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Position Paper

Open public consultation concerning the review of ETS1

Inhalt

1 Evaluation

This section of the questionnaire focuses on the ETS1 implementation since the amendments introduced by Directive (EU)2018/410 and at the MSR Decision's implementation from 2019 to the present. The implementation of new rules introduced in the review of the EU ETS that entered into force on 5 June 2023 is not part of the scope of the evaluation. This includes the new emissions trading system covering CO2 emissions from fuel combustion in buildings, road transport and small industry (ETS2), which will start operating in 2027. Furthermore, any assessment of the feasibility of integrating the sectors under ETS2 into the ETS1 is also excluded as it is subject to a review clause due in 2031. This part of the questionnaire aims to identify strengths, weaknesses and areas for improvement based on real-world outcomes and stakeholder experiences. The evaluation criteria will focus on the effectiveness, efficiency, coherence, relevance, and EU added value of the ETS Directive and MSR Decision.

1.1 Effectiveness

Effectiveness considers how successful EU action has been in achieving or progressing towards its objectives.

1.1.1 How effective do you think the ETS Directive has been in achieving its objective to reduce greenhouse gas emissions?

- Very effective
- Moderately effective
- Slightly effective
- Not effective at all
- Do not know

1.1.2 How effective are current measures (free allocation and indirect cost compensation) in protecting against carbon leakage in non-CBAM sectors?

- Very effective
- Moderately effective
- Slightly effective
- Not effective at all
- Do not know

1.1.3 How effective has the MSR Decision been in achieving its two main objectives?

	Very effective	Moderately effective	Slightly effective	Not effective	Do not know
Addressing the structural surplus of allowances that had accumulated in the EU ETS since 2009	◉	○	○	○	○
Improving the system's resilience to major shocks (by adjusting the supply of allowances to be auctioned)	○	○	◉	○	○

1.1.4 What feature of the MSR contributed most to its effectiveness so far?

- The MSR reduced auction volumes in the EU ETS
- The MSR invalidated allowances through the invalidation mechanism
- The MSR offered certainty that any supply or demand shocks will be tackled through its functioning
- The MSR was not effective
- Do not know

1.1.5 Please provide specific examples or evidence to support your assessment of effectiveness of the ETS Directive and MSR Decision

Answer: There will continue to be significant measures at EU level that must be addressed via the EU ETS Directive to enable cost-efficient decarbonization while preventing de-industrialization and maintaining competitiveness. The MSR was designed to tackle supply and demand shocks. It effectively reduced the structural surplus, but it also represented a direct market intervention. Post 2030, it can be anticipated that there will rather be scarcity than oversupply of allowances in the ETS 1. While the MSR addressed issues of oversupply, it has not proven its effectiveness when reacting to scarcity which will be an increasingly important issue going forward. This period therefore requires close monitoring.

A clear legal definition of invalidation must be established. Invalidated volumes are not supposed to come back into the market.

No price-based measures should be introduced into the MSR and/or the ETS 1.

1.2 Efficiency

Efficiency considers the resources used by an intervention for the given changes generated by the intervention.

1.2.1 How would you rate the efficiency of the ETS Directive in terms of achieving its objectives in a cost-effective manner? In your response, please consider the extent to which the costs involved in the implementation of the EU ETS have been justified and proportionate to the benefits it generated.

- Very efficient
- Moderately efficient
- Slightly efficient
- Not efficient
- Do not know

1.2.2 How would you rate the efficiency of the ETS Directive in terms of administrative burden?

- Very efficient
- Moderately efficient
- Slightly efficient
- Not efficient
- Do not know

1.2.3 Please provide suggestions for improving the efficiency of the ETS in terms of administrative burden / regulatory costs

Answer: Introduce standardized values for key waste categories regarding heating value, CO2 emissions and biogenic content (e.g. for mixed MSW, sewage sludge from public waste water treatment, post-consumer waste wood).

1.2.4 Please provide suggestions for potential simplification measures as regards the EU ETS, which could be envisaged without negatively affect the achievement of its objectives

Answer: Exclude small emitters (< 25.000 tpy CO2) while recognising the monitoring plan according to Article 30b (4) lit. d as an equivalent measure to Article 27 / 27a as of 2027/2028, since the corresponding fossil fuel use of the small emitters is subject to the ETS 2.

For small fuel streams, a de minimis rule would be helpful: Exemption from certification/verification for less than 1,000 tonnes of CO2 emissions. This would reduce the administrative burden for emergency units, auxiliary and reserve boilers with low operating hours.

1.2.5 How would you rate the efficiency of the MSR Decision in terms of achieving its objectives in a cost-effective manner?

- Very efficient
- Moderately efficient
- Slightly efficient
- Not efficient
- Do not know

1.3 Relevance

Relevance looks at the relationship between the needs and problems at the time of introducing the intervention and during its implementation, as well as the relationship between the current and future needs and problems in the EU and the objectives of the intervention.

1.3.1 To what extent do the needs/problems addressed by the EU ETS Directive (cost-effective emissions reductions in the covered sectors to support the EU climate targets) continue to require action at EU level?

- To a very large extent
- To a large extent
- To some extent
- To a small extent
- Not at all
- Do not know

1.3.2 To what extent is the MSR Decision still relevant for improving market resilience of the EU ETS?

- To a very large extent
- To a large extent
- To some extent
- To a small extent
- Not at all
- Do not know

1.4 Coherence

Coherence means how well (or not) different interventions, EU/international policies or national/regional /local policy elements work together. At EU level, other policies with an interplay with the EU ETS Directive include the Renewable Energy Directive, the Energy Efficiency Directive, and the Industrial Emissions Directive. At international level, relevant measures include for example the Paris Agreement and ICAO's Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA).

1.4.1 How coherent do you find the ETS Directive and MSR Decision with other EU policies and international climate agreements

- To a very large extent
- To a large extent
- To some extent
- To a small extent
- Not at all
- Do not know

1.4.2 Please provide suggestions for improving coherence

Answer: The EU ETS is a technology-neutral and market-based instrument aligned with EU climate targets. Reduce the impact of additional measures that disturbs the price signals of the ETS. Funding and other support measures for ETS sectors should be technology-neutral and performance-based.

There should be better alignment between the required energy management systems of Article 11 EED in junction with recommendation (EU) 2024/2002 and No. 5 of the Guidelines on certain State aid measures in the context of the system for greenhouse gas emission allowance trading (2020/C 317/04).

Market liquidity is key for finding cost-effective price signals. The larger the scope of the ETS, the more costeffective reductions can be achieved. By 31 October 2031 the Commission will assess the feasibility of integrating the ETS2 in the ETS1 (Art. 30i). However, an assessment of the pros and cons and the value added of such a future combination is not subject of the current consultation.

