OPPORTUNITY GREEN

Improving the EU ETS

How the EU should use the aviation ETS to deliver its full potential | September 2026

On 17 July 2026, the European Commission (Commission) published its long-awaited proposal for a revision of the EU Emissions Trading System (EU ETS) Directive[1]. This brief addresses the aviation provisions of the proposal. On aviation, the proposal is both an improvement and a missed opportunity. In bringing some international flights, and business aviation, into the system's scope, the proposal seeks to redress some of the current incoherences of the EU ETS to incentivise more of the industry to decarbonise. Yet, by proposing to extend the scope only to EEA flights departing to destinations within a 5,000 km radius of Frankfurt, the proposal is putting revenues that could be used to support innovative EU technologies and for Member State budgets at risk, alongside making all other sectors of the EU economy need to decarbonise faster and more stringently if the EU is to meet its 2040 targets.

Background

The aviation industry is responsible for an estimated 4% of historic global warming, with this figure potentially reaching 9% when considering the full range of climate impacts. As the sector continues to grow, it is estimated it will account for nearly a quarter of global CO_2 emissions by 2050.

Aviation is one of the hardest sectors to decarbonise and currently has no credible plan to reach net zero by 2050. The aviation sector has historically operated under a regulatory framework that has not fully accounted for its climate impact. A significant portion of its emissions has remained outside the scope of the EU ETS, notably those from flights

[1] Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC and Decision (EU) 2015/1814 as regards driving competitiveness and cost-effective decarbonisation, COM(2026) 616 final, 17 July 2026.

between the European Economic Area (EEA) and non-EEA countries, roughly 60% of its total CO_2 emissions.

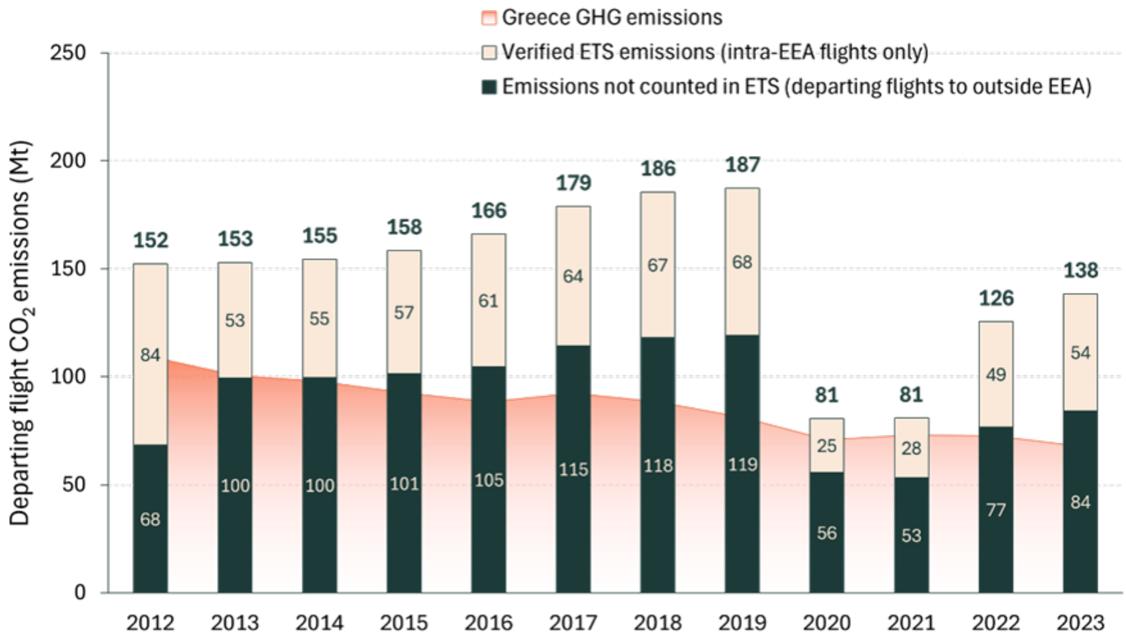
This exclusion dates back to 2012 when the EU adopted the so-called “stop the clock” derogation, suspending the application of the ETS to extra-EEA flights to give the International Civil Aviation Organization (ICAO) time to agree on a global measure that became the Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA). Intended as temporary, the derogation has been in place since.

