ZERO EMISSIONS PLATFORM

Recommendations for the ETS and the MSR

Response to Call for Evidence

08 July 2025

Key recommendations

ETS Revenue Use: Smarter & More Transparent	The use of ETS revenue is a crucial part of addressing climate change. A better allocation mechanism and enhanced transparency is needed to maximise the efficiency of revenue spending.
Industrial Decarbonisation Support: Competitive & Balanced	The introduction and continuation of instruments, such as the Innovation Fund and the IDB, is needed to enable industries to decarbonise. To strengthen this, a balance between competitive procedures and geographical balance must be found. Further, mechanisms such as 'grants-as-a-service' are appreciated.
Market Stability Reserve: Ensuring Proper Functioning	The MSR is a vital instrument to ensure the functioning of the ETS. Small changes are needed to increase its effectiveness, enhance planning security for market participants, and to ensure that the carbon price reflects the need for decarbonization of the economy.
Carbon Removals & CCU: Careful Steps to Preserve Integrity	CDR should only be included in the ETS under very strict criteria, chief among them being CRCF-certified permanence. It is crucial that, should such an inclusion happen, this does not lead to any mitigation deterrence. For CCU where the CO_2 is not stored permanently, a downstream accounting approach which spreads liability and ensures that CO_2 is paid for where it is emitted.
Linkage to other Carbon Markets: Untapped Potential	Linkages to other carbon markets have potential to increase the efficiency of the ETS as cost-effectiveness and options for mitigation are strengthened. Linkage needs to follow criteria of market stability and, should they be included, a similar approach to removals and scope.
Other considerations: Waste and CO_2 transport	Municipal Waste Incineration's inclusion into the ETS needs to be considered in-depth before a final decision is made. Unequal treatment and leakage need to be prevented through a more comprehensive policy package on waste treatment. There is also a need to harmonise the transposition of ETS legislation with regards to CO_2 transportation in and across Member States to facilitate market regulation.

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Introduction

The EU Emissions Trading System (ETS) has been a cornerstone in the EU's fight against climate change, successfully reducing emissions from the industrial and power generation sectors by 47% compared to 2005.[1] While the ETS has demonstrated strong performance in recent years, it needs to be adapted to meet the evolving needs of the economy and the rapidly changing landscape of climate mitigation technologies. ZEP welcomes the opportunity to provide input on the revision of the ETS and the Market Stability Reserve (MSR). Drawing on the insights of the industrial carbon management community, our recommendations will support the Commission's efforts to enhance the efficiency, relevance, and coherence of these critical instruments.

1. ETS Revenue Use: Smarter & More Transparent

The Zero Emissions Platform (ZEP) strongly believes that the revenue generated by the ETS is instrumental for the decarbonisation of Europe. However, it is essential that these funds are used in a smart, transparent, and effective manner maximise efficiency in the green transition. This need becomes even more urgent in light of the ambitious 2040 target recently proposed by the European Commission. To this end, ZEP puts forward three key proposals aimed at improving the allocation and impact of ETS revenues.

First, the transparency of ETS revenue spending must be improved. Currently, Member States operate under a high degree of discretion when it comes to the spending of ETS revenue. This can lead to misallocation of funds and inefficiencies in achieving decarbonisation goals. Although Article 10(3) of the ETS Directive requires that 100% of auctioning revenues be dedicated to climate action and the energy transition, the ways in which these revenues are used vary widely across Member States.[2] To enhance transparency and enable greater public scrutiny, ZEP proposes establishing a centralised, EU-level registry for Member State discretionary spending – as envisioned in Article 30m in the ETS Directive. Requiring Member States to report their

[1] European Commission (2024) 'Record reduction of 2023 ETS emissions due largely to boost in renewable energy'. Available online at: https://climate.ec.europa.eu/news-your-voice/news/record-reduction-2023-ets-emissions-due-largely-boost-renewable-energy-2024-04-03_en

[2] Marten and van Dender (2019) 'The use of revenues from carbon pricing'. Available online at: https://www.sipotra.it/wp-content/uploads/2019/06/The-use-of-revenues-from-carbon-pricing.pdf

spending decisions in this registry would promote a clearer oversight, foster more accountable use of funds, and ultimately improve the efficiency of ETS revenue allocation.