1.5 EU Added Value

EU Added Value considers whether the results of the ETS and the MSR operation could have been achieved without EU intervention, i.e. via national actions by the Member States. Under the principle of subsidiarity (Article 5 Treaty on European Union), and in areas of non-exclusive competence, the EU should only act when the objectives can be better achieved by Union action rather than action by the Member States.

1.5.1 In your opinion, what is the value added of the EU ETS and MSR as instruments aimed at reducing greenhouse gas emissions in the EU?

- Very high
- High
- Moderate
- Low
- Very low
- Do not know

1.5.2 Please provide an explanation to support your view, in particular explaining which particular elements of the ETS you would signal out in terms of adding value or not adding value

Answer: It is important to distinguish between the added value of the ETS and the added value of the MSR. Over the last decade, decarbonisation of the European economy took mainly place in sectors covered by the ETS. The ETS system has been working well, providing a transparent and effective price signal for polluters. Important elements of the ETS include:

- A predefined transparent and predictable reduction path
- the establishment of an EU-wide common CO2 price signal.
- Harmonized rules for free allocation based on efficiency benchmarks.
- Harmonized CBAM and harmonized list of sectors subject to carbon leakage risk.

The MSR inception has been effective in managing the surplus of allowances in the market and protecting the ETS system from price shocks or excessive volatility. The added value of the MSR has been mostly focused on supporting a meaningful ETS price level in the 2017-2020 timeframe and helped to bring climateneutral to the market.

2 Impact assessment

The impact assessment will explore a number of options compared to the baseline (i.e. continued application of the current ETS Directive), including on:

- The geographical scope of ETS application to flights outside Europe: departing/ arriving flights other than those within the European Economic Area, to Switzerland or
- the UK;

Changes to the ETS rules applicable to maritime transport with the objectives to avoid significant double burden on maritime operators and environmental backsliding in case the International Maritime Organization adopts a GHG pricing mechanism, to consider the inclusion of emissions from smaller ships into the ETS as well as measures to ensure the effective implementation of the system and to address possible evasion/circumvention trends and measures to further simplify and improve the system were possible;

- The design of measures to address the risk of carbon leakage for emissions not covered by CBAM post 2030;
- The parameters for the operation of the MSR in addition to other elements of the
- design of the MSR; The potential inclusion of carbon removals into the ETS, covering the scope, the criteria for any such trading, and the safeguards to ensure that carbon removals do not reduce the incentive to reduce emissions;

The initiative will also examine how to maximise the climate benefit of the use of ETS revenues. This part of the questionnaire will aim to gather stakeholders' views on these elements.

2.1 Aviation emission

Based on the Climate Law and the Paris Agreement, all sectors of the economy, including aviation, have to contribute to reduce emissions. Currently transport accounts for around 30% of the EU's greenhouse gas emissions, with emissions nearly 30% above 1990 levels (Source: Figure 77, Annex 8, Climate Target Plan and underlying data). Aviation's share of EU transport emissions today is around 10%, by 2050 aviation's share is expected to grow to around 90%. Long-haul flights fuel this growth. Globally, the International Civil Aviation Organization (ICAO) projects international aviation emissions will continue to grow.

The EU ETS Directive applies to aviation since 2012 and was last revised in 2023 to prolong the scope derogation one last time until the end of 2026. Internationally, ICAO's Carbon Offsetting and Reduction Scheme for International Aviation (CORSIA) aims to offset emissions above a baseline through cancellations of international credits or the use of CORSIA eligible fuels. CORSIA participation is voluntary for countries since 2021. As of 2024, 126 States participate in CORSIA, while the scheme should become mandatory for countries with aviation activity above the threshold from 2027. Co-legislators have tasked the Commission to report on the geographical scope of application of the EU ETS to aviation, including a proposal as appropriate. In brief, the approaches envisaged in the Directive are:

- In the absence of a revision of the ETS Directive, from January 2027 the EU ETS will cover in addition to its current scope also flights departing from the EEA and arriving to other airports in third countries and, if not exempted through delegated acts (I.e. exercising the empowerment in Article 25a of the EU ETS Directive), incoming flights from third countries (With certain exemptions: Least Developed Countries and Small Island Developing States with a GDP lower than the EU's). All flights covered by the ETS, including long-haul, could request ETS-financed support for eligible sustainable aviation fuels.
- The EU ETS may be revised to maintain the current scope. The EU ETS would be applied exclusively on intra-European flights and departing flights to Switzerland and the UK, and CORSIA on extra-European international flights.
- The EU ETS may be revised to extend the scope to departing extra-European international flights
- (Intra-European flights as well as departing flights to the UK and Switzerland will remain under the EU ETS, as is the case today) and airlines could deduct any cost of CORSIA offsetting. Arriving flights would be covered by CORSIA (above the baseline) and any measures of the third country. This would mirror the approach taken for international maritime, and take into account CORSIA. All flights covered by the ETS, including departing long-haul flights, could request ETS-financed support for eligible sustainable aviation fuels.

2.1.1 How does action by the aviation sector measure up against its responsibility under the European Climate Law and the Paris Agreement? What level of effort to fight climate change should the aviation sector contribute and how should this

develop over time? The aviation sector's level of action is…

- More than sufficient (on track to exceed targets)
- Sufficient (on track to meet targets)
- Somewhat sufficient (clearly better than business as usual, but unlikely to meet targets)
- Not sufficient at all (business as usual or only slightly better
- Do not know

2.1.2 You are invited to substantiate with evidence

2.1.3 Does the current approach to international flights outside Europe adequately address emissions from these flights?

- Yes
- No
- Do not know

2.1.4 You are invited to substantiate with evidence

2.1.5 The impact assessment will also consider other issues related to aviation emissions. How would you rate the priority of the EU addressing these issues?

- Consideration of environmental and climate impacts of flights of less than 1000km, including but not limited to increased SAF use
- Consideration of the environmental and climate impacts of flights performed 'private/ business jets', i.e. as defined in the ETS Directive: flights performed by operators exempted pursuant to point (h) or (k) of the entry 'Aviation' of the column 'Activities' in the table of Annex I
- Consideration of social and labour market impacts of the ETS Directive in the aviation sector
- Consideration of air connectivity of islands and remote territories taking into account competitiveness and carbon leakage
- The ETS-financed SAF support for the uptake of eligible fuels for flights covered by the ETS carbon price started in 2024 Consideration of first experience and feedback is welcome (e.g. what it supports, who can benefit, level of support, timing, available allowances, type of support mechanism)

	Top priority	Highly important	Moderately important	Somewhat important	Least important	Not important at all	Do not know
Flights of less than 1000km	○	○	◉	○	○	○	○
"Private/ business jets"	○	○	○	◉	○	○	○
Social, and labour market impacts	○	◉	○	○	○	○	○
Connectivity, competitiveness, carbon leakage	○	○	◉	○	○	○	○
ETS support for eligible fuels	○	○	◉	○	○	○	○

2.1.6 You are invited to substantiate with evidence

Answer: In principle, all fossil fuel related CO2 emissions should be subject to CO2 pricing, but only once, either under the ETS 1 or ETS 2. However, then defining scope and thresholds for the inclusion in one of the ETS systems, the administrative cost for MRV need to be taken into account.

