20 August 2026

The July 2026 review of the EU Emission Trading System

EU ETS – Update

Ebba Edholm
ebba.edholm@danskebank.se

Louis Landeman
louis.landeman@danskebank.se

Danske Bank

Executive summary

ESG Insights

Proposed changes to the EU ETS

- In mid-July, the EU Commission presented its revision of the European Emissions Trading System (EU ETS). The revision was expected following the EU's adoption of a binding 2040 climate target earlier this year. Still, some interesting changes were suggested related to the expected **carbon budget, funding mechanisms and sector expansions**.
- According to the proposal, **companies with high emissions in energy-intensive industries** - such as steel, cement, aluminium, fertilisers and chemicals - **will be provided with additional time to reduce their emissions**. With more free carbon allowances, frontrunners will be faced with a lower cost-saving advantage than previously expected.
- To compensate for this, the **frontrunners will gain access to new and expanded subsidy pools and some regulatory and operational advantages**. From 2031, free allowances will be dependent on companies having verified decarbonisation investment plans. In addition, EU member states will be required to spend 50% of ETS revenues on prioritised decarbonisation projects. An **Industrial Decarbonisation Bank** (IDB) will also be established, aiming to provide EUR100bn in funding to industrial decarbonisation projects.

Potential impact on Nordic companies

- A selection of larger Nordic companies that currently have significant direct exposure to the ETS system are **Yara, SSAB, AP Möller Maersk** and **Equinor.**
- As the proposed measures have mixed effects on the carbon price, it is difficult to say exactly how the EU Commission's proposals may impact individual companies. However, in a scenario where free allowances have been fully phased out, the potential carbon cost could be significant for high-emitting companies if emissions remain at 2025 levels.
- To limit the impact of increased carbon costs, as free allowances are phased out, high emitting companies must deliver on their transition plans. **In a forthcoming report we will look closer at the transition progress of ca 120 Nordic companies under our coverage.**

What's next? The European Parliament and the Council will agree on their negotiating positions, after which "trilogue" negotiations will begin. Full implementation is expected around 2028.

Agenda

ESG Insights

1. What is the EU ETS and CBAM?
2. Nordic company exposure to the EU ETS
3. Key takeaways from the 2026 review

Background

ESG Insights

EU ETS – The basics

- The EU ETS is the cornerstone of the EU's climate agenda. The regulation has applied to power generation and energy-intensive industries (electricity, heat generation, industrial manufacturing) since 2005. In 2012 it was expanded to aviation, followed by maritime transport in 2024. It operates in all EU countries, as well as Iceland, Norway and Liechtenstein. It is also connected to the Swiss Emission Trading System.
- The EU ETS operates on a cap-and-trade model. The cap sets a limit on the total emissions the in-scope installations and operators may emit, and it is reduced each year in line with the EU climate target. The cap is represented by tradeable emission allowances. As the cap falls, the supply of allowances decreases.
- Installations in scope must surrender one European Emission Allowance, EUA, per metric tonne of carbon dioxide equivalent it emits at the end of each year. If companies fail to fulfil the requirement, fines are imposed.
- Currently free allowances cover a large share of emissions in scope. However, free allowances will be phased out over the coming years.

Recent development

- The EU adopted a new climate target in April 2026, aiming to reach a 90% emission reduction by 2040 vs 1990 levels. This complements the already established 2030 (-55%) and 2050 neutrality targets.
- On 17 July 2026 the European Commission presented its proposal for phase 5, 2031-40, of the EU ETS, aligning the system with the EU's 2040 climate target.

Source: European Commission and Danske Bank Sustainability Research

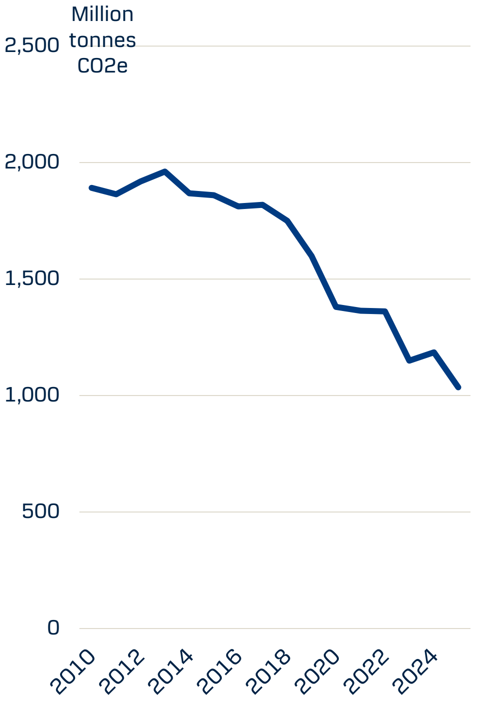
The EU ETS sectors – Emission and carbon price development