Second, ZEP welcomes the use of ETS revenues to support initiatives such as the Modernisation Fund and the Innovation Fund. Competitive allocation of ETS revenue increases efficiency and accelerates decarbonisation by directing support to the most impactful and innovative projects across Member States. However, the current funding pools are often too limited to accommodate all proposals that meet the necessary criteria, leaving many high-quality projects unfunded. ZEP therefore calls for a greater share of ETS revenues to be directed to these instruments. While Member States should retain some flexibility to spend ETS revenues, reallocating a larger portion to competitive, EU-wide mechanisms would have only a marginal impact on that discretion while significantly boosting transparency, accountability, and progress towards the EU's climate neutrality objective by enabling more excellent projects to go forward.

Third, revenues still go to general climate and energy programs or national budgets, leaving a gap in support for hard-to-abate sectors like steel, cement, and chemicals. These industries face high investment risks and long technology development timelines, which cannot be overcome by carbon pricing alone. Increasing the share of ETS funding for industrial projects would help close this investment gap and accelerate the deployment of crucial low-carbon technologies. ZEP welcomes the upcoming Industrial Decarbonisation Bank as an opportunity to earmark more ETS revenues for industrial decarbonisation, including industrial carbon management projects. Redirecting more ETS revenues to industry would strengthen Europe's long-term competitiveness and climate leadership. As global markets move toward greener products, early investment in clean industrial processes will give European firms a technological and regulatory advantage. It would also reduce reliance on imports and fossil fuels, create high-quality jobs, and ensure that the green transition delivers tangible benefits in industrial regions. In short, aligning ETS spending more closely with industrial transformation is key to achieving the EU's climate goals in a fair and economically resilient way. We propose that this is embedded in a framework by the EU to ensure a coherent rollout which maximises the return to the climate while minimising costs through misallocations.

2. Industrial Decarbonisation Support: Competitive & Balanced

ZEP welcomes the introduction of new instruments aimed at supporting industries in their decarbonisation efforts, including the proposed Industrial Decarbonisation Bank (IDB). The option for the IDB to leverage national funding is especially valuable, as it can help bridge critical financing gaps. ZEP also reiterates its strong support for the IDB's technology-neutral approach, which allows for flexibility in deploying the most effective solutions across different industrial sectors. To fully unlock the potential of such initiatives, several key mechanisms should be considered.

ZEP advocates for competitive funding procedures that prioritise the most impactful and cost-effective projects. In addition to expanding the overall pool of available funds, it is crucial to ensure that allocation mechanisms are designed to minimise unnecessary bureaucracy and administrative burden. Given the long lead times typically associated with industrial decarbonisation projects, long-term price certainty is also essential to incentivise early investment and sustained commitment from industry.

To achieve a balance between project competitiveness, administrative simplicity, and investment predictability, the IDB – and similar future funding instruments – should deploy a mix of support mechanisms. Carbon Contracts for Difference (CCfDs) should be employed as a primary instrument to attain this goal. By providing long-term price stability and revenue certainty, CCfDs enable industries to pursue ambitious decarbonisation efforts without being hindered by excessive regulatory complexity or financial risk.

Grants represent another important form of support for industrial decarbonisation. In this context, ZEP particularly welcomes the introduction of the 'grants-as-a-service' mechanism, which allows national funding to be channelled through the Innovation Fund. This approach increases access to funding for project developers and enhances the overall efficiency of decarbonisation efforts. ZEP encourages further integration of national resources into EU-level competitive funding procedures, as this will help accelerate the pace of decarbonisation and strengthen Europe's position in the global clean technology race.

Additionally, initiatives such as the STEP Seal under the Innovation Fund should be maintained and reinforced. The STEP Seal identifies high-quality, unfunded projects that meet all the eligibility and evaluation criteria of Innovation Fund calls, effectively giving them a mark of

excellence. This recognition can help projects secure alternative sources of funding, whether from national budgets, public financial institutions, or private investors. To strengthen the impact of the STEP Seal, ZEP recommends closer coordination between the European Commission and Member States to prioritise these labelled projects in national funding programmes. Greater visibility, standardised follow-up procedures, and potential co-financing opportunities would further enhance the STEP Seal's role in accelerating project deployment and reducing the risk of losing promising decarbonisation investments due to limited EU-level funding.