2.1.7 Outermost regions: In your view, do you think the ETS aviation rules are effectively reflecting the challenges faced by outermost regions? You are invited to substantiate with evidence.

Answer: The aviation sector of the outermost regions should be covered by CORSIA rather than the EU-ETS. Given the geographical isolation and lack of alternative transport modes, applying ETS obligations creates disproportionate burdens. Aligning with CORSIA ensures a globally consistent approach while avoiding negative impacts on connectivity and regional development.

2.1.8 Simplification: The Commission is constantly striving to improve the legislative framework, while maintaining the quality of the results. Without affecting the environmental integrity of the ETS as it applies to aviation, would you have any indications for areas for simplification of the Directive?

Answer: Do not know.

2.2 Maritime emission

While maritime transport plays an essential role in the EU economy and is one of the most energy-efficient modes of transport, it represents 3 to 4% of the EU's total CO2 emissions, or over 126 million tonnes CO2 in 2023.

Since January 2024, the EU ETS covers also the maritime transport sector and more specifically, CO2 emissions from all large ships (of ≥5 000 gross tonnage) calling at EU ports, regardless of the flag they fly and following a route-based approach which covers:

- 100% of emissions that occur between two EU ports and when ships are within EU ports;
- 50% of emissions from voyages starting or ending outside of the EU (allowing the third country to decide on appropriate action for the remaining share of emissions).

The EU ETS extension to maritime transport is part of a broader basket of measures adopted by the European Union to ensure that the sector contributes to the increased EU climate effort and to the Paris Agreement commitments, alongside continuing to push for global action at the International Maritime Organization:

- The ETS Directive as revised in 2023 includes a specific review clause (Article 3gg) in relation to maritime activities. The aim is notably to assess the carbon pricing mechanism to be possibly adopted at the International Maritime Organization (IMO) in 2025 and review the ETS accordingly with the objective to avoid significant double burden on maritime operators and environmental backsliding;
- consider extending the EU ETS to emissions from smaller ships (i.e. the ones below 5 000 gross tonnage but not below 400 gross tonnage), including offshore ships;
- monitor the implementation of the recent EU ETS extension to maritime transport and consider legislative improvements to ensure its effective implementation and to address possible evasion/circumvention trends;
- simplify and improve the system where possible (e.g. coherence with other EU legislations in relation to biomass treatment and in particular the zero-rating of RED-compliant first generation-biomass, promoting the uptake of renewable and low-carbon maritime fuels on a lifecycle basis, streamlining monitoring, reporting and verification rules).

2.2.1 Coherence with a possible global market-based measure at IMO

2.2.1.1 In the event of the adoption by the IMO of a global market-based measure to reduce greenhouse gas emissions from maritime transport, please provide your views on coherence with international developments and suggestions on how to avoid any significant double burden, taking into account the need of preserving the environmental integrity and effectiveness

of the EU climate action, the EU climate goals and its international commitments and EU competitiveness

Answer: Regarding 5.2.2.1: The ETS coverage should align with IMO requirements to avoid double regulation and unneces-sary administrative burden in particular for cases there ship operators are falling under the EU ETS with some ships and under the IMO with others. The extension of the IMO Net-Zero Framework to smaller will be considered during reviews after initial implementation.

Regarding 5.2.4.3: In line with the other sectors and activities, the ETS for the maritime sector should focus on combustion-related CO2 emissions and exclude upstream emissions. However, when assessing the eligibility of RFNBO or low carbon fuels for the zero emission factor, an EU-wide level playing field for all RFNBO and low carbon fuels is needed: MRV rules and sustainability crite-ria for maritime fuels need to be aligned with the RFNBOs and low carbon fuels used in other sectors (power, industry, aviation, heating, transport).

2.2.2 ETS maritime scope extension

2.2.2.1 Do you support extending the scope of EU ETS Maritime provisions to cover emissions from smaller ships (i.e. the ones below 5 000 gross tonnage but not below 400 gross tonnage, including offshore ships)

- Strongly agree
- Rather agree
- Neutral
- Rather disagree
- Strongly disagree
- Do not know

2.2.3 Ensuring the effective implementation of the ETS maritime rules and addressing possible risk of evasion/circumvention

2.2.3.1 Are the current measures effective in preventing shipping companies to evade the requirements of the EU ETS Directive?

- Strongly agree
- Rather agree

- Neutral
- Rather disagree
- Strongly disagree
- Do not know

2.2.3.3 In your view, do you think the ETS maritime rules are effectively reflecting the challenges faced by islands and remote territories, including outermost regions, where shipping services constitute essential services of territorial continuity?

- Strongly agree
- Rather agree
- Neutral
- Rather disagree
- Strongly disagree
- Do not know

2.2.4 Coherence with other EU legislations and possible simplification

2.2.4.1 Do you think the administrative costs linked to the implementation of the ETS extension to maritime transport are proportionate and reasonable?

- Strongly agree
- Rather agree
- Neutral
- Rather disagree
- Strongly disagree
- Do not know

2.2.4.3 Do you think the ETS should further incentivise the uptake of renewable and low-carbon maritime fuels based on Well-to-Wake emissions, taking into account the impacts of energy production, transport, distribution and use on board

- Strongly agree
- Rather agree
- Neutral
- Rather disagree
- Strongly disagree
- Do not know

2.3 Stationary installation

2.3.1 The Commission is constantly striving to improve the legislative framework, while maintaining the quality of the results. Without affecting the environmental integrity of the ETS as it applies to stationary installations, would you have any indications for areas for simplification of the Directive

Answer: A de minimis rule should be introduced for small fuel streams, granting exemption from certification and verification for installations emitting less than 1,000 tonnes of CO_2 per year. This would significantly reduce administrative burden without compromising the environmental integrity of the ETS, particularly for units with low operating hours such as emergency generators, auxiliary systems, and reserve boilers.

The newly introduced conditionality for free allocation should be revised as it adds a significant administrative burden to plant operators.

Fossil fuel use and emissions from installations < 20 MW are covered by the ETS2; there is a very high administrative burden for operators for MRV and surrender of allowances associated with the inclusion in the ETS1. Therefore, the current threshold of 20 MW should be kept.

Additional remark: Question 5.6.1 can only be finally answered once the role of carbon removals and the 2040 target for the EU is fixed.

2.3.1 Measures to address the risk of carbon leakage for emissions not covered by CBAM sector

The introduction of the CBAM is intended to address the risk of carbon leakage in certain sectors. In these sectors, free allocation of ETS allowances will be phased out gradually from 2026 as CBAM is phased in. From 2034 CBAM sectors will not receive free allocation. It may therefore be necessary to consider what carbon leakage protection measures may be needed after 2030 for emissions not covered by CBAM.