ESG Insights

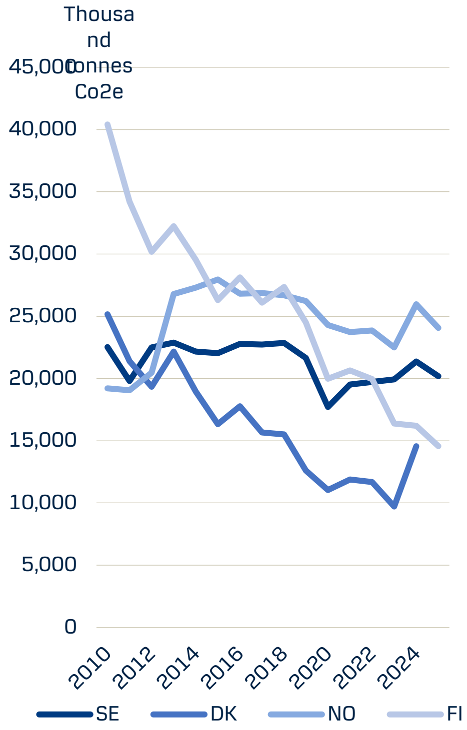
EU ETS emissions down 50% since 2005

- EU ETS sector emissions have been reduced by 50% since 2005 and the system has generated over EUR270bn in revenues.
- In the Nordics, Finland has reduced EU ETS sector emissions by ~64% since 2010, followed by Denmark at ~42% and Sweden at ~10%. Norway's ETS sector emissions have increased by ~10% since 2010.
- The average EU carbon price in 2026 is 78 EUR/tCO2e. Since 2020 the carbon price has increased by ~200%.

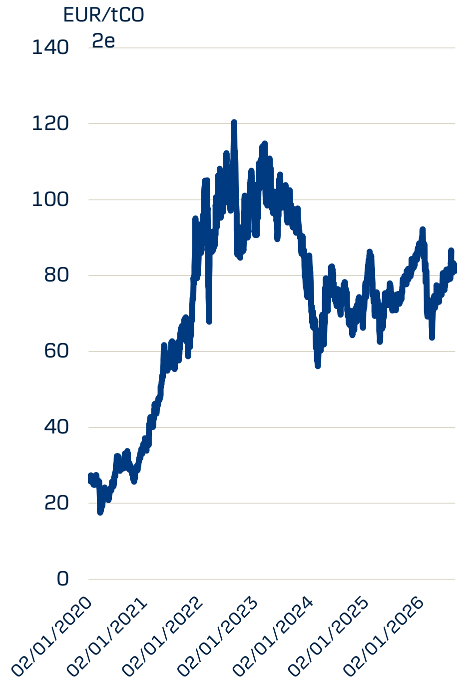
EU ETS emission development



ETS emission development in the Nordics



EU ETS allowance price 2020-YTD

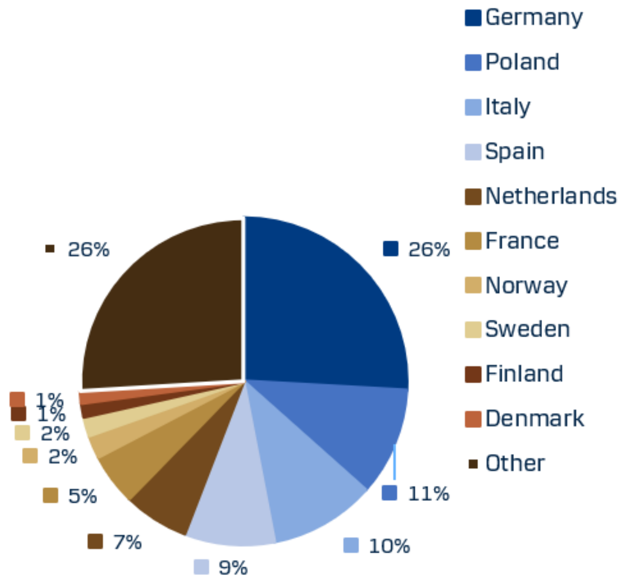


Source: European Commission, Bloomberg and Danske Bank Sustainability

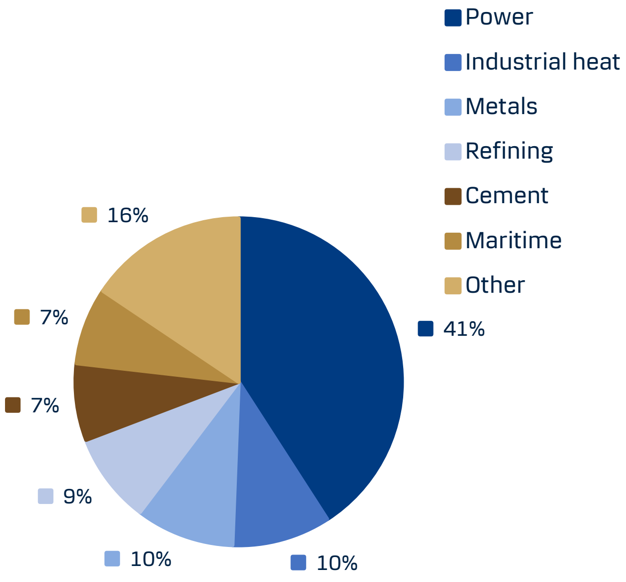
Who are the main emitters?