While ZEP supports competitive EU-level funding procedures, it is nevertheless important to acknowledge a key structural challenge: full economic convergence across the EU has not yet been achieved. As a result, there are significant disparities between Member States in their ability to secure funding for industrial decarbonisation projects. Member States with more advanced industrial sectors, stronger administrative capacity, and more experience navigating EU-level funding application processes enjoy a natural – and often self-reinforcing – advantage. Although ZEP maintains that competition based on project merit should remain the guiding principle, we also recognise the risk that some regions could be left behind in the green transition. Climate neutrality can only be achieved through a coherent, EU-wide strategy that includes all Member States.

To address this imbalance, ZEP proposes targeted support for Member States that struggle to access funding through competitive calls. This support could mirror the project development assistance (PDA) provided by the European Investment Bank (EIB), which helps strengthen project applications and improve their chances of success. Enhancing PDA or establishing similar mechanisms under other EU programmes would help level the playing field, improving both the quality and diversity of project pipelines across Europe. This would not only increase the inclusiveness of the green transition but also strengthen the overall competitiveness and effectiveness of EU decarbonisation funding. Importantly, such support should be applied on a case-by-case basis to maintain high standards while ensuring geographical balance is also meaningfully addressed.

3. Market Stability Reserve: Ensuring Proper Functioning

The Market Stability Reserve (MSR) is a vital component of the EU ETS, playing a key role in ensuring the system’s effectiveness both historically and today. By addressing the chronic

oversupply of allowances, the MSR has not only strengthened the carbon price signal but also provided a degree of certainty for industrial emitters. In a market inherently prone to volatility and sudden price swings, such interventions are essential. Sharp fluctuations in carbon prices can undermine investor confidence and delay or derail long-term decarbonisation projects. The MSR's ability to adjust the supply of allowances – either by injecting or withdrawing them from the market – helps stabilise prices and supports planning security for low-carbon investments.

ZEP welcomes the continued role of the MSR and advocates for its strengthening to further enhance stability and reinforce the long-term incentives for decarbonisation. This could be achieved through a clearer definition of its policy objectives and through targeted technical adjustments to improve its responsiveness and transparency. Enhancing the MSR in this way would help ensure that the ETS remains a robust and predictable tool in driving industrial decarbonisation across the EU.

The MSR should serve two core mandates. First, it must address the surplus of allowances in the carbon market to strengthen the EU ETS's price signal. A lower volume of allowances in circulation or at auction leads to higher carbon prices, which in turn creates stronger incentives to reduce emissions. Importantly, studies have shown that carbon price pass-through to end consumers is relatively limited[3] – meaning that moderate increases in carbon prices are unlikely to provoke significant public or political backlash. By systematically tightening supply, the MSR can therefore play a central role in accelerating decarbonisation without compromising social or economic stability.

Second, the MSR must be designed to minimise carbon price volatility and enhance long-term investment certainty. High carbon prices alone are not sufficient to shift firm behaviour if they are accompanied by unpredictability. Volatility and uncertainty are more damaging to investment in industrial decarbonisation than stable but gradually rising prices. To be effective, the MSR must be seen as a credible mechanism that balances two goals: strengthening the carbon price signal while providing predictable conditions for long-term planning. A stable, forward-looking carbon market will give industry the confidence it needs to invest in low- and zero-carbon technologies, thereby accelerating the green transition.

[3] Subraveti et al. (2023) 'Is Carbon Capture and Storage(CCS) Really So Expensive? An Analysis of Cascading Costs and CO2 Emissions Reduction of Industrial CCS Implementation on the Construction of a Bridge' <https://pubs.acs.org/doi/pdf/10.1021/acs.est.2c05724?ref=article_openPDF>

More concretely, there are targeted adjustments to the MSR that would improve its functioning. In particular, the fixed thresholds that determine MSR intervention – the upper and lower bounds of the Total Number of Allowances in Circulation (TNAC) – should be periodically revised downward to reflect the declining total supply of allowances in line with the ETS cap. These thresholds were originally set based on estimates of market participants' hedging needs. As overall emissions decline and the number of allowances in the system shrinks, those hedging needs are also expected to decrease. Adjusting the thresholds proportionally ensures that the MSR remains aligned with actual market dynamics rather than allowing outdated benchmarks to delay needed interventions. Lowering the thresholds would not shift the objective of the MSR, but it would allow it to respond more effectively to smaller surpluses and thus maintain a robust carbon price signal. More importantly, it would send a clear signal to market participants that the EU is committed to a stable and gradually increasing carbon price, which is critical for fostering investment certainty. Ensuring that the MSR evolves alongside the tightening ETS cap will help preserve both the environmental integrity and economic predictability of the system.