2.3.1.1 If free allocation is continued beyond 2030 for sectors not covered by CBAM, should the future provision of free allocation be based upon

Maximum 3 selection(s)

- The same carbon leakage list as previously applied in Phase IV (2021-2030)

- An updated carbon leakage list
- Providing free allocation on the basis of an updated benchmark methodology
- Making free allocation conditional on taking steps towards carbon neutrality (the 2023 revision of the ETS Directive already introduces new conditions based on emission intensity from 2026)
- Other
- Do not know

2.3.1.2 Please specify

Answer: Increasing electrification of energy-intensive processes may raise carbon leakage risk, since parts of power generation are still fossil. This increased significantly since the energy crisis. The list should be reviewed for expansion, not reduction. The status quo of sectors should be protected.

2.3.1.3 Do you think indirect cost compensation will remain necessary after 2030 to protect against the risk of carbon leakage resulting from carbon costs passed on in electricity prices (in sectors where indirect emissions are not covered by CBAM)?

- Yes, the current approach based on State aid should be maintained
- Yes, but the system for compensating indirect carbon costs should be harmonised at EU-level
- No, indirect cost compensation should be phased out
- Other views
- Do not know

2.3.1.4 Free Text Question

Answer: Fossil power plants often set electricity prices, driving up costs for energy-intensive industries. This may increase the risk of industrial migration and calls for targeted relief. It should therefore be examined whether other sectors or products should be included in the list.

2.4 Revenue use

The sale of allowances in the EU ETS auctions raises a substantial revenue for Member States to support climate action and energy transformation. In 2023, the total auction revenue amounted to EUR 43.6 billion. Of this, EUR 33 billion went directly to the Member States and EUR 0.3 billion went to Iceland, Liechtenstein, Norway and Northern Ireland. EUR 7.4 billion supplied the ETS Innovation Fund and the ETS Modernisation Fund, and the remaining EUR 2.8 billion supplied the Recovery and Resilience Fund, which Member States use to advance the clean energy transition and boost energy security – by implementing the reforms and investments included to their resilience and recovery plans.

Under Article 10(3) of the ETS Directive, since June 2023 Member States are obliged to use 100% of the revenue collected (or an equivalent financial value) to support climate action and energy transformation, except for any revenue that Member States spend in aid for electricity-intensive industries for indirect carbon costs. The specific purposes are listed in Article 10(3) and include industrial decarbonisation, energy transformation, clean tech technologies, adaptation to climate change, international climate finance, decarbonisation of the transport sector including public transport and mobility, actions for just transition and social support, and administrative expenses of managing the EU ETS.

5.4.1 In your view, what should be the most important uses of ETS1 auction revenues in the future?

Use drag&drop or the up/down buttons to change the order or accept the initial order.

- Development of a clean energy system
- Development of renewable energy sources
- Decarbonisation of industrial installations
- Development of innovative clean technologies
- Upscaling clean technologies
- Decarbonisation of maritime transport
- Decarbonisation of aviation
- Social support and just transition
- Energy efficiency
- Public transport and mobility (rail, bus, metro, tram, micro-mobility)
- Climate adaptation
- International purposes and international climate finance

2.4.2 Do you think that there is sufficient transparency on how Member States use the revenues generated through the EU ETS?

- Strongly agree
- Rather agree
- Neutral
- Rather disagree
- Strongly disagree
- Do not know

2.4.3 Please explain what should be done to increase transparency (if anything)

Answer: Do not know.

2.4.4 Do you think support via the Modernisation Fund will remain necessary in the future?

- Strongly agree
- Rather agree
- Neutral

- Rather disagree
- Strongly disagree
- Do not know

2.4.5 If so, do you think the current scope of the Modernisation Fund is sufficient to address the decarbonisation challenges in lower-income Member States?

- Yes, the current scope should be maintained
- No, the scope should be extended
- I do not know

2.4.6 Please specify

2.4.7 Do you think support via the Innovation Fund will remain necessary in the future to support decarbonisation in any of the sectors not covered by the new Industrial Decarbonisation Bank?

- Strongly agree
- Rather agree
- Neutral
- Rather disagree
- Strongly disagree
- Do not know

2.4.8 Please substantiate your reply, in particular indicating which features of the current Innovation Fund should be maintained, strengthened, modified or removed?

Answer: Support through the Innovation Fund will remain necessary in the future to support decarbonization in the ETS sectors. The emission reductions achieved by projects supported by the innovation fund should not distort the general market-based price signals of the ETS. Therefore, funding should focus on non-mature innovative technologies under development. Project-enabling financial support will be required for technologies that are not yet economically mature, but the mechanism and the available funds will not be sufficient or cost-effective for a transition at scale. Hence, the EU should put more focus on developing market-forming policies supporting demand-side mechanisms creating markets where EU consumers are willing to pay for the higher cost of lower-carbon products and services.

2.5 New Industrial Decarbonisation support

While the EU carbon price already provides an incentive to invest in industrial decarbonisation, many of the investments needed currently have higher abatement costs than the prevailing carbon price. That's why the Clean Industrial Deal fosters competitive industries and quality jobs notably by channelling investments into energy-intensive sectors and clean technologies and ensuring access to affordable energy supplies and raw materials.

Considering that this also requires instruments that provide public financial support in an adequately targeted manner and designed to meet the needs of the market, the Commission announced the creation of an Industrial Decarbonisation Bank to mobilise over €100 billion in funding, based on available funds in the Innovation Fund, additional revenues resulting from parts of the EU ETS as well as the revision of InvestEU. It should help to decarbonise at scale energy intensive industries, to harness competitive advantages across the EU vis-à-vis global competition and to prevent carbon leakage, de-industrialisation and new strategic dependencies.

The Industrial Decarbonisation Bank will maximise emission reductions. It will use ETS allowances reserved for this purpose as part of the architecture of the EU ETS to support projects with carbon emission reduction as a metric to enable technology-neutral support across industrial sectors, including through carbon contracts for difference. It will be designed to ensure a competitive selection and a fair distribution of support across Member States. It will complement the ETS price signal and help bridge the funding gap in both capital and operational expenditures. The Innovation Fund and other support mechanisms developed under the EU ETS already provide examples of best practices to build upon.

2.5.1 Do you support the creation of an Industrial Decarbonisation Bank to support industrial decarbonisation efforts?

- Yes
- No
- I don't know

2.5.2 What type of instruments would best support the business case for industrial decarbonisation?

- Fixed premia support for specific products (e. g. Hydrogen Bank auction)
- Carbon contracts for difference
- Grants

- Promotional loans
- Production tax credits
- Blending
- Other

2.5.3 Please specify

Answer: 5.5.2: CCfD and Grants. Ideally, measures should not distort or run counter to the price signal of the EU Trading Scheme (EU ETS). The aim must be to incentivise emission reductions while enabling effective measures to prevent carbon leakage.