ESG Insights

EU ETS 2025 emissions split by country



EU ETS 2025 emissions split by sector



Selection of top emitters by sector

Power / Industrial heat
- RWE (Germany)
- PGE (Poland)
- Engie (France)

Metals
- Thyssenkrupp (Germany)
- ArcelorMittal (Luxembourg)
- Voestalpine (Austria)

Refining / Chemicals
- TotalEnergies (France)
- Shell (UK)
- BP (UK)
- Eni SpA (Italy)
- Repsol (Spain)

Cement
- HeidelbergCement (Germany)
- Holcim (Czech Republic)
- CRH (Ireland)

Source: EU Transaction log, BNEF, Carbon Market Watch and Danske Bank Sustainability Research

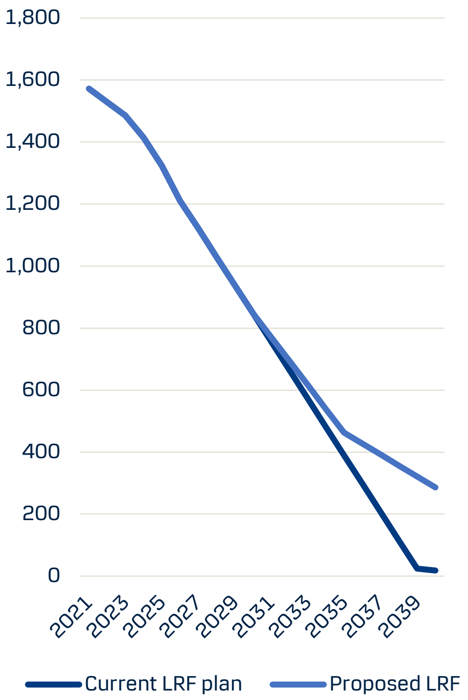
Proposed changes to the ETS system

ESG Insights

Softened emission reduction curve

- Since 2013 there has been an EU wide cap for emissions in scope of the EU ETS. The cap is reduced by a linear reduction factor, LRF, annually. Under the current regulation the LRF is set at 4.3% until 2027 and 4.4% from 2028 onwards.
- The revision proposes an LRF of 3.7% between 2031 and 2035 and 1.7% from 2036 onwards. As a result, allowances will be issued into the 2040s, rather than ending around 2039 as set out in the current rules. The proposal aligns the ETS with the EU 2040 climate target.

EU ETS Linear Reduction Factor

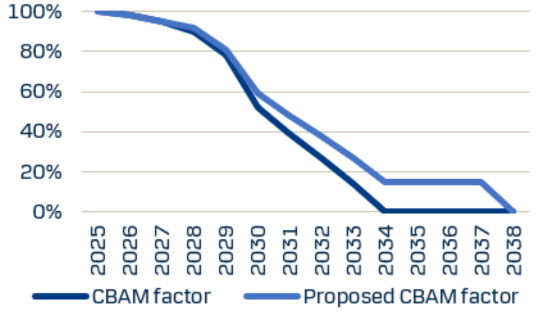


Delayed phase out of free allowances

- The free allocation level is set based on installation-level benchmarks. The benchmarks represent the top 10% most effective installations in each sector in the EU.
- The revision propose lowering the maximum annual reduction of free allowances from 2.5% to 2%.
- It also proposes that from 2031, free allocation is made fully conditional on operators submitting a verified EU decarbonisation plan, with 80% of allowances released upon plan approval and 20% contingent on demonstrated emission reductions as well as investments equal to 100% of the economic value of the free allowances invested in decarbonisation projects by the end of each 5-year period. Multiple installations can pool their investment obligations.
- Installations in the top 10% are exempt from the requirements and will receive 100% of their free allowances.
- It will also increase the free allowances under the heat & fuel benchmarks for 2026-30 (~80m additional allowances).

Slower CBAM phase in

- The EU CBAM* aims to reduce carbon leakage. It places a carbon price on imports to the EU based on their embedded emissions, adjusted for any carbon price paid in the country of origin. To level the playing field, a CBAM factor is applied to reduce the free allocation for CBAM sectors**.
- The proposal extends the phase-out of free allocation for CBAM sectors from 2034 to 2038.



*CBAM: Carbon Border Adjustment Mechanism,** CBAM initially applies to cement, iron and steel, aluminum, fertilizers, electricity and hydrogen.
Source: European Commission, Bloomberg and Danske Bank Sustainability Research

Revenue collected through the ETS system

ESG Insights

Where does the money go?

- The revenue generated from sale of carbon allowances are directed towards financing climate initiatives.
- The proposal formalises the obligation of directing the revenue to climate initiatives, mandating 50% of revenue to be invested in defined priority areas, including clean energy, grids, low-carbon transport, industrial decarbonisation and waste management.

Establishment of the industrial decarbonisation bank

- The revision proposes establishing an Industrial Decarbonisation Bank. The first phase is called the investment booster. The scheme is funded with 400 million ETS allowances and will open between 2028 and 2030. The booster offers fixed support payments enabling investments in the scale-up and deployment of emissions reduction technologies
- The second phase starts in 2031 and is the establishment of the bank. It will provide Carbon Contracts for Difference (CCfDs) and fixed support payments. The bank will be funded through 400 million allowances between 2031 and 2040.

