Ariadne @ Brussels 8 December 2025

FIRST THINGS FIRST IN THE ETS: WHAT TO COVER IN THE UPCOMING MSR REVIEW AND WHAT TO LEAVE FOR THE NEXT?

Michael Pahle (PIK) &
Benjamin Görlach (Agora Energiewende)

GEFÖRDERT VOM

KOPERNIKUS PROJEKTE
Ariadne
Die Zukunft unserer Energie

Bundesministerium
für Bildung
und Forschung

OVERVIEW

Any changes of the MSR rules following the 2026 review are expected to remain in place at least until the next review scheduled for 2031. A key challenge for the upcoming review is thus to anticipate how the market and its (in)stability will evolve in the coming five years. As things stand, a number of tipping points are looming over the further evolution of the ETS, including adjustments in the context of the 2040 target discussion and the Clean Industrial Deal, growing scarcity in the market and industrials increasingly dominating the market in terms of regulated emissions. Against this background, this workshop discusses two sets of questions:

(1) Can fundamental economic changes (e.g. “structural squeeze”) or political changes (e.g. “confidence loss”) be expected for the next five years, what could be their consequences for price formation (e.g. price levels, liquidity, volatility), and could they endanger the stability and functioning of the market?

(2) Should the 2026 MSR review focus on potential risks for market stability in the next five years and leave major post-2030 reforms to the ETS (CDR integration, linking to ETS2 or to UK ETS, recalibration of LRF towards 2040 goal, potential integration of international credits, potential prolongation of free allowances…) for the next MSR review when there is more clarity? Or is it essential to prepare the long term through the short term - and how so? What are easy to implement no-regret options that could enable more effective next MSR review?

GEFÖRDERT VOM

KOPERNIKUS PROJEKTE Ariadne Die Zukunft unserer Energie

Bundesministerium für Bildung und Forschung

Time	Activity (both sessions under Chatham House rules)
11:30 – 13:00	**Session I: Current state of the market and outlook for the next 5 years** • Welcome – M. Pahle & B. Görlach [5 min] • Quo vadis EU ETS? – O. Edenhofer [5 min] • ESMA's carbon market report & prospective role of the float and regulatory challenges for measuring it – J. Mazzacurati/ESMA [10 min] • Overview of projections for prices and evolution of market structure and functioning – B. Görlach [5 min] => reactions and comments by all modeling teams [3 min each] • Open discussion along the first set of questions
13:00 – 14:00	**Light lunch**
14:00 – 15:30	**Session II: What to cover in the upcoming MSR review and what to leave for the next?** • The case for preparing the long term through the short term with the next MSR review – M. Pahle [5 min] • Inputs by Ingvild Sørhus, Rosy Finlayson, J. Delbeke, R. Jeszke and O. Edenhofer [5 min each] • Open discussion along the second set of questions

CURRENTLY MARKET FUNCTIONS WELL

EUROPEAN COMMISSION

Brussels, 3.12.2025
COM(2025) 735 final

REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

on the functioning of the European carbon market in 2024

{SWD(2025) 388 final}

*[The report] shows that the **system has continued to function well**, underpinned by a comprehensive and effectively implemented framework. It also explains any changes to this framework that have taken or will soon take effect, chiefly the cap adjustment for 2026.*

ESMA
European Securities and Markets Authority

22 October 2025
ESMA50-481369926-30552

ESMA Market Report

EU carbon markets 2025

*Overall, in response to its mandate under the EU ETS Directive Art.10(6), ESMA **has not identified any significant issue in the integrity or transparency** of EU carbon markets. […] The absence of standardised identifiers for ETS account holders remains **a key challenge**.*

GEFÖRDERT VOM

KOPERNIKUS PROJEKTE
Ariadne
Die Zukunft unserer Energie

Bundesministerium
für Bildung
und Forschung

BUT PROFOUND CHANGES ON THE HORIZON: POLITICAL ENVIRONMENT & MARKET RULES AND DYNAMICS

Frankfurter Allgemeine

F+ EVONIK-CHEF KULLMANN

„Die CO2-Gebühr gefährdet 200.000 Industrie-Arbeitsplätze"