This and the broader regulatory framework enjoyed by the aviation sector, have had implications for the EU’s climate goals of reaching net zero by 2050 and its role as a global leader on climate action. The consequences for climate action are twofold: years of emissions that have escaped regulation, and years of revenues uncollected that could have been used to drive climate mitigation within and outside of the aviation sector, in Europe as well as in climate vulnerable countries.

This briefing will explain how to use the EU ETS for aviation to:

Make the Paris Agreement temperature goals achievable

Between 2012 and 2023, verified aviation CO_2 emissions reported within the scope of the EU ETS totalled 670mn tCO_2. In the same period, we estimate that, had the EU ETS instead included all flights departing EEA countries (both intra- and extra-EEA), the ETS



would have incorporated an additional 1.1bn tCO_2[2], the equivalent of Greece's entire greenhouse gas emissions over the same period, and representing €26bn in revenues foregone that could have funded climate action. See the Figure above.

However, in 2023[3] a clear test was set for the future of aviation's ETS exemption. The Commission was required to assess CORSIA's environmental integrity by 1 July 2026, and if the assessment showed that CORSIA had not been strengthened in line with achieving its long-term global aspirational goal, towards meeting the Paris Agreement goals, or that participating states represented less than 70% of international aviation emissions, the Commission was to bring forward a proposal applying the EU ETS to all flights departing the EEA from January 2027.

The 2026 Commission's assessment confirmed that CORSIA is not an effective mechanism for reducing emissions from international aviation. In fact, the Commission found that CORSIA has not been strengthened and that states participating in CORSIA still represent less than 70% of international aviation emissions. Having reached those conclusions, the Commission should have addressed this gap by bringing all EEA departing flights into scope from 2027.

Instead, in its proposal the Commission has decided that the scope of the EU ETS should be extended to cover all flights departing from an airport situated in the EEA and landing in aerodromes in third countries, no further than 5 000 kilometres from Frankfurt, and only from 2029 onwards, leaving the most polluting long-haul routes unpriced.

Moreover, the proposal gives CORSIA even longer to improve, setting out plans to review it again in 2032 and suggesting that if CORSIA is assessed to be performing well then the EU ETS could be scaled back to flights "within the EEA and departing to the UK, Switzerland, to and from Gibraltar and other countries taking advantage of ETS as a service".

As it stands, CORSIA[4] is structurally incapable of reducing international aviation's emissions in line with the Paris Agreement as the scheme only offsets emissions against a baseline that never declines. Recent analysis suggests that, rather than reducing emissions, participation in CORSIA has come hand in hand with an increase in aviation sector carbon emissions for some economies[5].

Therefore, the promise to review it yet again in 2032, with no binding commitment to further extend the EU ETS's scope if CORSIA is still found to be failing, removes all incentive to make CORSIA fit for purpose. Rather, it gives the aviation industry another six years to pollute without sufficient penalties, and therefore insufficient incentive to decarbonise.

While Opportunity Green welcomes the extension of the EU ETS to cover some international flights as a positive step in the necessary direction, the extension as provided in the proposal is nonetheless problematic as it exempts some of the world's

---

[2] See Annex 1 of our Policy Guide for methods. Opportunity Green, 2025. Policy guide to the EU ETS for aviation, online at https://opportunitygreen.org/wp-content/uploads/2026/01/Policy-guide-to-the-EU-ETS-for-aviation.pdf

[3] Article 28b of Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a system for greenhouse gas emission allowance trading within the Union, as amended by Directive (EU) 2023/958.