However, the MSR must also remain responsive to evolving market conditions. Relying solely on static intervention thresholds risks undermining its ability to support an efficient and resilient carbon market. Instead, the MSR's design should strike a careful balance between predictability and flexibility: it must provide market participants with the transparency and certainty they need to plan long-term investments, while retaining the agility to respond to unexpected supply-demand imbalances and to absorb external shocks. The mechanism for adjusting auction volumes – although implemented gradually over the year – should be grounded in a framework that is both rules-based and responsive. Furthermore, the effective governance of the MSR requires sufficient bureaucratic and technical capacity to implement these adjustments smoothly and credibly.

In this context, ZEP recommends an evaluation of the MSR's response frequency and data use. While the MSR currently makes a single annual adjustment based on the previous year's TNAC, more frequent assessments – such as biannual or quarterly reviews – could enable the system to better reflect real-time market conditions. Importantly, this does not imply abrupt changes in supply, but rather a timelier recalibration of auction volumes through the existing mechanism of gradual constraint. Increasing the responsiveness of the MSR would strengthen investor confidence by reinforcing its commitment to long-term price stability and reducing the risk of disruptive market imbalances. While such improvements may entail a higher administrative

burden, they are essential to ensuring the ETS remains robust, future-proof, and aligned with the accelerating pace of decarbonisation.

4. Carbon Removals & CCU: Careful Steps to Preserve Integrity

The integration of carbon dioxide removals (CDR) and carbon capture and utilisation (CCU) into the EU ETS requires careful consideration. While both play important roles in the path to climate neutrality, their inclusion must not compromise the environmental integrity or price stability of the carbon market. In particular, it is essential to prevent both negative price shocks and mitigation deterrence, where removals or CCU credits displace rather than complement emissions reductions. To this end, a robust and coherent framework is needed to govern the integration of CDR and CCU respectively, ensuring that these tools support, rather than weaken, the ETS' core purpose. As one of the EU's most effective instruments for driving emission reductions, any expansion of the ETS scope must be carefully designed to preserve its effectiveness and credibility.

Carbon Dioxide Removals (CDR)

Carbon Dioxide Removals (CDR) should only be integrated into the ETS under carefully defined conditions. These include strict quality standards, proven permanence of storage, and a clear alignment with the broader architecture of the ETS, particularly the functioning of the MSR. Without such safeguards, the inclusion of CDR risks undermining the environmental integrity and stability of the carbon market.

The quality of carbon removals is paramount. ZEP strongly recommends that only CDR units certified under the Carbon Removal Certification Framework (CRCF) be eligible for use within the ETS. Each Carbon Removal Credit (CRC) must meet CRCF standards before being treated as equivalent to an allowance. This strict certification requirement is essential to avoid mitigation deterrence and preserve the core function of the ETS as a tool for driving genuine emissions reductions.

Furthermore, in line with the need for environmental integrity, ZEP believes that only permanent removals should be considered. Temporary removals carry a high risk of reversal, which could destabilise the market and jeopardise long-term decarbonisation goals. ZEP therefore supports limiting CRC eligibility within the ETS to Direct Air Carbon Capture and Storage (DACCS) and Bioenergy with Carbon Capture and Storage (BioCCS) – both of which are recognised under the

CRCF and already partially regulated within the ETS framework. These could be integrated indirectly through a carefully managed system that avoids undermining allowance demand.

To ensure price integrity and avoid arbitrage between allowances and CRCs, ZEP proposes that CRCs be procured and distributed through a central EU-level authority. This body would acquire CRCF-certified credits and introduce them into the ETS via auctions, similar to current allowance procedures. Integrating CRCs in this way preserves a single carbon price signal and allows the MSR to manage overall supply effectively. Robust monitoring and harmonised governance would be essential to ensure credibility and transparency.

If CRCs are introduced into the ETS, the MSR must adjust dynamically to maintain market balance. Since CRCs function like allowances but enter the system through removals rather than payment for emissions, their inclusion could reduce overall allowance demand. To avoid a price collapse or excess supply, the MSR must reduce auction volumes accordingly and work in close coordination with the authority governing CRC inflows. This may prove to be a challenge due to potential temporal lags. Therefore, a buffer of allowances may also be needed to protect the market from year-to-year fluctuations in CDR availability, ensuring stability even under variable supply conditions.