*That is why the ETS must be **abolished or radically reformed** — and quickly.*

POLL: EU carbon prices brace for structural squeeze following speculative rally

Published 21:11 on October 7, 2025 / Last updated at 11:16 on October 8, 2025 / Mike Szabo and Roy Manuell / EMEA (Compliance Markets & Taxes, Europe), Insights (Polls)

EU Carbon Watch

17 November 2025
(10:00 CET)

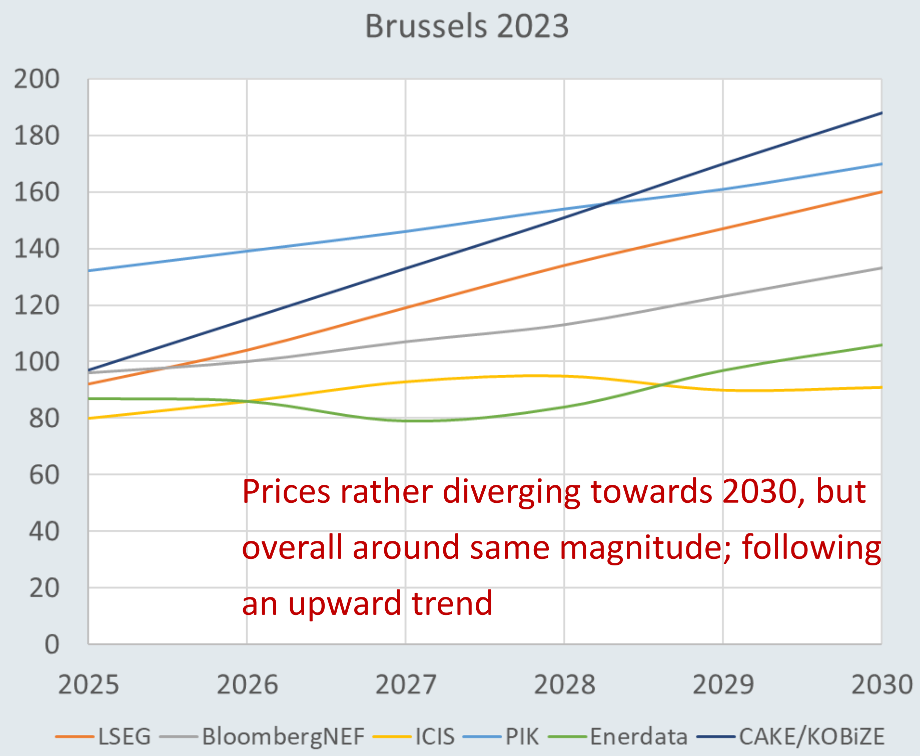
Inflection Point Ahead?