[4] In addition to the above shortcomings, CORSIA does not deal with non-CO_2 impacts, and it only covers international, not domestic, flights.

[5] Yan, Z., Zhang, J., Wang, Z., Du, Z., 2025. Does international coordinated industrial policy stimulate regional low-carbon aviation development?. Energy Economics 143, 108220. https://doi.org/10.1016/j.eneco.2025.108220

largest and wealthiest aviation markets, notably the United States and China, leaving the most polluting long-haul routes with no carbon price signal and no incentive to decarbonise. By excluding major markets while including lower-traffic destinations, such as those in North Africa, into scope, the proposal's design prioritises geopolitical considerations at the expense of climate impact and economic equity.

Furthermore, including extra-EEA flights in the EU ETS could contribute to levelling the playing field between US- and EU-based carriers, potentially boosting the European aviation industry's competitiveness at a time of volatile international trade dynamics[6].

The inclusion of all flights leaving EEA airports in the EU ETS would ensure alignment with the 'polluter pays' principle, a core principle guiding fair environmental policy. It could also potentially lead the way for more comprehensive action on international aviation emissions, and greater interconnectedness of global emissions trading systems[7].

Opportunity Green urges the Parliament and the Council to extend the ETS to all departing flights from 2027.

Ensure that price increases are fair and can be communicated effectively

The proposed inclusion of business flights into the scope of the EU ETS is a positive and overdue change. By closing the business aviation loophole in line with the polluter pays principle, the proposal finally puts those operators whose passengers pollute the most per capita in line with others.

This is also essential to communicate the existing and expected extended scope of the ETS on aviation: if regular citizens are to contribute to the ETS for their pollution, those who pollute much more per capita and can shoulder more costs must be seen to be paying their fair share.

Since the effective scope of the inclusion will depend on the definition of 'business flight' and on the list of business aircraft to be adopted by the Commission through implementing acts, co-legislators should ensure that these definitions are comprehensive and leave no loopholes to exploit in the system.

---

[6] Opportunity Green, 2025. Policy guide to the EU ETS for aviation, online at https://opportunitygreen.org/wp-content/uploads/2026/01/Policy-guide-to-the-EU-ETS-for-aviation.pdf

[7] Opportunity Green, 2025. Policy guide to the EU ETS for aviation, online a https://opportunitygreen.org/wp-content/uploads/2026/01/Policy-guide-to-the-EU-ETS-for-aviation.pdf

Generate revenues for Member States and EU innovation

The proposal reshapes how ETS revenues are allocated by introducing the requirement that Member States must direct 50% of ETS revenues to support the decarbonisation of ETS sectors and provides a defined list of decarbonisation priorities, such as, clean energies, aviation and maritime transport and industrial decarbonisation. This, coupled with the proposal detailing a much broader list of Members States climate action projects that the remaining revenues can go toward, such as ecosystem/forest protection, building renovation, social support for lower and middle-income households, climate adaptation, support for vulnerable third countries, and just-transition labour supports, are welcome measures. The Commission has sought to include guardrails by detailing that use of such revenues should not prolong reliance on fossil fuels in power generation and shall be consistent with the transition to a safe and sustainable low-carbon economy, the objectives of the Union's 2040 climate and energy policy framework, and the climate-neutrality objective. It has also included in the proposed legislation important Member State transparency and reporting requirements for use of this revenue.

While the above are welcome steps, some concerns remain. Firstly, the proposal appears to establish only general principles, rather than setting out clear eligibility criteria for the revenues. This is not sufficient to effectively exclude resources and support for fossil fuel-based activities, and further fossil fuel lock-in. Secondly, A further concern is that, while the proposal requires at least 50% of ETS revenues to be directed towards the decarbonisation of ETS-covered sectors, it does not establish any allocation between those sectors. There is no requirement for revenues to be distributed according to the sector's contribution to ETS revenues, its emissions, or its decarbonisation needs. This leaves significant discretion to Member States over how the funding is allocated and could result in sectors receiving support that is disproportionate to their contribution to the ETS or their need for public investment.