The introduction of carbon credits and new sectors

Carbon credits

- The proposal presents “flexibility” mechanisms. For the first time permanent domestic carbon removals are integrated in the system, with up to 250 million removals entering the system between 2031 and 2040.
- It also proposes allowing up to 260 million high-integrity international carbon credits to be used after 2035, provided strict criteria are met.
- The credits will be purchased by the EU and added to the ETS allowances for companies to purchase.

Sector additions

- The proposal expands the ETS to gradually include municipal waste incineration from ~2031, expanding the shipping coverage to smaller vessels from 2029 and some international flights from 2029 (<5,000 km radius from the EU).

Source: European Commission and Danske Bank Sustainability Research

Other emission trading systems

ESG Insights

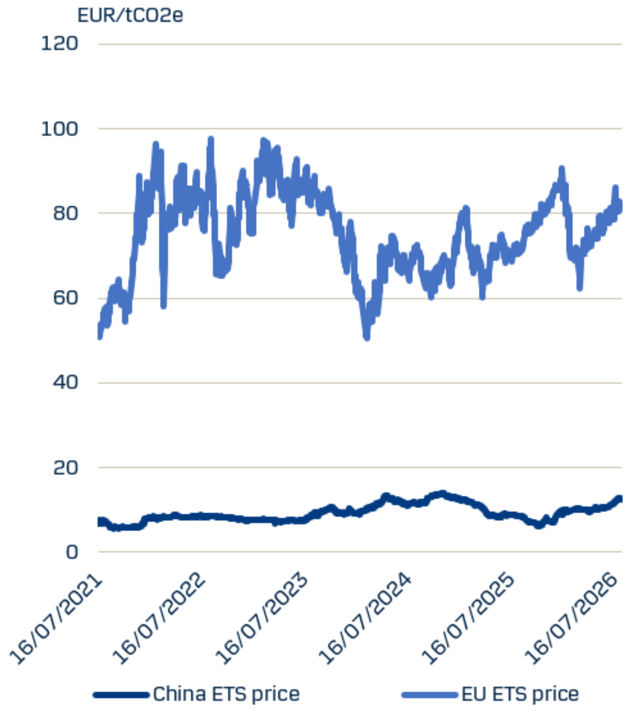
China is phasing in a national ETS

- China adopted its own emission trading system in 2021. It is the world's largest carbon market, covering ~60% of the country's emissions.
- The system is structured around intensity-based caps, with allowances allocated based on output-intensity benchmarks rather than a total cap on carbon volumes. However, it is transitioning to absolute caps for major industries from 2027, with full implementation by 2030.
- Companies currently receive the allowances for free. By 2030 the plan is to have a system with a mix of free and paid allowances.
- The scope of the ETS was first limited to power generation, with extension to steel, cement and aluminium in 2025. The ETS is set to cover 80% of national emissions, with implementation planned by 2027. Additional sectors include chemicals, petro-chem, building materials, pulp and paper and aviation.

UK and California also have ETS

- Following the UK's departure from the EU, it adopted a national ETS in 2021. It covers heavy industry, power generation, aviation and domestic maritime sectors.
- California launched an ETS in 2013. The system is part of the state's strategy to reduce emissions by 40% by 2030 and 80% by 2050 vs 1990 levels. It covers power generation, large industrial plants and fuel distribution. Companies currently receive allowances for free, but free allocation is expected to decline after 2033.
- Quebec and Washington state are also linked to the California ETS.

ETS price developement



Source: IEEFA, Chinese government and Danske Bank Sustainability Research

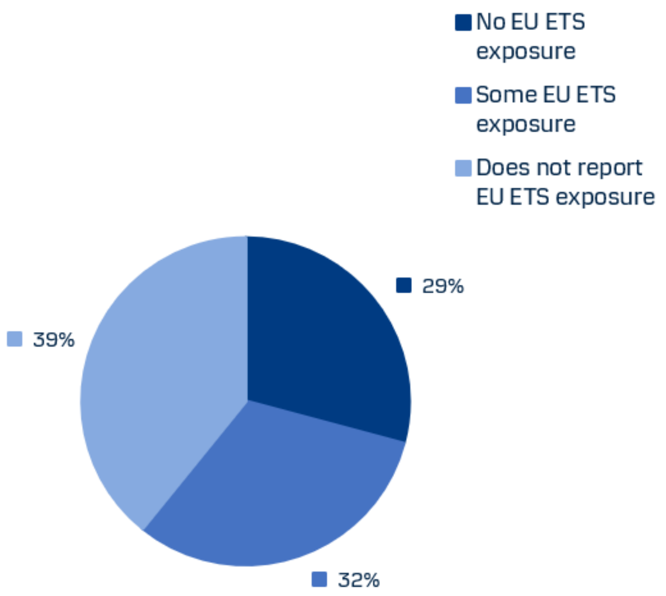
Nordic corporate universe's exposure to the EU ETS

