrastructure, demonstration projects, and crew training with ammonia recognised as a priority frontrunner fuel
- Reassess the feasibility of including Nitrous Oxide (N₂O) emissions in the scope of the maritime ETS emissions via a thorough impact assessment



Section 1: Stationary Installations

Linear Reduction Factor

The current Linear Reduction Factor (LRF) trajectory will exhaust all available EU Allowances (EUAs) before 2040. This is particularly problematic for the ammonia sector, where process emissions for existing brownfield sites are technically very difficult to eliminate without access to green hydrogen at scale, which is currently not building up fast enough¹. The ammonia sector requires a credible supply of EUAs to bridge the period until decarbonisation technologies are commercially available. Consequently, a softening of the LRF so that EUA supply is not exhausted before 2040 is necessary. Alternatively, slow or freeze the LRF trajectory contingent on demonstrated availability, access and affordability of renewable energy.

Furthermore, we believe that the current trajectory is inconsistent with the CBAM, which, as designed, does not have an end date, yet ETS allocation does. This creates an asymmetry where European producers will no longer have any carbon allowances while importers can pay the CBAM levy indefinitely. Additionally, while the primary focus should remain on ensuring a workable EUA supply trajectory for industry, limited use of high-integrity international carbon credits could be explored as a supplementary tool to alleviate carbon cost pressure, provided such mechanisms are subject to robust verification standards, aligned with EU climate objectives, and designed to avoid carbon leakage and competitive distortions affecting European producers.

Free Allowances

The phase-out of free allowances under the current ETS framework is proceeding on a schedule that is insufficiently linked to the availability of commercially viable decarbonisation pathways for the ammonia sector. The 2026 review should consider a more gradual phase out of free allowances to prevent shutdown or relocation from continued carbon price shocks following force majeure events.

In addition, free allowances serve an essential function that CBAM alone cannot fully replicate. In this regard, the CBAM factor should be adapted accordingly i.e. by introduction at a more gradual pace for a longer time, so that free allowances can continue functioning as a carbon leakage protection measure. Further, until CBAM is fully tested, free allowances remain

¹ "The Commission set unrealistic hydrogen production and import targets - the EU is not on track for achieving them" - European Court of Auditors Special report 11/2024: The EU's industrial policy on renewable hydrogen



the more robust protection mechanism and their reduction should be deferred until CBAM has been in full operation for a sufficient period to demonstrate its effectiveness in neutralising carbon leakage risk. To that end, there should also be no downstream CBAM Extension to other sectors until such demonstrated effectiveness and the revision should investigate the possibility to compensate for non-CBAM sectors whose EU production is subject to ETS and CBAM import sensitivities, through EU or national mechanisms.

Market Stability Reserve

The Market Stability Reserve (MSR) was designed to address imbalances in the EU ETS from surplus allowances by adjusting their supply. However, the current MSR framework is insufficiently responsive to short-term carbon price shocks.

Ammonia Europe therefore supports the recent amendment to the MSR to discontinue invalidation of allowances and also urges to introduce a crisis response mechanism within the MSR framework, empowering the European Commission to release additional allowances into the market when the EUA price reaches defined stress thresholds i.e. greater than 70% compared to 6-month average. These volumes should be sufficiently large to genuinely dampen acute price spikes. This price stabilisation function is essential to prevent extreme carbon cost spikes, following force majeure events, from causing industrial shutdown or relocation.

For future operation of MSR, a well-calibrated interaction between key ETS design parameters, namely the Linear Reduction Factor (LRF), the Total Number of Allowances in Circulation (TNAC), and the MSR intake and release thresholds is critical to maintaining a balanced and resilient carbon market.

ETS Revenues

The EU ETS generates substantial revenues, yet the link between this revenue and support for industrial decarbonisation remains insufficient. Achieving decarbonisation in ammonia production requires substantial upfront investments², access to affordable clean energy and enabling infrastructure. Ammonia Europe therefore calls for the greater use of ETS revenues to support industrial decarbonisation measures for hydrogen, CO₂ storage, and energy infrastructure by carbon contracts for difference or operational cost support for low-carbon and renewable ammonia.

² Chapter 4.2 Breakdown production cost of ammonia, *Optimal design of decentralized ammonia production via electric Haber-Bosch systems*, L. Rosa and D. Tonelli, *Green Chem.*, 2026, 28, 4103-4118



This should also include earlier disbursement and/or direct linkage to paying installations. ETS revenue support mechanisms should be designed to disburse funds within the same compliance cycle in which revenues are collected. In addition, a defined share of ETS revenues collected from a given sector could be ringfenced for reinvestment into that sector. This could operate through having a sector-specific approach to the disbursement of funds from the Industrial decarbonisation bank or by a decarbonisation fund capitalised annually from ETS auction proceeds, with eligible uses including both renewable and low-carbon ammonia operational cost, CCS deployment, and increasing infrastructure.

Indirect Carbon Cost

European ammonia producers face high indirect cost exposure. Recognition that carbon cost extends down the full value chain makes higher ammonia production costs translate directly into higher fertiliser costs for farmers and higher chemical input costs for downstream processors. Therefore, Member States should be encouraged to make full use of the flexibility available under the EU State Aid Framework and ETS provisions to provide indirect carbon cost compensation to ammonia producers. Greater consistency and uptake of compensation mechanisms across Member States would help safeguard the competitiveness of European production while supporting strategic resilience and decarbonisation objectives.

Role of Carbon Capture Storage and Utilisation

CCS and CCU are already recognised pathways under the ETS that allow operators to avoid or reduce their carbon cost obligations, and this should be maintained and strengthened. In particular, the EU should consider recognising CCU pathways under the ETS to include products where it can be proved and verified that the captured carbon remains stored within the product during its normal use.