And finally, the Commission has changed the requirement governing the remaining revenues from "shall use" to "may use" for climate spending. This weakens what was previously a clear obligation on Member States and gives them greater discretion over whether these revenues are used for climate action at all, further increasing the risk that international climate finance is squeezed out.

Opportunity Green urges the co-legislators to ensure there are stringent eligibility criteria applied to the revenue spending by Member State for their 50% mandated share for ETS contributors. We also recommend that the proposals require Member States to allocate the protected 50% of ETS revenues across ETS-covered sectors in a way that reflects their respective emissions, contribution to ETS revenues and decarbonisation needs, rather than leaving the distribution entirely to Member State discretion. Alongside this we ask for an amendment to the revenue-recycling provisions to ensure that the remaining ETS revenues remain subject to a binding obligation to fund climate action, rather than giving Member States discretion over whether these revenues are used for climate spending.

Meet the EU's climate finance commitments

The Commission's proposal recognises that ETS revenues can contribute to the EU's international climate finance commitments under the Paris Agreement. It allows Member States to use ETS revenues to finance climate action in vulnerable third countries, including climate adaptation and technology transfer, and explicitly permits funding for measures to protect and restore ecosystems in developing countries that have ratified the Paris Agreement.

The Commission's proposal also recognises that ETS revenues can contribute to the EU's international climate finance commitments under the Paris Agreement. It allows Member States to use ETS revenues to finance climate action in vulnerable third countries, including climate adaptation and technology transfer. It also explicitly permits ETS funding for measures to protect and restore ecosystems in developing countries that have ratified the Paris Agreement.

However, the new revenue recycling architecture, where at least 50% of revenues must go to ETS sector's decarbonisation, could constrain the availability of funds to dedicate to international climate finance.

Opportunity Green therefore recommends a binding requirement in the ETS Directive mandating that Member States earmark a defined share of aviation ETS revenues for international climate finance, bringing that purpose inside the protected share, rather than leaving it to whatever unspent resources remains[8].

Support the most ambitious EU alternative fuels and technologies

The extension of allowances available for operators using alternative fuels and technologies to decarbonise is a welcome step, particularly the inclusion of support for battery electric technologies and the phase out of support for fuels made from waste oils and fats. With lower potential to reduce emissions and risk of causing wider biodiversity and environmental damage – alongside a shortage of truly 'waste' feedstocks available – it is right that the ETS should not reward their use via allowances.

However, the proposal falls short by weakening the incentive offered to the highest integrity alternative fuels – those made using renewable hydrogen[9] – over biofuels with less potential to reduce emissions. Not only does the proposal reduce the relative advantage of e-fuels over biofuels by narrowing the difference in price-differential

---

[8] Opportunity Green, 'International Emissions Trading System and climate finance' (2026), online at International-ETS-and-Climate-Finance_OG.pdf
[9] Opportunity Green, 'Fuelling Misconceptions: The legal risks of advertising "sustainable aviation fuel' (2025), online at https://opportunitygreen.org/wp-content/uploads/2026/01/OpportunityGreen-SAFlegalbriefing-consumerandfinancialgreenwashing.pdf

coverage, it also lowers the absolute level of support for e-fuels by reducing their current 95% coverage to 60%, diluting support for those seeking to lower their emissions through the use of high integrity alternatives. Rather, support should be reserved for e-fuels.

Also concerning are the Commission plans to extend eligibility for allowances to flights, regardless of whether operators have paid into the scheme. This is an inherently unfair approach where those not contributing into the system still reap its benefits.