ESG Insights

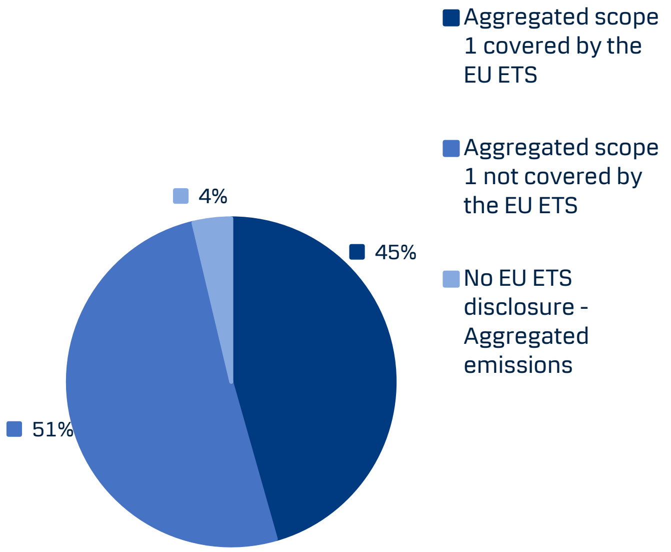
High transparency on ETS exposure

- Of the ~120 Nordic companies in our universe, 32% disclose some EU ETS exposure. A further 29% of companies report 0% exposure to the EU ETS in terms of scope 1 emissions. The remaining 39% of companies do not disclose whether or not they have exposure to the EU ETS.
- In total, 45% of aggregated scope 1 2025 emissions in our universe are covered by the EU ETS. Ca 51% are not directly exposed to the EU ETS, while the remaining 4% of emissions are not reported.

Share of Nordic companies in our universe with EU ETS exposure



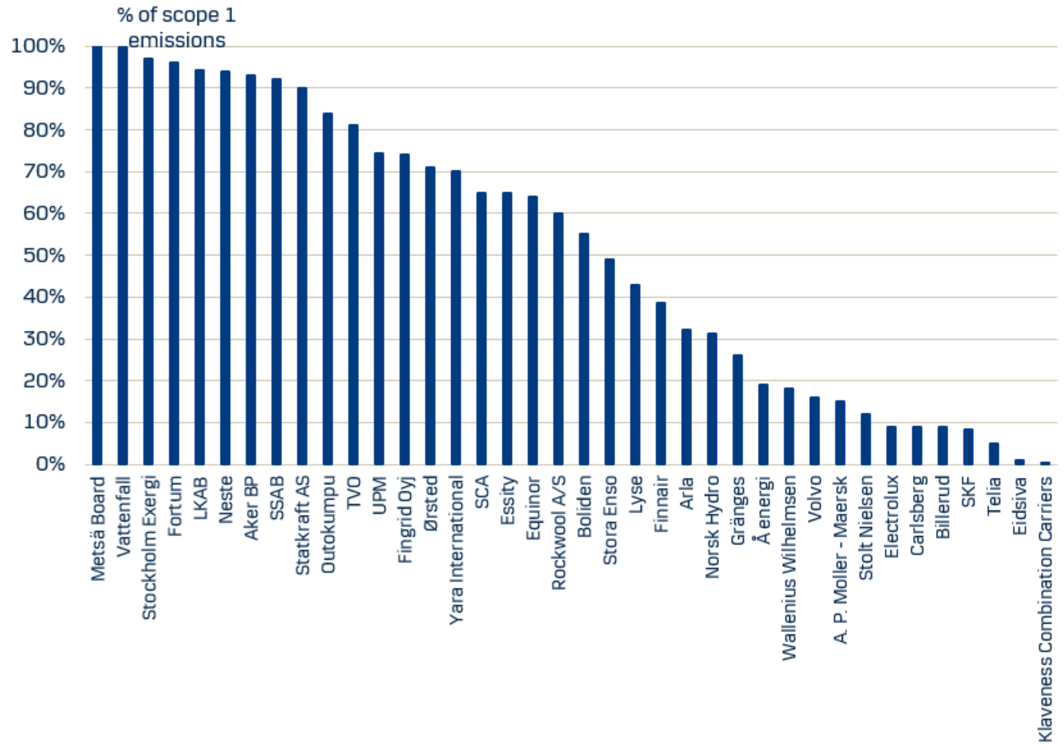
Aggregated scope 1 emissions covered by the EU ETS