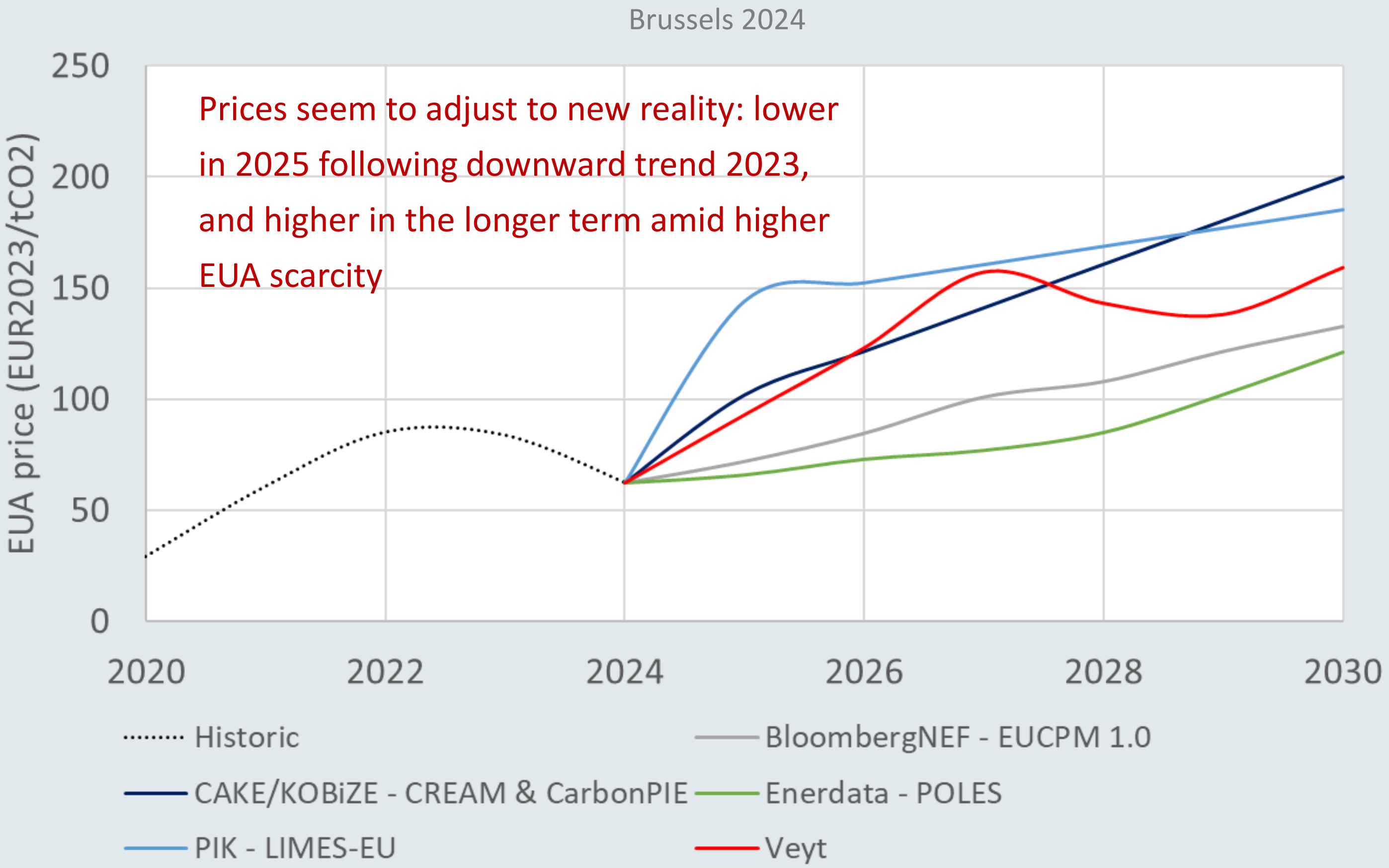
Bearish fundamentals leave EU carbon prices in "consolidation" phase -analysts

Published 17:23 on December 2, 2025 / Last updated at 17:23 on December 2, 2025 / Finlay Johnston / CO2 Management (Engineered Removals), EMEA (Compliance Markets & Taxes, Europe), International (Paris Article 6/PACM), Net Zero Transition (Industrial Decarbonisation, Power/Electrification, Transport & Heating Fuels)