Where captured CO₂ can be verified as remaining stored within a product throughout its normal use lifetime, these CCU applications should be eligible for appropriate recognition under the ETS, for example through a crediting mechanism or by allowing the corresponding CO₂ volumes to be deducted from annual surrender obligations, subject to robust monitoring, reporting and verification. Such recognition would incentivise the efficient utilisation of unavoidable industrial CO₂ rather than its immediate release, while acknowledging that this carbon is not permanently emitted during the product's use phase. However, this recognition must not affect the ETS ammonia benchmark, as non-permanent CCU does not reduce process emissions from ammonia production in the same way as the use of RFNBO hydrogen or permanent carbon capture and storage. The ammonia benchmark should therefore continue to reflect only measures that directly reduce production process emissions.



Such an approach could be particularly relevant for enabling CCU applications for concentrated CO₂ streams from ammonia production in the chemicals sector, excepting the case of urea production for fertiliser where the CO₂ is released on application as fertiliser. In these chemical sector applications, where the connection between the CCU application and the stored carbon in product can be traced and proven, there is potential to support viable business cases, provide early deployment opportunities, and serve as an entry point for the development of sustainable and scalable CCU business models.

In addition, allowing a broader range of CO₂ sources to be used for decarbonised production would help address barriers created by RED III and support the development of CCU.

Incentivising further domestic decarbonisation with “ETS credit” mechanism

While Free Allocation is a tool against carbon leakage, we believe a similar mechanism could additionally be used to reward and incentivise GHG reduction by rewarding a kind of “ETS credit”, similar to a Free Allowance, for domestic installations that can prove decarbonisation efforts. Thereby creating a double incentive of not only lower CO₂ costs but bridging the gap between conventional and decarbonised production costs with the additional free allowances.

Section 2: Maritime

For the ammonia sector the inclusion of maritime shipping in the EU ETS created a strategic opportunity as ammonia is increasingly recognised as one of the most promising zero-carbon alternative fuels for deep-sea shipping. The 2026 ETS review must strengthen and expand the maritime ETS provisions in ways that accelerate the fuel transition, avoid circumvention via so-called “port evasion”, support ammonia as an alternative fuel, and set EU policy as the standard for eventual alignment with emerging IMO frameworks.

Extension to 400–5,000 GT Vessels

Ammonia Europe supports the extension of maritime ETS coverage to vessels in the 400–5,000 GT range, as smaller vessels collectively represent a substantial share of maritime emissions within EU waters. Excluding them creates a competitive distortion in favour of fossil-fuels and reduces the overall environmental effectiveness of the maritime ETS. By extending the scope, the ETS carbon price signal will accelerate demand for more low-carbon marine fuels and infrastructure, thus improving the business case for port bunkering infrastructure investment, including for ammonia.



In addition, incentives should be explored for those ships using sustainable maritime fuels (SMF) that are currently, or may remain, out of scope of ETS, like those of the 400-5000 GT vessels. These ships should be rewarded for being early movers. Particularly, smaller ships represent greatly the workhorses within commercial maritime shipping which are mostly built within the EU or with EU technology. These ships will form the cornerstone for investments into SMF infrastructure, laying the foundation for the bigger ships.

Protection Against Circumvention by “Port Evasion”

The inclusion of maritime transport in the EU ETS is already influencing operational decisions with a growing concern in the emergence of so-called “port evasion” practices, whereby shipping operators reroute through nearby non-EU transshipment hubs, split voyages, or reduce direct calls at EU ports to minimise ETS exposure. For the ammonia sector, this has strategic importance for the future deployment of low-carbon and renewable ammonia as a maritime fuel. Distortions in shipping routes and port activity could increase logistics costs and weaken investment signals for ammonia bunkering and related decarbonisation infrastructure at European ports. Such practices also risk undermining the environmental integrity of the ETS by reducing emissions coverage without delivering real emissions reductions. Ultimately, progress toward full coverage should be linked to parallel developments at the IMO, ensuring that the EU ETS design principles be used to push for stronger global standards and as a benchmark for eventual alignment of the two systems.

Directing ETS Revenue Toward Alternative Marine Fuels

The EU ETS maritime provisions will generate significant auction revenues as carbon prices are applied to shipping emissions. Ammonia Europe advocates that these revenues be deployed to accelerate the adoption of alternative marine fuels, with ammonia among the priority candidates because it has:

- zero carbon dioxide emissions at point of combustion in contrast to LNG, biogas or methanol,
- high energy density in liquid form making it practical for long-haul deep-sea shipping compared to batteries or hydrogen,
- established global commodity infrastructure with existing terminal, storage, and logistics infrastructure that can be adapted for marine fuel supply and bunkering,
- growing engine and propulsion technology readiness.

Therefore, Ammonia Europe believes that dedicated ETS revenues should support the maritime sector, through co-financing the incremental cost of ammonia and other low-carbon marine fuels versus fossil alternatives reducing the commercial risk of early fuel switching. The revenues



should be directed to support port bunkering infrastructure, engine manufacturing, covering the green premium (through double sided auction), as well as safety and crew training. In this regard, we are also in support of a measure to close the cost gap between conventional and decarbonised marine fuels through the "Fuels Eligible for ETS" (FEETS) scheme, which is currently applicable to Sustainable Aviation Fuels (SAFs).

Reassess feasibility of Nitrous Oxide emissions inclusion in the scope of the ETS Maritime emissions

Ammonia Europe cautions that the inclusion of Nitrous Oxide emissions represents a technical challenge for the maritime sector and its inclusion should continue to be thoroughly assessed via an impact assessment to review the technical capabilities and availability of technology to measure these emissions on board vessels.