2.5.4 Do you support additional national resources complementing European-level funding instruments, e.g. through “as-a-service” features?

- Yes
- No
- I don’t know

2.5.5 Please specify

2.5.6 In your view, what should be the balance between EU-level competition (funding the most cost-effective projects in the EU single market; focus on the EU’s global competitiveness) and geographical balance (quotas based on location)?

- EU-level competition should prevail over geographical balance
- Geographical balance should prevail over EU-level competition
- Other

2.5.7 Please specify

Answer: If the Ind. Decarb. Bank is only funded by ETS revenues, it does not add additional funding, just redistributes. EU-level competition should prevail over geographical balance. Performance should be the main driver rather than location and focus should be given to strengthening the EU single market.

2.6 Market Stability Reserve (MSR)

The Market Stability Reserve started operating in 2019. It is a rule-based tool aimed at addressing the surplus of allowances that had accumulated in the EU ETS since 2009, as well as at improving the system's resilience to major shocks by adjusting the supply of allowances to be auctioned. Each year, the Commission publishes the total number of allowances in circulation (TNAC) in the previous year. When this indicator is above 833 million, allowances are withdrawn from the auction volume and placed in the reserve. The MSR intake is either at a rate of 24% of the TNAC, or the difference between the TNAC and 833 million when the TNAC is between 833 and 1 096 million allowances (in order to mitigate threshold effects). If the total number of allowances in circulation is less than 400 million, 100 million allowances are released from the reserve and auctioned. Allowances are either placed in or released from the reserve over the course of 12 months, by reducing or increasing the auction volumes on the primary market for allowances. Allowances in the reserve above 400 million are invalidated on 1 January every year.

So far, the MSR has reduced the structural surplus in the EU ETS. The TNAC in 2023 amounted to 1 112 million allowances. A decreasing market size of available allowances under the EU ETS, intrinsic to the system design (i.e. declining cap) leaves the question about the future role of the MSR: are the original problems still relevant and which potential future problems might it need to address.

2.6.1 Going forward, what should the MSR achieve to ensure the proper functioning of the EU ETS?

- The MSR should continue to tackle the surplus in the market
- The MSR should serve as mechanism to increase market liquidity
- The MSR should be strengthened to prevent excessive EU ETS price volatility
- None of the above
- Other
- I don't know

2.6.2 Please specify

Answer: The MSR should remain rule-based and volume controlled to guarantee reliability. In principle, it must benoted that the MSR is a market intervention that should be avoided or at least kept to a minimum. Any redesign of the MSR should take into account the hedging needs of covered sectors.

2.6.3 What changes to the MSR would you propose?

Maximum 3 selection(s)

- ☐ Fixed thresholds for MSR intake (833 million allowances) and/or release (400 million allowances) need to be adjusted downwards
- ☐ Fixed thresholds for MSR intake (833 million allowances) and/or release (400 million allowances) need to be adjusted upwards
- ☐ Intake and/or release thresholds should be dynamic, i.e. reflect market conditions at a specific point in time
- ☐ A buffer should be added also for the release threshold, similarly to that for the intake threshold, in order to address potential threshold effects related to releases
- ☐ Intake rate should be kept at 24% beyond 2030
- ☐ Intake rate should revert to 12% after 2030
- ☐ The response time of the MSR should be decreased from annual supply adjustments to adjustments with higher frequency
- ☐ The invalidation rule for holdings in the reserve above 400 million allowances needs to be adjusted
- ☐ The MSR should remain as it is
- ☐ Other
- ☐ Do not know

2.6.4 Free Text Question

Answer: MSR is a market intervention, but it has proved its worth, ensured liquidity and avoided price shocks. It should be continued in its current form. MSR provides resilience, but more structural policy changes are needed to ensure liquidity in the long term. Interventions should be kept to a minimum.

2.7 New technologies

2.7.1 Carbon Removals

Article 30(5) of the ETS Directive requires that the Commission report on how negative emissions resulting from GHG emissions that are removed from the atmosphere and safely and permanently stored (also called 'carbon dioxide removals', or 'CDR') (such as from biogenic emissions coupled with carbon capture and storage, BECCS, or direct air capture and storage, DACCS) could be accounted for and how those negative emissions could be covered, if appropriate, by emissions trading. This consideration needs to include (a) a clear scope, (b) strict criteria, and (c) safeguards to ensure that carbon removals do not reduce the incentive to reduce emissions as required by the EU Climate Law.

The Carbon Removal and Carbon Farming (CRCF) Regulation of 27 November 2024, which aims to create an EU-wide voluntary framework for certifying different types of carbon removal activities across Europe, including permanent carbon removals and temporary removals including via carbon farming and carbon storage in products. Certified units will be issued for carbon removal activities that take place within the EU.

The EU ETS currently regulates direct emissions to stimulate reductions, with a shrinking cap expected to result in no new allowances by 2045 based on the yearly reduction of the cap in application of the linear reduction factor to the current scope of the EU ETS. A shrinking cap may impact the functioning of the carbon market, in particular with lower liquidity (possibility to quickly buy allowances) making the market more liable to price spikes. Moreover, emissions reductions in regulated sectors may be more challenging to achieve in the next period if the majority of emissions that remain in the system are increasingly those that are hardest to abate, leading to an interest in considering alternative means of achieving EU GHG targets. Allowing EU ETS regulated entities to use removal units towards their EU ETS compliance could address some of these concerns, but is also subject to important challenges, such as ensuring that carbon removals do not reduce the incentive to reduce emissions as required by the EU Climate Law. At the same time, allowing use of removals under the EU ETS could provide regulatory clarity and incentivize investments in carbon removals.

The following questions on the potential inclusion of carbon removals in the EU ETS do not preclude complementary or alternative policies from being developed for the scaling up carbon removals.