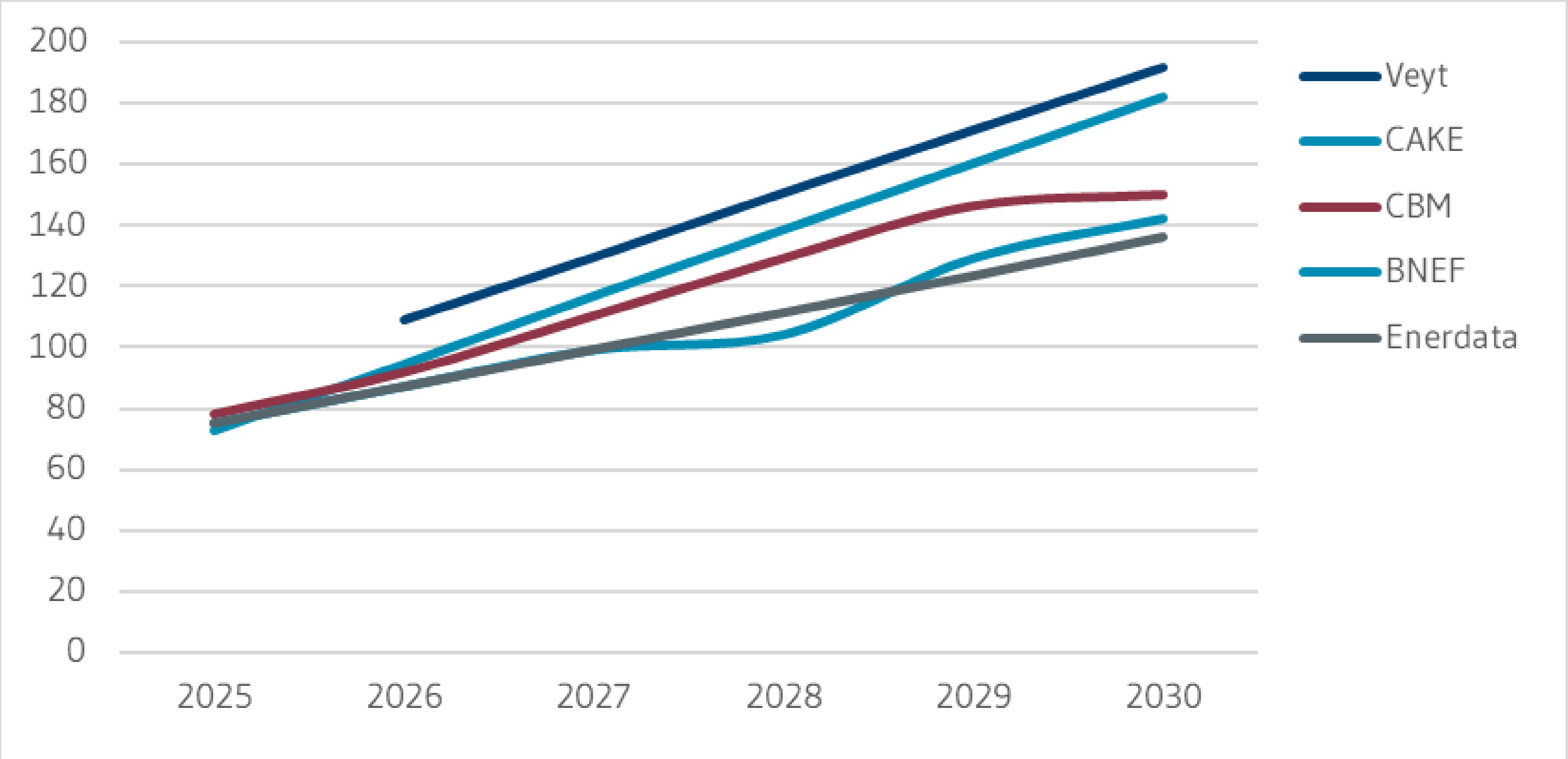
QUO VADIS ETS?

BACK TO THE FUTURE…





PROJECTIONS OF THE EUA-PRICE 2025–2030 IN THE DIFFERENT MODELS



Note: Annual prices provided only by BNEF & CBM, CAKE, Enerdata and Veyt only provided prices for 2025 (Veyt: 2026) and 2030, Graphs for these three represent the linear extrapolation between start- and end dates.

GEFÖRDERT VOM
Bundesministerium für Bildung und Forschung

CAN FUNDAMENTAL ECONOMIC CHANGES (E.G. “STRUCTURAL SQUEEZE”) OR POLITICAL CHANGES (E.G. “CONFIDENCE LOSS”) BE EXPECTED FOR THE NEXT 5 YEARS?

- **VEYT:** Competitiveness of EU industry paramount in the political debate; further industrial decline makes it harder to uphold ambition
- **Enerdata/VEYT:** 2026 ETS review expected to bring significant changes including
  - LRF revision (softer landing), recalibrated to 2040 target
  - Scope changes: extra-EEA aviation after 2027, municipal waste, CCU, eventually CDR
  - MSR adjustment (threshold, intake / release rates, invalidation
  - International linking (UK) or domestic (ETS 1-2) on the horizon
- **BNEF:** Political dynamics favouring unexpected outcomes of the ETS review: slower phase-out of free allocation, possible inclusion of temporary / nature-based removals
- **VEYT:** Frequent reviews create unetrainty
- **CBM:** Political signals that the ETS end-game might be delayed, leading to lower LRF after 2030

GEFÖRDERT VOM
Ariadne KOPERNIKUS PROJEKTE Die Zukunft unserer Energie
Bundesministerium für Bildung und Forschung

CAN FUNDAMENTAL ECONOMIC CHANGES (E.G. "STRUCTURAL SQUEEZE") OR POLITICAL CHANGES (E.G. "CONFIDENCE LOSS") BE EXPECTED FOR THE NEXT 5 YEARS?