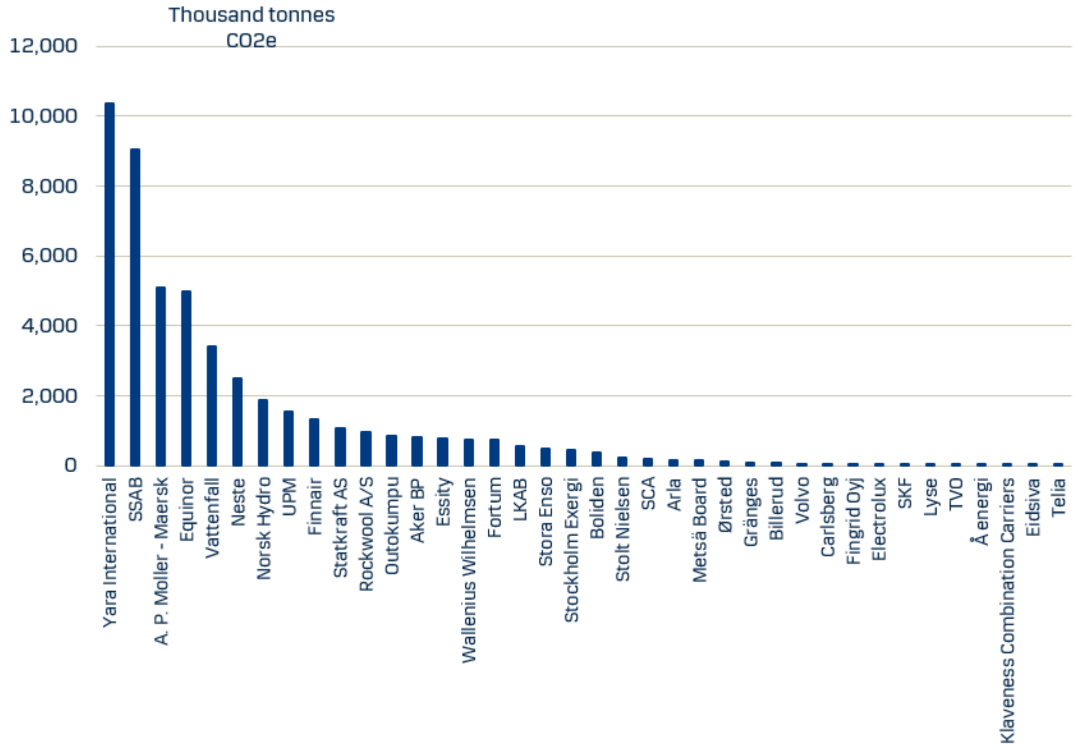
Nordic corporates with reported exposure to the EU ETS

ESG Insights

Share of emissions covered by the EU ETS in 2025



Total emission exposure to the EU ETS in 2025



Source: Company data and Danske Bank Sustainability Research

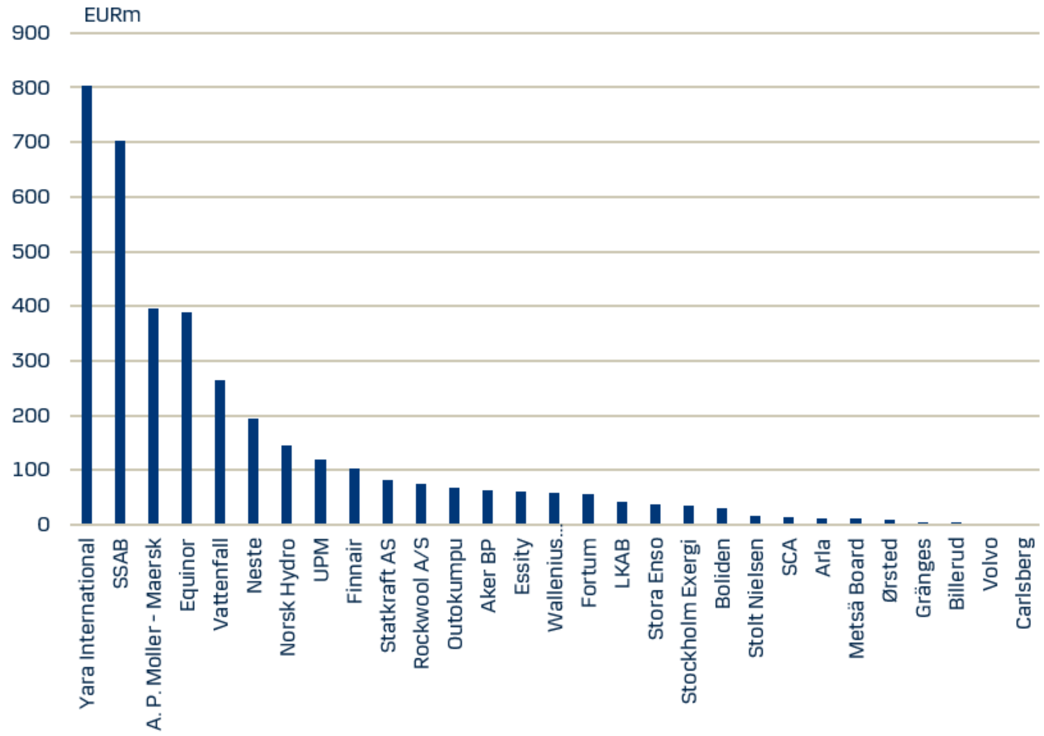
Status quo scenario – Potential EU ETS cost

ESG Insights

Net financial impact is difficult to estimate

- The financial impact of the EU ETS proposal is difficult to estimate, as the individual measures proposed have mixed impact on the carbon price.
- However, we note that in a scenario where free allowances have been fully phased out, the potential carbon cost could be significant for high-emitting companies if emissions remain at 2025 levels.
- In this scenario we have used the average 2025 carbon price, but as free allowances are phased out it is likely the carbon price will increase in the coming years.
- In absolute cost terms, **Yara, SSAB, Maersk and Equinor** would have the highest ETS related cost.
- Electricity generation and maritime transport are exempt from free allowances, which means companies in these sectors are already purchasing allowances in the market.
- It is worth noting that depending on sector, it is likely companies will pass on the carbon cost to their customers either in parts or in full.