2.7.1.1 With regards to the possible use of CRCF removal units* by EU ETS regulated entities towards their compliance obligations, please indicate whether you agree or disagree with the following options:

	Strongly agree	Somewhat agree	Neutral	Somewhat disagree	Strongly disagree	Do not know
Removals certified under the CRCF should NOT be allowed for use by EU ETS regulated entities towards their compliance obligations	○	○	○	○	◉	○

2.7.1.2 With regards to the possible use of CRCF removal units* by EU ETS regulated entities towards their compliance obligations, please indicate whether you agree or disagree with the following options:

	Strongly agree	Somewhat agree	Neutral	Somewhat disagree	Strongly disagree	Do not know
Removals certified under the CRCF should NOT be allowed for use by EU ETS regulated entities towards their compliance obligations	○	○	○	○	◉	○
Permanent removals** certified under the CRCF should be allowed for use by EU ETS regulated entities towards their ETS compliance obligations	◉	○	○	○	○	○
Temporary removals*** certified under CRCF should be allowed for use by EU ETS regulated entities towards their ETS compliance obligations	○	○	○	○	◉	○

CRCF removals should be acquired by a central agency and inserted into the EU ETS under specific conditions	○	○	○	◉	○	○
EU ETS regulated entities should be allowed to purchase CRCF removals directly from removal suppliers and use them to fulfil surrender obligations	◉	○	○	○	○	○
EU ETS installations should be allowed to deduct from their compliance obligations any removals generated from their own activities, i.e. an ETS installation is able to obtain negative emissions by capturing and storing any of its emissions which are rated zero, without having to obtain a CRCF credit.	○	○	◉	○	○	○
The use of CRCF removals by ETS regulated entities should not be unlimited, but subject to restrictions	○	○	○	○	○	◉
The use of CRCF removals by EU ETS regulated entities should be phased in slowly over time	○	○	◉	○	○	○
There should be a limit on gross emissions by EU ETS regulated entities (not only net ones)	○	○	○	◉	○	○

* The CRCF certifies the following activities which are defined as one or more practices or processes carried out by an operator, or a group of operators, resulting in (i) a permanent carbon removal, (ii) a temporary carbon removal through carbon farming or through carbon storage in products, (iii) or soil emission reductions through carbon farming where such carbon farming, overall, reduces the emissions of carbon from soil carbon pools or increases carbon removals in biogenic carbon pools.

*** The CRCF certifies the activity resulting in temporary carbon removal through carbon farming or through carbon storage in products. These are defined as follows:

- 'carbon farming' means any practice or process carried out over an activity period of at least five years, related to the management of a terrestrial or coastal environment and resulting in the capture and temporary storage of atmospheric or biogenic carbon in biogenic carbon pools, or in the reduction of soil emissions;
- 'carbon storage in products' means any practice or process that captures and stores atmospheric or biogenic carbon for at least 35 years in long-lasting products, allows on-site monitoring of the carbon stored and is certified throughout the monitoring period;

2.7.1.3 Please provide explanation or examples to support your view.

Answer: Integration of carbon removals into the EU ETS is necessary for a transparent CO2 market price for removals, which is crucial for the use of CfD as a funding instrument. Initially, only permanent carbon removals should be included in line with the CRCF. The EU-wide applicable CRCF requiring a 200-year commitment should be mandatory for the certification of negative emissions for compliance purposes in the ETS. Adequate carbon leakage protection is a crucial enabler.

2.7.1.4 Do you consider that **alternative or complementary** policies to the integration of carbon removals in the EU ETS are necessary to scale up carbon removals?

- Alternative policies are needed
- Complementary policies are needed
- None
- I don't know

2.7.1.5 Please list and explain which

Answer: Negative emissions will not be able to finance themselves exclusively via the CO2 price during the market ramp-up phase. Near-term additional financial support (e.g. through CCfDs) may be required to accelerate the learning curve and kickstart the development of the necessary infrastructure. In the ramp-up phase, support for development and upscaling is required via the innovation fund as well as the industrial decarbonisation bank. When designing further measures, it is particularly important that the high OPEX costs are taken into account - for example in the case of BECCS. The entire process chain, from CO2capture to transportation and storage, must also always be considered.

2.8 Non-permanent Carbon Capture and Usage (CCU)

Industrial carbon management involves the use of a range of technologies to capture, store, transport and use CO_2 emissions from industrial facilities, as well as to remove CO_2 from the atmosphere. The EU Industrial Carbon Management Strategy seeks to develop these technologies and the regulatory and investment framework to support them.

Emissions from some industrial processes and forms of transport or agriculture are more difficult or expensive and the challenge to reduce emissions will increase as we approach the 2040 and 2050 targets.

In some cases, where a carbon-based feedstock is required, alternatives to fossil feedstock are necessary. This is why there is a role to play for technologies to remove, capture, store and reuse carbon.

The EU already has a number of policies in place to support the capture and storage of CO_2, including the possibility to avoid surrendering allowances in the EU ETS if emissions are captured and permanently stored. The 2023 revision of the EU ETS also introduced the possibility to avoid surrendering allowances where emissions are captured and stored permanently in CCU products in compliance with the requirements set out in Article 12(3b), as an equivalent to the possibility to capture and store emissions geologically under Article 12(3a).

Concretely, the ETS recognizes mineral carbonates used in construction products: carbon capture and utilization (CCU) products as permanently chemically binding CO_2 under Delegated Regulation C(2024)

5294. The mineral carbonates are considered permanent when used in the following construction products:

- Carbonated aggregates used unbound or bound in mineral based construction products;
- Carbonated constituents of cement, lime, or other hydraulic binders used in construction products; Carbonated concrete, including precast blocks, pavers or aerated
- concrete; Carbonated bricks, tiles, or other masonry units.

With this framework, the EU ETS has implicitly established accounting (Accounting in this context refers to emission accounting, i.e. monitoring and reporting emissions associated with certain processes, and, in the context of the EU ETS the surrender of the corresponding number of emission allowances) of nonpermanently captured emissions upstream, at the first point to release. Until all stages of the life of a product in which captured carbon is used are subject to carbon pricing, in particular at the stage of waste incineration, reliance on

accounting for emissions at the point of their release from products into the atmosphere ('downstream' accounting) might result in emissions being undercounted. At the same time, the current framework of upstream accounting places non-permanent CCU products at a disadvantage in comparison to products that use virgin fossil carbon feedstock and does not take into account the CCU benefits in terms of displacing virgin fossil fuels and the related emissions.

Taking into account in particular the potential inclusion of waste incineration and landfills into the EU ETS and the need to provide a level-playing field for the replacement of fossil carbon feedstock by alternative sources, it is necessary to assess whether the CO_2 potentially released from non-permanent CCU products and fuels should be accounted at the point of emission to the atmosphere ('downstream accounting'), and if so in a manner equal to any products whose manufacturing is based on virgin fossil fuel carbon feedstocks, or when the CO_2 is initially captured ('upstream accounting').

Overall, the capture of carbon should be regulated in a way that reduces net emissions and ensures that all emissions are accounted for in an equal manner and that double counting is avoided. This could take into account the potential climate benefit of non-permanent CCU applications as alternative to a fossil-based product and therefore their role in complementing mitigation efforts for hard-to-abate emissions, as well as considering the energy consumption to power this energy-intensive process and the need to support investments in CCU as a technological pathway to reduce strategic dependencies on imported virgin fossil fuels, promote the re-use of carbon and circular business models.

