- Consultation Response –

Review of the EU ETS for maritime, aviation and stationary installations, and the Market Stability Reserve

Brussels, 8 July 2025 | Europex welcomes the opportunity to respond to Commission public consultation on the review of the EU ETS for maritime, aviation and stationary installations, and the Market Stability Reserve.

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

Very effective.

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

Do not know.

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

- **Addressing the structural surplus of allowances that had accumulated in the EU WTS since 2009:** Very effective.
- **Improving the system's resilience to major shocks (by adjusting the supply of allowances to be auctioned):** Moderarely effective.

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

The MSR offered certainty that any supply or demand shocks will be tackled through its functioning.

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

Since its launch in 2005, Europe's volumetric cap-and-trade scheme has successfully delivered on meeting the set targets and reducing emissions. This stands in strong contrast to non-ETS sectors where results are mixed and decarbonisation potential remains untapped.

The EU ETS has contributed significantly to emission reductions in the covered sectors. By 2023, emissions in these sectors had fallen by around 47.6% compared to 2005 levels and are well on track to achieve the 2030 target of -62%. Scientific data and empirical studies confirm

the system's effectiveness in driving cost-efficient mitigation. Equally, as also reiterated by ESMA, the markets underpinning the EU ETS work as intended.

The MSR has been a benefit to the EU ETS and has proven its worth by ensuring stability and increasing prices in the emissions market through effectively addressing the surplus of allowances. The MSR has notably supported predictability and stability following it's nature as a volume-based, rule-based, long-term solution to a structural imbalance between supply and demand of allowances throughout the first phases. According to the latest EU Carbon Market Report, the surplus of allowances has almost halved since 2013. Importantly, the MSR provides for a hedging surplus in order to not deter market liquidity.

4.2.1) 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.

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

Very efficient.

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

From the perspective of Europex members, who operate the EU ETS primary and secondary markets, the EU ETS Directive poses limited administrative burden. Most importantly, carbon trading is the most effective and economically efficient tool in delivering emission reductions.

It allows to reduce emissions at the lowest cost, both to businesses and societies. Wide sectoral coverage within one ETS encompassing a great number of diverse market participants optimises the efficiency of emissions reductions through a cross-sectorial price signal. Simultaneously, the EU ETS is vital to promote investments and innovation in low-carbon technologies and to allow for tailored market-based trading and hedging strategies.

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

The Union Registry is a critical part of the EU ETS infrastructure, and it's well-functioning is essential to the broader functioning of the EU ETS markets. A resilient, modern and user-friendly infrastructure becomes even more important as the EU ETS will soon cover a significantly larger share of the EU's economy and more sectors will require access to the Union Registry. This becomes even more relevant, once carbon removal credits get a role within the EU ETS, for which we encourage the use of existing infrastructure. Therefore, we encourage the Commission to consider how to improve the user-friendliness of some of the

operational parts of the Registry accounts, such as the establishment of an application programming interface (API) or the authorization of multiple transactions.

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

Very efficient

4.3.1) 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.

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

To large extent.

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

To large extent.

4.4.2) Please provide suggestions for improving coherence.

Europex stresses the importance of avoiding overlapping policies that could fragment the carbon price signal and reduce the system's effectiveness.

It is important to acknowledge that any command-and-control regulations directly or indirectly the EU ETS when applicable to the covered sectors. Such policies can impact EU ETS price formation, market functioning and overall system stability. Additionally, it should be considered what is the overall net impact of existing taxes, subsidies and mandates in relation to a carbon price to mitigate unintended economic dislocations.

This is notably also the case for support mechanisms, such as foreseen in the upcoming creation of an Industrial Decarbonisation Bank. Market-based incentives to invest in renewable generation and innovative clean products should primarily come from a robust carbon price signal. Additional support is already granted to nascent low-carbon and carbon removal technologies through investment grant mechanisms such as the Innovation or Modernisation funds. In emissions and energy markets, market participants can already use the available short- and long-term trading products to efficiently manage their exposure to the carbon price signal, in parallel to other commodities. This market-based approach is the basis for the liquidity of the market, diversity and number of market participants in the system. We discourage alternatives that may interfere with the functioning of the primary and secondary carbon markets, such as price-based interventionist approaches or carbon contracts for difference

Finally, Europex supports a global approach to carbon pricing. Until the practical implementation of an effective international approach to carbon pricing, we support the coverage of (international) aviation and maritime in the EU ETS. It is crucial, that the interaction between the EU ETS and CORSIA scope is clear and unambiguous, without resulting in market uncertainty.

4.5.1) 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.