- **CBM:** EUA prices lower than fundamentals would suggest, periods of confidence loss due to political signaling. Political and macroeconomic volatility including trade tensions etc.
- **CAKE:** Structural tightening of the market ahead esp. in 2027-28: shrinking supply (RePowerEU frontloading, LRF increase) meets growing demand (benchmark adjustment, hedging needs, CBAM)
- **CAKE:** TNAC falling below 1 bn in 2027 and oscillating around upper MSR threshold after
- **Hedging Demand:**
  - Structural transformation: hedging demand shifts from power to industry, aviation, maritime, CBAM (**CAKE**)
  - Continued structural change sees shift from coal and lignite to gas, reduced hedging demand in power (**BNEF**)

GEFÖRDERT VOM

KOPERNIKUS PROJEKTE
Ariadne
Die Zukunft unserer Energie

Bundesministerium für Bildung und Forschung

… WHAT COULD BE THEIR CONSEQUENCES FOR PRICE FORMATION / MARKET SENTIMENT?

- **Interpretation of possible ETS Review outcomes:**
  - **Enerdata:** Declining ambition (lower LRF) would translate to lower prices, timing will be key, MSR ambivalent
  - **BNEF:** Slower phase-out of free allocation would send bearish signals, allowing temporary / nature-based removals could lower ETS prices by 9-13 Euro between 2025 and 2035
  - **CAKE:** Political uncertainty adding to volatility ("white noise" around LRF, Art. 6, CDR integration)
  - **VEYT:** Conflicting, unclear policy signals from ETS review discussion could bring market to attentive mode
- **Hedging needs:**
  - **CAKE:** Steep increase in hedging needs (10% p.a.), demand increasingly from non-power sectors (+20 EUR)
  - **BNEF:** Reduced hedging activity (esp. power) lowers demand / liquidity, in turn makes market more volatile, reduced hedging from power alone lowers price by 4 Euro

GEFÖRDERT VOM

KOPERNIKUS Ariadne PROJEKTE
Die Zukunft unserer Energie

Bundesministerium für Bildung und Forschung

… WHAT COULD BE THEIR CONSEQUENCES FOR PRICE FORMATION / MARKET SENTIMENT?

- **Market Dynamics**
  - **CAKE:** More fragile liquidity situation, tight market more responsive to short-term drivers
  - **CBM**: Tightening fundamentals plus political uncertainty favour speculative activity
- **Outlook and Market Sentiment:**
  - **CBM**: Long-term bullish outlook: Market expected to remain short every year from 2025 onwards. But: unwinding of positions if bullish expectations are not met: could trigger sharp price decline
  - **VEYT:** Bearish sentiment possible if climate policies are singled out as core reason for industrial / economic malaise

GEFÖRDERT VOM
KOPERNIKUS PROJEKTE Ariadne
Die Zukunft unserer Energie
Bundesministerium für Bildung und Forschung

…. AND COULD THEY ENDANGER THE STABILITY & FUNCTIONING OF THE MARKET?

- **Market Dynamics**
  - **VEYT:** MSR reforms brought back confidence of market players in the ETS as a decarbonisation tool. Ad-hoc interventions could jeopardise this confidence and expectations for long-term investment
  - **Enerdata:** Changes to the market framework need to safeguard the functioning and stability of the system, expectations are key as the ETS will run into fundamental scarcity
  - **BNEF:** ETS will continue to function well *if current settings and parameters are maintained* beyond 2030
- Expectations about the political dynamics, doubts about credibility of commitments
  - **CAKE**: End-game liquidity problem – scarcity in the 2030s casting doubt already now
  - **CAKE**: RePowerEU, ETS 2 delay as examples how rapidly political intervention may affect the market
  - **CBM**: Political intervention as main risk to confidence and credibility: perception that high prices are politically unsustainable, leading to adjustments (LRF, MSR) that lower price, undermine confidence