Potential cost with flat 2025 emissions and no free allowances



Source: Company Data and Danske Bank Sustainability Research

Potential impact of the proposed revision of the EU ETS

ESG Insights

Update to the emission trading system

Softened emission reduction curve

- All else equal, we expect the measure to generate lower carbon prices compared with the current ETS settings.

Delayed phase out of free allowances

- We expect the measure to benefit "early adopters" and increase the financial impact of non-action from 2031, as companies must have verified investment plans and deliver progress to receive their free allowances.

Extended phase out for CBAM sectors

- We believe this to have a slightly negative impact on early-adopters in the CBAM sectors, including steel, iron and fertilisers. However, the main delta compared to the current phase out trajectory occurs after 2030, hence we assess the impact as limited in the short term.

Updates regarding financial support

The Industrial Decarbonisation Bank and focus on climate initiatives

- Phase 1 – the investment booster
- Phase 2 – the Industrial Decarbonisation Bank
- 50% of revenues directed to climate initiatives
- Inclusion of domestic and international carbon credits
  - We believe the availability of increased funding for emission reduction technologies will benefit early adopters. However, the inclusion of additional allowances and credits should have a negative impact on the carbon price, somewhat limiting the positive impact.

What's next?

The European parliament and the council will agree on their negotiation positions, after which "trilogue" negotiations will begin. A final legislative agreement is expected in 2027, with full implementation around 2028.

Source: Danske Bank Sustainability Research

Disclosures

This research report has been prepared by Credit Research, a division of Danske Bank A/S ('Danske Bank'). The authors of this research report (together with contact details) are listed on the front page.

Analyst certification

Each research analyst responsible for the content of this research report certifies that the views expressed in the research report accurately reflect the research analyst's personal view about the financial instruments and issuers covered by the research report. Each responsible research analyst further certifies that no part of the compensation of the research analyst was, is or will be, directly or indirectly, related to the specific recommendations expressed in the research report.

Regulation

Danske Bank is authorised and regulated by the Danish Financial Services Authority (Finanstilsynet). Danske Bank is authorised by the Prudential Regulation Authority in the UK and subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. Details about the extent of our regulation by the Prudential Regulation Authority are available from us on request.

Danske Bank's research reports are prepared in accordance with the recommendations of Capital Market Denmark.

Danske Bank is not registered as a Credit Rating Agency pursuant to the CRA Regulation (Regulation (EC) no. 1060/2009). Hence, Danske Bank does not comply with nor seek to comply with the requirements applicable to Credit Rating Agencies.

Conflicts of interest

Danske Bank has established procedures to prevent conflicts of interest and to ensure the provision of high-quality research based on research objectivity and independence. These procedures are documented in Danske Bank's research policies. Employees within Danske Bank's Research Departments have been instructed that any request that might impair the objectivity and independence of research shall be referred to Research Management and the Compliance Department. Danske Bank's Research Departments are physically separated from other business areas within Danske Bank and surrounded by arrangements (Chinese Walls) to restrict the flows of sensitive information.

Research analysts are remunerated in part based on the overall profitability of Danske Bank, which includes investment banking revenues, but do not receive bonuses or other remuneration linked to specific corporate finance or debt capital transactions.

Danske Bank is a market maker and a liquidity provider and may hold positions in the financial instruments of the issuers mentioned in this research report.

The Equity and Corporate Bonds analysts of Danske Bank and persons in other departments of Danske Bank with which the relevant analysts have close links are not permitted to invest in 1) financial instruments that are covered by the relevant Equity or Corporate Bonds analyst and 2) the research sector within the geographical area (the Nordics) to which the analyst is linked.

Danske Bank, its affiliates and subsidiaries are engaged in commercial banking, securities underwriting, dealing, trading, brokerage, investment management, investment banking, custody and other financial services activities, may be a lender to the companies mentioned in this publication and have whatever rights are available to a creditor under applicable law and the applicable loan and credit agreements. At any time, Danske Bank, its affiliates and subsidiaries may have credit or other information regarding the companies mentioned in this publication that is not available to or may not be used by the personnel responsible for the preparation of this report, which might affect the analysis and opinions expressed in this research report.

Completion and first dissemination

The completion date and time in this research report mean the date and time when the author hands over the final version of the research report to Danske Bank's editing function for legal review and editing.

The date and time of first dissemination mean the date and estimated time of the first dissemination of this research report. The estimated time may deviate up to 15 minutes from the effective dissemination time due to technical limitations.

See the back page of this research report for the date and time of first dissemination.