4.5.2) 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.

The EU ETS creates a single, liquid carbon market across the EU, allowing a wide variety of market participants to trade allowances freely and achieve emissions reductions where it is most economical. This cross-border market integration enhances competition and efficiency, which would not have been achieved to the same extent through individual actions by Member States.

Furthermore, the system's volume-based cap-and-trade design guarantees environmental integrity by setting a clear emissions cap that ensures overall reductions regardless of economic activity. This offers stability and political certainty on a European level.

Non-EU ETS sectors currently lack this profound added value. While trading of annual emission allocations (AEA) between member states can to so me extent balance this afterwards, it is only a less efficient second-best option with limited transparency and costs which are difficult to predict.

In summary, Europex views the EU ETS as a flexible but robust instrument that combines environmental certainty with economic efficiency, playing a central role in the EU's pathway towards its 2040 and 2050 climate targets.

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

Rather agree.

5.3.1) 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.

We support the further simplification of the EU ETS where this can enhance efficiency without compromising environmental objectives. Any simplification must maintain robust oversight

while making participation in the ETS as straightforward and cost-effective as possible for stationary installations.

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

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).

5.3.1.2) Please specify

We support increasing the auctioning share above the currently foreseen 57%, as auctioning is the most transparent and efficient allocation method. Any continued free allocation should be transitional and aligned with technological progress, ensuring the carbon price signal remains strong. This review should be seen as opportunity to amend the share of auctioned allowances above 57% as currently fixed in Article 10 of the EU ETS Directive. A more concrete free allocation phase-out timeline for all sectors – beyond aviation or those sectors in scope of CBAM - should be included. A linear and continuous increase of the auctioning share would provide the greatest possible predictability to the market and will spur innovation and decarbonisation in the covered sectors.

5.3.1.3) 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)?

No, indirect cost compensation should be phased out.

5.3.1.4) Free Text Question.

We advocate harmonising indirect cost compensation at EU level to prevent market distortions and ensure a level playing field instead of a patchwork of national state aid schemes.

5.4.7) 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?

Rather agree.

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

We value the support that the Innovation Fund provides for new technologies, and we recommend that it maintains its technology-neutral approach, competitive selection process, and focus on scalability and reducing emissions. In light of simplification efforts, it should be carefully assessed how the several EU-level funds relate to each other and may potentially

impact the EU ETS market functioning. This includes, for example, the REPowerEU Regulation and related funding.

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

Yes.

5.5.3) Please specify.

A robust EU ETS cap and carbon price is the most effective, market-based driver for industrial decarbonisation. Subsidy instruments like Carbon Contracts for Difference (CCfDs) lead to short- and long-term market price distortions, reducing the effectiveness of the price signal as a short- and long- term operational and investment decisions driver. Europex would like to draw attention to the potential unintended distortive effects that CCfDs may cause to the European emissions market and advise that a thorough impact assessment is needed before designing CCfDs at scale within the EU ETS Funds.

5.5.6) 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.

5.5.7) Please specify.

Funding should prioritise the most cost-effective projects to maximise emissions reductions and innovation.

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

Other.

5.6.2) Please specify.

As noted above, the MSR has been a benefit to the EU ETS and has proven its worth by effectively addressing the surplus of allowances. It could be questions however whether the need to tackle a surplus in allowances is still valid. This primary objective seems to not reflect the new market outlook anymore. Nonetheless, if the MSR should remain a part of the EU ETS toolbox, it should be reviewed with an eye on supporting the overall stability and integrity of the EU ETS. Europex supports a role as volume-based, rule-based, objective, non-discretionary mechanism to flexibly react to supply/demand shocks. Critically, getting the MSR parameters right does not occur in a vacuum and changes to them require wider visibility of the EU ETS context.

5.6.3) What changes to the MSR would you propose?

Other.

5.6.4) Free Text Question.

If the MSR should remain a part of the EU ETS toolbox, Europex in principle supports a continued role as volume-based, rule-based, non-discretionary mechanism to flexibly react to supply/demand shocks. Critically, getting the MSR parameters right does not occur in a vacuum and changes require wider visibility of the EU ETS context.

An objective quantitative analysis should be performed once all EU ETS review design features have been decided on, and should consider the implications from other interfering policies into EU ETS volumes (such as e.g. the REPowerEU Regulation).

In addition, and particularly considering increasing scarcity, the withdrawal of allowances should occur in a balanced way across allocation methods rather than consistently and solely amend auctioned volumes. This is especially relevant since auctioning currently only accounts for 57% of allocation, according to Article 10, despite it being the default allocation method. This would also benefice the predictability of auction volumes by market participants.