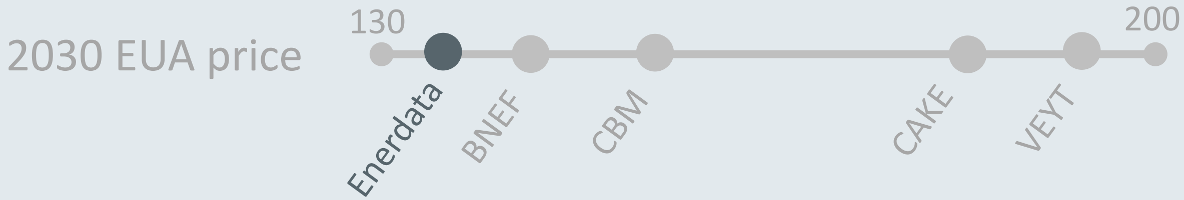
KOPERNIKUS PROJEKTE Ariadne
Die Zukunft unserer Energie
GEFÖRDERT VOM
Bundesministerium für Bildung und Forschung

THANK YOU FOR YOUR ATTENTION!

KOPERNIKUS PROJEKTE
Ariadne
Die Zukunft unserer Energie

GEFÖRDERT VOM
Bundesministerium
für Bildung
und Forschung

ENERDATA



Fundamental Changes in 2025-30?

- 2026 ETS review expected to bring significant changes including
  - LRF revision (softer landing), recalibrated to 2040 target
  - Scope changes: extra-EEA aviation after 2027, municipal waste, CCU, eventually CDR
  - MSR adjustment (threshold, intake / release rates, invalidation
- International linking (UK) or domestic (ETS 1-2) on the horizon

Consequences for Price Formation?

- Declining ambition (lower LRF) would translate to lower prices, timing will be key
- Scope expansion, MSR changes – ambivalent
- Expectation of linking could support price convergence even ahead of actual link

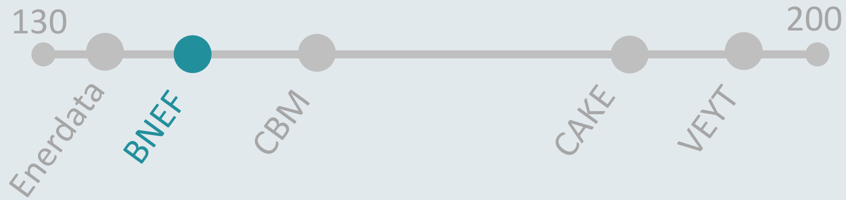
Market Stability and Functioning at Risk?

- Changes to the market framework need to safeguard the functioning and stability of the system, expectations are key as the ETS will run into fundamental scarcity

KOPERNIKUS PROJEKTE
Ariadne
Die Zukunft unserer Energie
GEFÖRDERT VOM
Bundesministerium für Bildung und Forschung

BNEF

2030 EUA price



Fundamental Changes in 2025-30?

- Structural changes continue: shift from coal and lignite to gas, reduced hedging demand
- Political dynamics favouring unexpected outcomes of the ETS review: slower phase-out of free allocation, possible inclusion of temporary / nature-based removals

Consequences for Price Formation?

- Reduced hedging activity (esp. power) lowers demand / liquidity, in turn makes market more volatile, reduced hedging from power alone lowers price by 4 Euro
- Slower phase-out of free allocation would send bearish signals, allowing temporary / nature-based removals could lower ETS prices by 9-13 Euro between 2025 and 2035

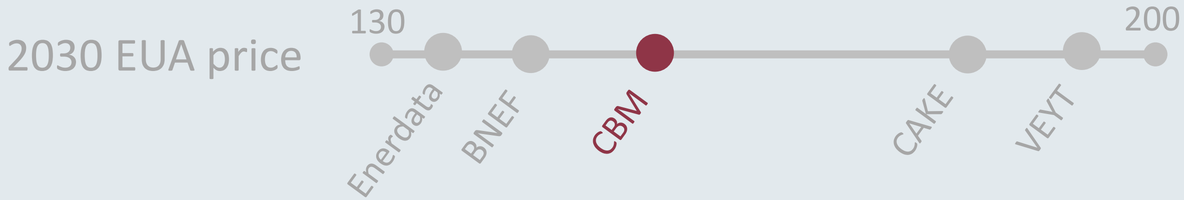
Market Stability and Functioning at Risk?