ZEP wishes to stress the fact that the ETS alone cannot deliver the scale of removals required for long-term climate goals, nor should be considered the main instrument to attain this objective. Since eligible CRCs under this model are limited to DACCS and BioCCS, broader policies are needed to support the development of the CDR sector. Financial incentives, regulatory certainty, and dedicated frameworks will be critical to support planning and investment – especially as the EU moves toward net negative emissions after 2050. While CRC integration into the ETS may help scale these technologies, parallel instruments must exist outside the ETS to address residual emissions and deliver broader climate resilience.

To conclude, while interaction between permanent CDR and the ETS may be necessary to address residual emissions left in the system by 2040, direct integration is not the only nor necessarily the most effective option. ZEP calls on the European Commission to explore alternative policy models that can support CDR development while maintaining the environmental and market integrity of the ETS. A carefully phased and well-regulated approach will be essential to ensure CDR complements rather than compromises Europe's climate ambitions.

Carbon Capture and Utilisation (CCU)

The integration of Carbon Capture and Utilisation (CCU) into the EU ETS presents a complex challenge, primarily due to the non-permanent nature of most CCU applications. In most cases, the captured CO_2 is eventually re-released into the atmosphere—often within a short time frame. This raises significant concerns around environmental integrity, particularly in relation to who bears the liability for these emissions and how they are accounted for within the carbon market. The treatment of CO_2 transport further complicates the chain of responsibility.

ZEP advocates for a downstream 'chain-of-custody' model when it comes to surrender obligations for CCU-related emissions. Under the current system – outlined in Article 49 of the Monitoring and Reporting Regulation (MRR) – emissions are accounted for at the point of capture. For example, if an ETS installation captures and permanently stores CO_2 (either via geological storage or permanent chemical sequestration in a product), the emissions can be deducted from that installation's surrender obligations, and the carbon accounting is complete.

However, when CO_2 is instead diverted for utilisation (e.g., into e-fuels or chemicals), it leaves the ETS scope at the point of capture. This creates a significant gap: when the CO_2 is later released into the atmosphere, such as when synthetic fuel is combusted in an aircraft, the original capturing installation remains liable for surrendering the allowances, even though the emissions occur elsewhere and at a later time (Figure 1).

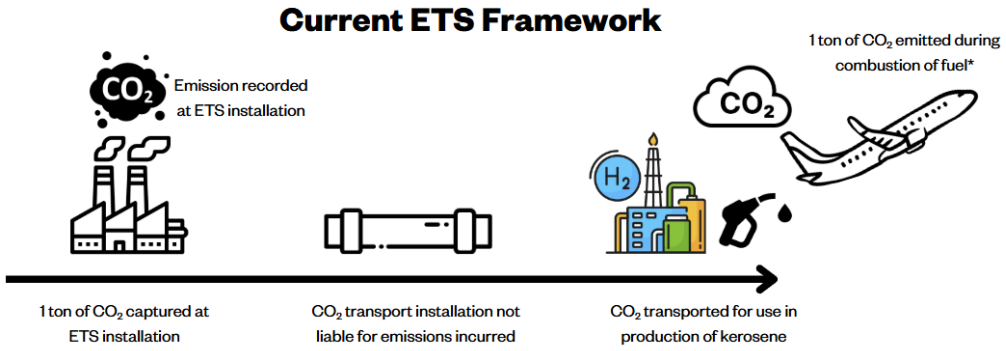

Figure 1: Illustrative example of CCU where CO_2 is captured and transported for the purposes of kerosene production where the CO_2 is ultimately emitted by the airline.[4]

[4] Note: This example omits CO_2 which is vented during the transportation process as well as indirect emissions incurred with the capture, transport and production of kerosene.

This situation creates a misalignment between emissions liability and physical emissions, potentially discouraging CCU innovation and creating distortions in the ETS. A revised accounting framework is needed – one that tracks CO_2 throughout the full lifecycle and assigns surrender obligations to the actual point of emission. Only through such a transparent and coherent chain-of-custody system can CCU be integrated into the ETS in a way that maintains the environmental integrity of the system and ensures accountability across the value chain.

The current EU ETS framework includes CO_2 transport infrastructure as a covered activity *only* when it connects a source installation to a storage site permitted under Directive 2009/31/EC. As a result, CO_2 transport to a point of use (rather than storage) is not classified as an ETS activity. Under these rules, any fugitive emissions or leakage occurring during transport are not reported, because the captured CO_2 has already been accounted for under Article 12(3b) of the ETS Directive – i.e. at the point of capture. In other words, the liability remains with the capturing installation.