Validity time period

This communication as well as the communications in the list referred to below are valid until the earlier of (a) dissemination of a superseding communication by the author, or (b) significant changes in circumstances following its dissemination, including events relating to the market or the issuer, which can influence the price of the issuer or financial instrument.

Investment recommendations disseminated during the preceding 12-month period

A list of previous investment recommendations disseminated by the lead analyst(s) of this research report in the preceding 12-month period can be found in Danske Bank's Credit research database at https://research.danskebank.com/research.

Other previous investment recommendations disseminated by Danske Bank Credit Research are also available in the database.

A list of previous investment recommendations disseminated by the lead analyst(s) of this research report in the preceding 12-month period can be found in Danske Banks' equity research database at http://www.danskebank.com/equityresearch.

Other previous investment recommendations disseminated by Danske Bank Equity Research are also available in the database using the research library.

See https://danskeci.com/ci/research/disclosures-and-disclaimersfor further disclosures and information.

General disclaimer

This research has been prepared by Danske Bank A/S. It is provided for informational purposes only and should not be considered investment, legal or tax advice. It does not constitute or form part of, and shall under no circumstances be considered as, an offer to sell or a solicitation of an offer to purchase or sell any relevant financial instruments (i.e. financial instruments mentioned herein or other financial instruments of any issuer mentioned herein and/or options, warrants, rights or other interests with respect to any such financial instruments) ('Relevant Financial Instruments').

This research report has been prepared independently and solely on the basis of publicly available information that Danske Bank A/S considers to be reliable but Danske Bank A/S has not independently verified the contents hereof. While reasonable care has been taken to ensure that its contents are not untrue or misleading, no representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness or reasonableness of the information, opinions and projections contained in this research report and Danske Bank A/S, its affiliates and subsidiaries accept no liability whatsoever for any direct or consequential loss, including without limitation any loss of profits, arising from reliance on this research report.

The opinions expressed herein are the opinions of the research analysts and reflect their opinion as of the date hereof. These opinions are subject to change and Danske Bank A/S does not undertake to notify any recipient of this research report of any such change nor of any other changes related to the information provided in this research report.

This research report is not intended for, and may not be redistributed to, retail customers in the United Kingdom (see separate disclaimer below) and retail customers in the European Economic Area as defined by Directive 2014/65/EU.

This research report is protected by copyright and is intended solely for the designated addressee. It may not be reproduced or distributed, in whole or in part, by any recipient for any purpose without Danske Bank A/S's prior written consent.

Disclaimer related to distribution in the United States

This research report was created by Danske Bank A/S and is distributed in the United States by Danske Markets Inc., a U.S. registered broker-dealer and subsidiary of Danske Bank A/S, pursuant to SEC Rule 15a-6 and related interpretations issued by the U.S. Securities and Exchange Commission. The research report is intended for distribution in the United States solely to 'U.S. institutional investors' as defined in SEC Rule 15a-6. Danske Markets Inc. accepts responsibility for this research report in connection with distribution in the United States solely to 'U.S. institutional investors'.

Danske Bank A/S is not subject to U.S. rules with regard to the preparation of research reports and the independence of research analysts. In addition, the research analysts of Danske Bank A/S who have prepared this research report are not registered or qualified as research analysts with the New York Stock Exchange or Financial Industry Regulatory Authority but satisfy the applicable requirements of a non-U.S. jurisdiction.

Any U.S. investor recipient of this research report who wishes to purchase or sell any Relevant Financial Instrument may do so only by contacting Danske Markets Inc. directly and should be aware that investing in non-U.S. financial instruments may entail certain risks. Financial instruments of non-U.S. issuers may not be registered with the U.S. Securities and Exchange Commission and may not be subject to the reporting and auditing standards of the U.S. Securities and Exchange Commission.

Disclaimer related to distribution in the United Kingdom

In the United Kingdom, this document is for distribution only to (I) persons who have professional experience in matters relating to investments falling within article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the 'Order'); (II) high net worth entities falling within article 49(2)(a) to (d) of the Order; or (III) persons who are an elective professional client or a per se professional client under Chapter 3 of the FCA Conduct of Business Sourcebook (all such persons together being referred to as 'Relevant Persons'). In the United Kingdom, this document is directed only at Relevant Persons, and other persons should not act or rely on this document or any of its contents.

Disclaimer related to distribution in the European Economic Area

This document is being distributed to and is directed only at persons in member states of the European Economic Area ('EEA') who are 'Qualified Investors' within the meaning of Article 2(e) of the Prospectus Regulation (Regulation (EU) 2017/1129) ('Qualified Investors'). Any person in the EEA who receives this document will be deemed to have represented and agreed that it is a Qualified Investor. Any such recipient will also be deemed to have represented and agreed that it has not received this document on behalf of persons in the EEA other than Qualified Investors or persons in the UK and member states (where equivalent legislation exists) for whom the investor has authority to make decisions on a wholly discretionary basis. Danske Bank A/S will rely on the truth and accuracy of the foregoing representations and agreements. Any person in the EEA who is not a Qualified Investor should not act or rely on this document or any of its contents.

Report completed: 19 August 2026 at 13:34 CET

Report disseminated: 20 August 2026 at 07:00 CET