5.7.1.1) 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:

- **Removals certified under the CRCF should NOT be allowed for use by EU ETS regulated entities towards their compliance obligation:** Somewhat disagree.

5.7.1.2) 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:

- **Removals certified under the CRCF should NOT be allowed for use by EU ETS**
- **regulated entities towards their compliance obligations:** Strongly disagree.
- **Permanent removals certified under the CRCF should be allowed for use by EU ETS regulated entities towards their ETS compliance obligations:** Strongly agree.
- **Temporary removals certified under CRCF should be allowed for use by EU ETS regulated entities towards their ETS compliance obligations:** Somewhat agree.
- **CRCF removals should be acquired by a central agency and inserted into the EU ETS under specific conditions:** Somewhat disagree.
- **EU ETS regulated entities should be allowed to purchase CRCF removals directly from removal suppliers and use them to fulfil surrender obligations:** Somewhat disagree.
- **The use of CRCF removals by ETS regulated entities should not be unlimited, but subject to restrictions:** Strongly agree.
- **The use of CRC removals by EU ETS regulated entities should be phased in slowly over time:** Strongly agree.

- **There should be a limit on gross emissions by EU ETS regulated entities (not only net ones):** Somewhat agree.

5.7.1.3) Please provide explanation or examples to support your view.

Europex believes that including carbon removals in the EU ETS supports maintaining healthy market conditions. However, the integration of carbon removals should not come at the expense of the integrity of the ETS market. An integration of carbon removals, their credits and the ETS should be established gradually and should not negatively impact the trust that has been created in the emission allowances market.

The inclusion of permanent removals in the EU ETS could help create a market signal for investment and innovation in these technologies, provided robust monitoring, reporting, and verification standards are in place and that such integration does not weaken the environmental integrity of the system.

In the interest of transparency and market integrity, it might be beneficial to differentiate carbon removal credits from allowances, rather than allowing for accounting. The market should carry out due price discovery and formation for this outcome. We however caution against far-reaching technology-specific differentiation in order to avoid market fragmentation and overly complex compliance structures. This way, the two markets would naturally and gradually converge in prices, during the long-term process of full integration whilst allowing for differences at the start which adequately reflect abatement and technology costs, aiding efficient allocation of funds.

Ultimately, carbon removals certified under the EU CRCF Regulation, should be eligible under the EU ETS. In the short-term, a quantitative restriction could provide certainty that price formation happens efficiently yet in time leading to inter-system price convergence and full integration. In addition, an initial limit on the number of allowances that can be awarded to operators would provide a demand signal but would avoid destabilising the current ETS markets.

This approach ensures that removals complement, rather than substitute, direct decarbonisation efforts, and helps maintain a credible, technology-neutral pathway to climate neutrality.

5.7.1.4) 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? Please list and explain which.

Complementary policies are needed.

Preserving market integrity and avoiding undue shocks requires the careful consideration of a broad range of policy measures that may influence the carbon market. Besides the effects of adjustments to the design and height of the cap, volume and price-based measures and their parameters (such as the CCM) and subsidy schemes and business models implemented in parallel to the carbon price should be carefully considered.

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

Strongly agree.

5.8.1.2) Please provide explanation to support your view.

Europex supports broad sectoral coverage under the EU ETS. This approach ensures a level playing field between sectors and maximises the cost-effectiveness of emission reductions. Emissions trading ultimately will ensure an economically efficient decarbonisation and provide market participants with a strong price signal to guide their economic activity and financial investments. Wide sectoral coverage encompassing a great number of diverse market participants optimises the efficiency of emissions reductions through a cross-sectorial price signal.

Such an expansion would also ensure these sectors decarbonise efficiently. With an EU ETS expansion, the market as a whole, including all market participants, directly benefit from a larger, more efficient market with increased liquidity. Further, additional sectoral coverage can support linking of trading schemes as the system becomes more attractive for global partners to link with.

5.8.1.3) 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.

5.8.3.1) 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?

- 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.

5.8.3.2) 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?

- **Identical approach to cap setting (i.e., no linking with intensity-based systems):** 2nd.
- **Compatible (but not necessarily identical) approach to allowance banking and borrowing:** 3rd.
- **Simlar (but not necessarily idental aprosch to marker rules on paricipation,**
- **derivatives, etc:** 1st.

About

Europex is a not-for-profit association of European energy exchanges with 37 members. It represents the interests of exchange-based wholesale electricity, gas and environmental markets, focuses on developments of the European regulatory framework for wholesale energy trading and provides a discussion platform at European level.

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