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EU Emissions Trading System and the Market Stability Reserve review

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A credible, reinforced and expanded EU ETS is instrumental in achieving the European 2030 climate targets and the 2050 climate neutrality objective in a cost-effective way.

Any revision of the EU ETS should be made with the objectives of preserving market confidence, establishing clear and simple market rules, developing reliable standards and ensuring a stable and predictable investment framework through an EU-wide carbon price.

Market Stability Reserve (MSR)

- The MSR has been instrumental in eliminating the surplus of allowances. This has been achieved through a combination of withdrawing allowances from primary auctions and the invalidation system
- The MSR must remain a rule-based and quantity-based mechanism, operating under clear and transparent rules to ensure long-term predictability for market participants
- MSR intake and release thresholds should be dynamic and adjusted in order to reflect changing market conditions and number of allowances available

Carbon Removals Certification Framework (CRCF)

- The current status and direction of the CRCF lacks clarity, particularly concerning its design and implementation
- The integration of carbon removals into the EU Emissions Trading System (ETS) should be based on solid methodologies, ensuring that only high-quality and permanent carbon removal credits are considered valid and therefore that the credibility of the ETS is not undermined
- Directly integrating CRCF removals into the ETS under the governance of the existing EU institutions is preferable rather than establishing a separate institution to manage the procurement and release of CDR credits into the market

International credits

- We support a phased approach, allowing for a separate trading space for Article 6 units while ensuring the development of stringent standards

- While the potential integration of Article 6 credits into the EU ETS provides opportunities for flexibility and cost-effective emissions reductions, a robust framework is needed, ensuring that these credits do not undermine the overall goals of the ETS

Interaction between EU ETS and other policies

- Certain European (e.g. REPowerEU) or national support schemes aimed at accelerating the clean energy transition, although well-intentioned, can unintentionally weaken or "dampen" these price signals by disrupting the supply-demand balance, thereby reducing the ETS effectiveness
- The interaction of such measures with the EU ETS must be carefully managed to preserve the integrity and effectiveness of the carbon market

CORSIA

- CORSIA should be allowed to function and be tested in its initial phase without immediate expansion or changes
- It is essential to observe how well the system operates over time, particularly in terms of its robustness and effectiveness in achieving its carbon reduction targets

Effort Sharing Regulation (ESR)

- The scope of the ESR should be revised, in line with the gradual expansion of the EU ETS
- During the transitional phase where a separate ETS will be put in place for new sectors currently covered by the ESR, these sectors may remain in the scope of the ESR, subject to implementation of the necessary measures to mitigate the potential adverse consequences of double coverage
- Once the separate ETS covering all fossil fuel uses is integrated into the existing ETS, relevant sectors should be removed from the scope of the ESR to avoid double coverage

Linking Carbon Markets

- We support linkage, on the basis that it maintains a level playing field between the EU ETS and the systems it links with, and we urge a prompt conclusion on on-going negotiations (e.g. EU-UK) to realise mutual benefits for both markets
- A linkage improves market liquidity, price discovery and the ability to attract abatement across a larger area; it removes trade barriers, prevents carbon leakage and eases the impact of CBAM, especially on electricity imports

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