Tackle the other half of aviation emissions: non-CO_2

Allowances are also the instrument chosen for aviation's non-CO_2 impacts, with even weaker results. In its explanatory memorandum, the Commission has recognised that aviation is a source of non-CO_2 climate impacts at least as significant as those of CO_2, yet that recognition is not translated in any pricing of those impacts in the proposal itself. By including contrails within the EU ETS, the proposal reflects Opportunity Green's position that we have enough information about aviation's non-CO_2 impacts to act on them. However, the proposed mechanism falls well short of what is required for effective action. Not only is participation voluntary, but the approach merely rewards airlines with free emission allowances for adopting contrail forecasting tools without requiring a single contrail to be avoided. The proposed scheme will expire in 2033 with no tightening of requirements or transition to mandatory action planned for the future. In doing so, the proposal does not make airlines pay for their contrail impact, making it a missed opportunity to truly incentivise action.

Opportunity Green has set out in detail how an effective mechanism would work: a fee on airlines' contrail climate impacts from 2028, from which operators are initially exempt where they adopt approved contrail forecasting tools; from 2030, exemption would be conditional on demonstrating avoidance on the most warming routes; from 2032, adoption of approved fuel-based measures such as hydrotreating would be necessary for exemption; and by 2035, no exemptions would be kept, with airlines paying the full fee on their remaining impacts, based on MRV-reported data.

Next steps for an equitable EU ETS

The Commission's proposal is a step in the necessary direction but falls short of the changes needed for the ETS to drive down aviation's emissions in a way that is ambitious, just, equitable, and in line with the EU climate goals.

Opportunity Green calls on the European Parliament and the Council to act decisively on the findings of the Commission's assessment of CORSIA by extending the ETS to all EEA departing flights.

The proposal should also be strengthened on the subject of revenue allocations by Member States, ensuring fossil fuel projects, and those that could lock in solutions that are not in line with our net zero commitment, do not receive funding. Similarly, leaving Europe's international climate finance obligations unearmarked will likely leave many Member States fall short of their responsibilities and obligations.

The allocation of allowances for operators decarbonising using alternative fuels and technologies should be limited to the highest integrity solutions – namely e-fuels, hydrogen and battery electric propulsion – with only those who pay into the system able to benefit from it.

Finally, to ensure that the aviation industry is reducing, and paying for, the full breadth of its climate impact, the proposed mechanism for allocating allowances for voluntarily adopting contrail forecasting technologies should be replaced by a phased mechanism which introduces a fee on airlines unless they act on their contrail climate impacts, tightening from 2028 to 2035.

Opportunity Green urges the European Parliament and the Council to be ambitious and to resist pressure from industry and geopolitical actors, and to strengthen the Commission's proposal where it falls short.

Key recommendations to the EU co-legislators

International scope	• Extend the scope to all EEA departing flights. • Apply the extension from 2027.
Business flight	• Ensure all business flights are included.
ETS revenues	• Ensure there are stringent eligibility criteria applied to the revenue spending by Member States for their 50% mandated share for ETS contributors. • Require Member States to allocate the protected 50% of ETS revenues across ETS-covered sectors in a way that reflects their respective emissions, contribution to ETS revenues and decarbonisation needs. • Amend the revenue-recycling provisions to ensure that the remaining ETS revenues remain subject to a binding obligation to fund climate action, rather than giving Member States discretion over whether these revenues are used for climate spending.
Climate finance	• Introduce a binding requirement in the ETS Directive mandating that Member States earmark a defined share of international ETS revenues for international climate finance.

Alternative fuels allowances	• Focus allowances on highest integrity fuels only. • Only allow those who contribute to the ETS to access its allowances.
Non-CO2	• Replace the voluntary allowance reward with a phased fee on airlines unless they act on their contrail impacts.

Opportunity Green

At Opportunity Green we use legal, economic and policy knowledge to tackle climate change. We do this by amplifying diverse voices, forging ambitious collaborations and using legal innovation to motivate decision makers and achieve climate justice.

www.opportunitygreen.org

Legal disclaimer

Further information

Matilde Manzi
Legal Policy Manager
Matilde@opportunitygreen.org

Aurelia Leeuw
EU Policy Director
Aurelia@opportunitygreen.org