2.8.2.1 Please indicate to what extent you agree with the following statements.

	Strongly agree	Somewhat agree	Neutral	Somewhat disagree	Strongly disagree	Do not know
The surrender obligation should be moved downstream for non-permanent products produced with captured CO 2	○	○	○	◉	○	○
The ETS should adjust the surrendering obligations where emissions are captured and used (CCU) in products that do not result in the permanent storage of the captured carbon, to acknowledge the potential climate benefit of the capture and use of the carbon	○	○	◉	○	○	○
There should be restrictions or conditions to adjusting surrendering obligations to recognise the climate benefit of the capture and non-permanent use of carbon (e. g.: minimum emission savings, displacement of fossil carbon, avoiding double counting/pricing of the same emissions)	○	◉	○	○	○	○

2.8.2.2 Please provide your main views regarding the treatment of capture and nonpermanent use of carbon in the ETS, and potential adjustments in surrendering obligations to recognise its climate benefits.

Answer: The use of non-permanently bound CO2 needs to be regulated on the EU level in order to ensure economic efficiency and planning certainty for companies. In the context of the

non-permanent use of CO2, it is also important to distinguish between biogenic and non-biogenic CO2.

2.8.2.3 What accounting approach should be applied to ensure the integrity and effectiveness of the EU ETS, i.e. avoiding underpayment or double payment of ETS emissions, to non-permanent CCU technologies in the ETS?

- Upstream accounting (i.e. emissions are accounted/paid for at capture, unless permanently stored)
- Sharing the accounting between the producer of the CCU product and the user of the product that leads to the final emission.
- Downstream accounting option where the final emitter pays, provided that municipal waste incineration would be included in the ETS
- Downstream accounting option with 'chain of custody' approach, where the liability for allowance submission is associated with the captured carbon and passed along the value chain, provided that municipal waste incineration would be included in the ETS
- Life-cycle assessment-based surrender obligation with upstream accounting option
- Life-cycle assessment-based surrender obligation with downstream accounting option

2.8.2.5 Currently, CO_2 transport activity in the ETS Directive is limited to transport with the objective of storage. Do you think it is important to alter this to also cover CO_2 transport for any purpose to have a level playing field for CCS and CCU?

- Yes
- No

2.8.2.6 Please provide explanation to support your view.

Answer: The CO2 transport network should not discriminate against CCS or CCU, but be open for both uses and all sources of CO2. There should be a level playing field for both technologies.

2.9 Potential expansion of the scope of the Directive

2.9.1 Municipal Waste Incineration (MWI) and other waste management processes

By June 2026, the Commission will assess the feasibility of including municipal waste incineration (MWI) installations in the EU ETS, with the aim of doing so from 2028, and with an assessment of the potential need for an option for Member States to opt out until 31 December 2030. This assessment should also cover the possibility of including other waste management processes in the EU ETS, in particular landfills, which create methane and nitrous oxide emissions.

Following the 2023 review of the EU ETS, MWI installations must monitor and report their emissions under the EU ETS starting in 2024. The collected data is intended to feed into to the Commission's assessment. Currently, MWI installations do not surrender allowances for their emissions under the EU ETS.

Emissions of pollutants to air, including greenhouse gases, from waste incineration, waste co-incineration and from waste management activities over a certain size are currently regulated by the Industrial Emissions Directive (IED) (Directive 2010/75/EU amended by Directive 2024/1785). These emissions are regulated via operating permits based on the use of Best Available Techniques (BATs) and on associated emission levels.

An inclusion of emission from MWI installations and other waste management processes in the EU ETS does not prejudge the implementation and further development of EU' s waste policy.

2.9.1.1 Do you agree that MWI installations should be fully included in the EU ETS if possible?

- Strongly agree
- Rather agree
- Neutral
- Rather disagree
- Strongly disagree
- Do not know

2.9.1.2 Please provide explanation to support your view.

Answer: The inclusion of MSW incinerators in ETS1 requires a detailed cost-benefit analysis consider-ing GHG emissions, competition, and financial impact. Inclusion is only viable if all

types of WI across Europe are covered, ETS caps adjusted with fair free allocation, tailored MRV rules introduced, and carbon removals recognized. Carbon removal technologies need financial support during ramp-up. Early inclusion ensures a level playing field. As incinerators treat non-recyclable waste, CO_2 reduction is limited and ETS signals may be ineffective. Measures like waste prevention and measures to foster the circular economy are more effective. With-out a strictly enforced EU landfill ban, ETS inclusion could shift waste to illegal landfilling. If pursued, inclusion should take place as early as possible in order to create a European level playing field for all plant operators. A more detailed statement on this complex topic is at-tached to the questionnaire response.

2.9.1.3 Do you agree that installations for the incineration of hazardous waste should also be included in the EU ETS (together with MWI installations)?

- Strongly agree
- Rather agree
- Neutral
- Rather disagree
- Strongly disagree
- Do not know

2.9.1.4 Please provide explanation to support your view.

Answer: The inclusion of HWI needs a thorough analysis of costs and benefits. On the one hand side, a level playing field for all European waste incinerators is required: In many cases it is not possible to classify the waste incineration plants accordingly in MWI or HWI without distorting the waste market. Many MWI have a permit for incinerating hazardous waste and vice versa. On the other hand, the key purpose of HWI is the environmentally safe destruction of hazardous pollutants and not the generation or recovery of energy. There is the significant risk of adverse incentives not to incinerate hazardous waste for an environmentally safe destruction. HWI that according to their permit are only allowed to incinerate hazardous waste categories could be excluded from the carbon pricing system.

2.9.1.5 Do you agree that the emissions from any of the following waste management activities should be included in the EU ETS if waste incineration is included? Choose all that apply.

- Landfilling
- Compositing
- Anaerobic digestion

- Mechanical recycling
- Chemical recycling
- Other recovery or conversion technologies, such as pyrolysis or gasification, to turn waste into energy and/or synthetic fuels
- Do not know

2.9.1.7 Please provide explanation to support your view.

Answer: GHG emissions associated with landfilling are very difficult to monitor and there is a significant time lag between the date of disposal and the corresponding landfill gas emissions. The waste hierarchy should be maintained. Landfilling of mixed MSW or other waste flows suitable for energetic recovery should be restricted and banned across Europe. Methane emissions from waste management should not be regulated with a cap-and-trade system, but by technological standards applying BAT and emission limit values as well as methane leak detection requirements. However, including MWI installations into the ETS may encourage a shift towards (illegal) landfilling. Therefore, MSW that is landfilled after the inclusion of MWI into the ETS should also be subject to carbon pricing. The operators of the landfill site should be required to monitor and report the fossil carbon content of the waste flow and obliged to surrender allowances or pay an equivalent levy for the “embedded” CO2 emissions.

2.9.1.8 What methodology is most appropriate for the MRV of the emissions from different waste activities (considering data reliability and cost-effectiveness)?

Answer: Waste incineration plants have limited control over calorific value and emissions because they thermally treat unavoidable waste unsuitable for recycling. The methodology for emissions from waste incineration should be aligned with the MRV methodology of the German national emission trading system (BEHG, EBeV 2030), allowing for the use of standard values for fossil and biogenic content and further simplified and tailored accounting rules for waste incinerators. In this way, fossil emissions can be allocated to the supplier and priced transparently. This creates the steering effect desired by the EU for waste avoidance and more recycling. It also creates a prerequisite for the market integration of negative emissions.