- ETS will continue to function well *if current settings and parameters are maintained beyond 2030*

KOPERNIKUS PROJEKTE
Ariadne
Die Zukunft unserer Energie

GEFÖRDERT VOM
Bundesministerium
für Bildung
und Forschung

CLEAR BLUE MARKETS



Fundamental Changes in 2025-30?

- EUA prices lower than fundamentals would suggest, periods of confidence loss
- Political and macroeconomic volatility including trade tensions etc.
- Signals that the ETS end-game might be delayed, leading to lower LRF after 2030

Consequences for Price Formation?

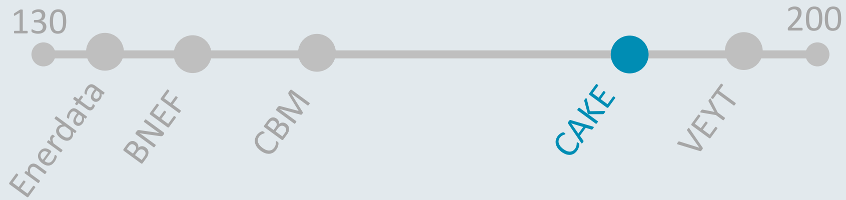
- Long-term bullish outlook: Market expected to remain short every year from 2025 onwards
- Tightening fundamentals plus political uncertainty favour speculative activity
- Unwinding of positions if bullish expectations are not met: could trigger sharp price decline

Market Stability and Functioning at Risk?

- “functionality under stress” as future scenario for the EU ETS. MSR reform can cut both ways.
- Political intervention as main risk to confidence and credibility: perception that prices are politically unsustainable, leading to adjustments (LRF, MSR) that lower price, undermine confidence

CAKE

2030 EUA price



Fundamental Changes in 2025-30?

- Structural tightening of the market ahead esp. in 2027-28: shrinking supply (RePowerEU frontloading, LRF increase) meets growing demand (benchmark adjustment, hedging needs, CBAM)
- TNAC falling below 1 bn in 2027 and oscillating around upper MSR threshold after
- Structural transformation: hedging demand shifts from power to industry, aviation, maritime, CBAM

Consequences for Price Formation?

- Steep increase in hedging needs (10% p.a.), demand increasingly from non-power sectors (+20 EUR)
- More fragile liquidity situation, tight market more responsive to short-term drivers
- Political uncertainty adding to volatility (“white noise” around LRF, Art. 6, CDR integration)

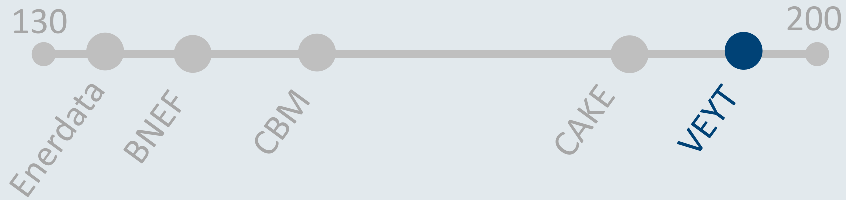
Market Stability and Functioning at Risk?

- End-game liquidity problem – scarcity in the 2030s casting doubt already now
- RePowerEU, ETS 2 delay as examples how rapidly political intervention may affect the market
- Increased risk of speculative behaviour in tighter market, undersupply becoming apparent

GEFÖRDERT VOM
KOPERNIKUS Ariadne PROJEKTE
Die Zukunft unserer Energie
Bundesministerium für Bildung und Forschung

VEYT

2030 EUA price



Fundamental Changes in 2025-30?

- Competitiveness of EU industry paramount in the political debate; further industrial decline makes it harder to uphold ambition
- 2040 target make adjustments necessary, including price containment/stabilisation, inclusion of international credits, and allocating reduction burdens between sectors. Frequent reviews create uncertainty

Consequences for Price Formation?

- Bearish sentiment possible if climate policies are singled out as core reason for industrial / economic malaise
- Conflicting, unclear policy signals from ETS review discussion could bring market to attentive mode

Market Stability and Functioning at Risk?

- MSR reforms brought back confidence of market players in the ETS as a decarbonisation tool. Ad-hoc interventions could jeopardise this confidence and expectations for long-term investment