

EU ETS at 20!

Looking back, looking forward

Jos Delbeke

EIB Climate Chair

STG/EUI (Florence)/KULeuven (Belgium)

Ariadne, Brussels, 8.12.2025



EU ETS 2005-2025: steady emission reduction

- **EU ETS emissions halved**
 - Cost-effectively: cheap emissions reductions first
 - Carbon price signal established and strengthened (MSR)
 - Fuel-switching from coal to gas in power sector
 - Since Russian invasion of Ukraine:
 - Wide availability of cheap piped gas disappeared
 - Security concerns encouraged renewables deployment
- **Lessons learned**
 - EU ETS helps scaling low-carbon technology, provided it is cheaply available
 - Limited success in driving unproven technologies into the market
 - Helped renewables development, but only once these became cheaply available
 - Conditions:
 - Marginal cost of abatement below carbon price
 - Limited investment risk



Post 2025 Challenges

- **Power sector**

- Promise of cheap electricity prices not fulfilled, particularly not in 'old' Europe
- Energy system requirements hinders continuation of required renewable investment
 - Permitting, grid infrastructure, storage, electricity demand management
 - Takes time to materialize
- Cheap gas expected in coming years (from US, Qatar)

- **Industry**

- High energy (electricity) prices combined with carbon prices risk plant closures
- Gas-to-electricity switch hindered: electrification stalled (unlike China)
- Increasing clean tech dependence on China
- Limited scaling of low-carbon investments in industry (CID)
 - Green hydrogen dream evaporated
 - More electrification under way



Cost-containment of EU ETS unavoidable

- **2040 target of 85% domestic emission reduction remains challenging**
 - 5% international credits reduces marginal abatement costs, also indirectly for EU ETS
 - Significant EUA price increases expected: stronger demand facing rapidly reducing supply
- **Drop illusions that ...**
 - Much higher EUA price will drive significant emission reduction without plant closures
 - Carbon price curve will have a smooth continuous upward trend instead of price spikes
 - Protection from CBAM will be considerable
 - Less free allocation may help industrial transformation
- **ETS design choices that can reduce price pressure:**
 - Rebalancing reduction effort between EU ETS and other instruments
 - Now 62% EU ETS vs 40% ESR
 - Improve flexibility between climate policy instruments
 - Rediscover cost-effectiveness (ETS/ETS2 integration, ESR, LULUCF, ...) eui.eu/stg



Revisit experience with liquidity management

- **Towards price floor:**
 - Market Stability Reserve (2017/8)
 - Re-basing: EU ETS 2023 Review
- **Towards price ceiling:**
 - **ETS2 MSR** currently being relaxed to prevent too high prices
 - **EU ETS LRF** Linear Reduction Factor (LRF) being extended beyond 2039 ('end game')
- **Lessons learned:**
 - Indirect liquidity management works:
 - Quantity-based corrections
 - No explicit price corridor
 - Rules-based, no discretion



Building further on liquidity management

- **EU ETS and MSR act like communicating vases**
 - Higher LRF may require more MSR injections
 - Define an implicit range for price management
 - Economic affordability
 - Political acceptability
 - Stabilize expectations (financial risk for low-carbon investment)
 - Define rules for liquidity creation/limitation
- **MSR needs to be resourced**
 - Invalidated allowances can be made valid again
 - Intra-EU removal credits (BECCS/DACS): only available in the medium term
 - International carbon credits: could be accepted with an exchange rate
- **Some (limited) scope for discretionary intervention**
 - To avoid price-spikes leading to political interference



Coherence with Clean Industrial Deal (CID)

- **All EU ETS allowances:** auctioned as well as free allowances
 - Auctioned revenues flow predominantly to Member States
 - Free allowances managed centrally through the directive
 - allow them on condition of low-carbon investment, no longer to incumbents
- **Critical role for using EU ETS revenues for:**
 - Innovation Fund: support first of a kind low-carbon technologies
 - Industrial Decarbonization Bank
 - Scaling proven low-carbon technologies (heat, electricity)
- **Challenges:**
 - CDR creation and international credits require ETS revenues
 - Synergy EU/Member States in spending ETS revenues (State aid under CISA)
 - Balance auctioned/free allowances