2.9.1.9 Do you think that the inclusion of MWI installations in the EU ETS may help reduce the current emissions from waste?

- MWI inclusion will significantly reduce GHG emissions without considering any further actions

- MWI inclusion will significantly reduce GHG emissions if other waste sectors, such as landfill, are incorporated
- MWI inclusion will significantly reduce GHG emissions if the non-permanent use of carbon is recognised in the ETS
- MWI inclusion will significantly reduce GHG emissions if carbon removals are integrated in the ETS
- MWI inclusion will contribute to significant reductions in GHG only if complementary circular economy policies are effectively implemented, such as extended producer responsibility schemes, material recovery targets, and/or other targets aiming to reduce virgin fossil feedstock use and disposal
- MWI inclusion will have some impact on reducing GHG emissions, but this will be negligible compared to other sectors
- MWI will not contribute to any GHG emission reduction at all
- MWI will not contribute to any GHG emission reduction at all and may even present a detrimental effect
- Other views
- Do not know

2.9.1.10 Please, add any comments

Answer: Note that including MWI installations into the ETS may encourage a shift towards (illegal) landfilling as long as the European ban on landfills is not adopted and strictly enforced on all landfills across all member states.

2.9.2 20 MW threshold

With the aim of increasing the level of ambition of the EU ETS, there may be the need to extend the EU ETS' coverage to include those installations that are not currently under the scope concerning the combustion of fuels. The current scope applies to those installations with a capacity exceeding 20MW total rated thermal input. A change on this Annex I activity should also consider that in many cases emissions from fuel combustion in these installations will be covered by EU ETS2.

It should also be noted that emissions of pollutants to air, including greenhouse gases, from some of the activities listed in Annex I and subject to the potential scope extension are currently regulated by the Industrial Emissions Directive (IED) (Directive 2010/75/EU amended by Directive 2024/1785). This concerns refining of oil as well as production and processing of

metals above the thresholds of IED Annex I. These emissions are regulated via operating permits based on the use of Best Available Techniques (BATs) and on associated emission levels. Emissions from combustion of fuels in installations with a total rated thermal input below 20 MW and above 1 MW are covered by the Medium Combustion Plants Directive (Directive 2015/2193) but do not include emissions of CO_2.

2.9.2.1 The EU ETS ambition could be strengthened by lowering the threshold of installation capacity thus to expand the pool of eligible installations. Do you agree with lowering the threshold?

- Strongly agree
- Rather agree
- Neutral
- Rather disagree
- Strongly disagree
- Do not know

Answer: Fossil fuel use and emissions from small installations are covered by the ETS2; there is a very high administrative burden for operators for MRV and surrender of allowances associated with the inclusion in the ETS1.

2.9.3 Linking with other carbon markets

The European Commission is analysing how linkages between the EU ETS and other international carbon markets can be established in accordance with Article 25 of the EU ETS Directive to support cost-effective climate change mitigation. The EU ETS is a key instrument to achieve the EU climate targets costeffectively, and any linking must safeguard its environmental integrity and effectiveness. Linking carbon markets can offer advantages to both the EU and its partners. These include price convergence and mitigation of carbon leakage risks, access to more cost-effective mitigation options, increased market liquidity as well as resilience to shocks. A robust linking, however, presents challenges regarding (and not limited to) the alignment of ambition levels, scopes, market stability measures and oversight mechanisms across systems. Such an alignment would need to be carefully negotiated to ensure that the benefits of linking are gained. To date, the EU has established one link with the Swiss ETS. The following questions aim to gather stakeholder views on the priorities, criteria, and timing for potential linkages between the EU ETS and other international carbon markets.

2.9.3.1 Since 2020, the EU ETS and the Swiss ETS are linked, and the ETS Directive governs how links with other emission trading systems can be set up. Should the EU pursue further linking opportunities and if so, what would be the main motivations for the EU to do so?

Maximum 3 selection(s)

- The EU should pursue linking to increase access to mitigation options for the ETS sectors
- The EU should pursue linking to improve cost-effectiveness of the emissions reduction under the ETS via price convergence
- The EU should pursue linking to reduce the risk of carbon leakage for ETS sectors
- The EU should pursue linking to support liquidity in the EU carbon market
- The EU should pursue linking to reinforce its leadership on global carbon pricing and climate change mitigation as well as to expand cooperation with third countries
- The EU should pursue linking efforts for other reasons [please specify]. (open text) [Max 300 characters]

  Answer: Harmonisation and alignment e.g. with UK ETS and CBAM is important. The EU-UK ETS link should be established as soon as possible, and an exemption from EU CBAM should be granted to UK exporters from 1 January 2026, to provide companies with clarity on how to hedge their CBAM exposure.
- The EU should not pursue further linking opportunities
- Do not know

2.9.3.2 For EU ETS to link with other international compliance carbon markets, certain critical criteria must be met. These include robust monitoring, reporting, and verification (MRV) of emissions; transparent governance processes with strict respect to the rule of law; and a Paris-aligned Nationally Determined Contribution (NDC).

What are the most important additional characteristics that a potential partner ETS must have for linking with the EU ETS?

	1st	2nd	3rd
Identical approach to cap setting (i.e., no linking with intensity-based systems)	◉	○	○
Compatible (but not necessarily identical) market stability mechanisms	○	○	○
Compatible (but not necessarily identical) approach to allowance banking and borrowing	○	◉	○
Similar (but not necessarily identical) approach to offsets, particularly removal credits	○	○	○
Similar (but not necessarily identical) scope of coverage in terms of GHGs and sectors	○	○	○
Similar share of allowances allocated via auctioning	○	○	○
Similar allowance price levels in the lead-up to the link	○	○	○
Similar (but not necessarily identical) approach to leakage protection	○	○	○
Similar (but not necessarily identical) approach to market rules on participation, derivatives, etc.	○	○	◉
Other	○	○	○
Do not know	○	○	○

3 Final question

3.1 Would you have any additional comments on points not raised in the previous questions, submit evidence or position paper on topics falling under the scope of this review?

Answer: In order to enable transition at scale of energy Intensive and trade exposed industry sectors, it will be indispensable to create EU markets that value lower carbon production. Absent such market appreciation of lower carbon goods, transition investment in the EU will not be enabled at scale. Funding (whether Innovation Fund, Industrial Decarbonization Bank or other) may be individual project enabling but can never be market forming. Development of such market-forming policies is therefore crucial, and should be managed in conjunction with further ETS revisions/reforms. An integrated policy framework is needed that creates and drives demand for lower carbon products, versus the supply-only side focus of the ETS approach.

Another important topic is the integration of Article 6 PACM-aligned credits should be considered to further promote cost-effective compliance and support the financing of international decarbonisation efforts.

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