As a pan-European CO_2 infrastructure network develops, this narrow definition creates challenges. Transport infrastructure is increasingly used to connect emitters not only to geological storage sites, but also to CO_2 users. As such, CO_2 transport infrastructure becomes a critical enabler to connect ETS installations with:

1) Geological storage sites compliant with Directive 2009/31/EC;
2) Users producing products that meet the requirements laid out in Delegated Regulation C(2024)5294, where CO_2 is permanently chemically bound in a product;
3) Users whose use of CO_2 in products do not meet these criteria.

This fragmented treatment means that CO_2 transport to storage sites is included in the ETS, while transport to points of use is not. This regulatory asymmetry can lead to accounting gaps, particularly in cases where leakage or emissions occur during transport. It also creates legal and administrative uncertainty for infrastructure operators.

Moreover, from the perspective of the ETS installation capturing the CO_2, there is an inconsistency in how different end-uses are treated. If CO_2 is transported for permanent storage, the process benefits from a clear and recognised regulatory pathway. However, when the same CO_2 is transported for utilisation, it falls outside the ETS framework – even though the transport infrastructure does not distinguish between CO_2 destined for storage versus use. This

inconsistency could undermine investment certainty and complicate compliance planning for emitters and transport operators alike.

Destination after point of capture	Liability
Transported to CO_2 storage site	Liability transferred to transport installation and storage site
Transported for use which intend to use CO_2 in a product which meets the criteria of the Delegated Act	Liability transferred to transport installation and user
Transported for use which does not intend to use CO_2 in a product which meets the criteria of the Delegated Act	Liability retained with emitter

Table 1: An overview of the status of CO_2 transport infrastructure with regard to the EU ETS liability under the current framework.

The alternative we propose solves the issues of liability and tracking the CO_2 over multiple steps. The 'chain-of-custody' approach involves turning every part of the CO_2 value chain into an ETS installation. This includes the transportation, the refinement, and the end user (see Figure 2).

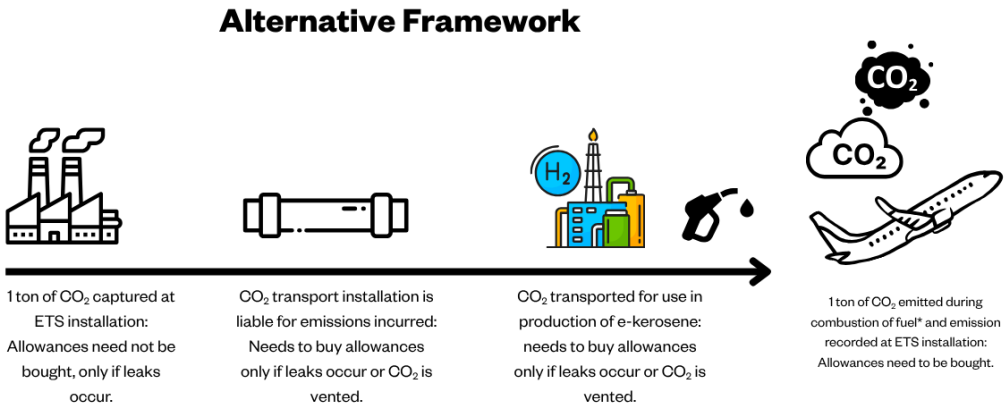

Figure 2: Illustrative example of CCU where CO_2 is captured and transported for the purposes of kerosene production where the CO_2 is ultimately emitted by the airline.[5]

The alternative process then follows an improved logic. In this model, the initial emitter captures one tonne of CO_2 and feeds it into the transport network, either for storage or for utilisation. These captured emissions are deducted from the emitter's surrender obligations, transferring the liability to the transport provider, who is then responsible for preventing leakage during transit. From there, two paths are possible:

1) If the CO_2 is delivered to a permanent storage site, the storage operator assumes responsibility, and the cycle ends with the CO_2 safely sequestered – fulfilling the compliance obligations of the original emitter.
2) If the CO_2 is delivered to another ETS-covered installation (such as an e-kerosene producer, as per our example above), liability shifts to that installation – and once again, with the obligation to ensure that no CO_2 leaks during the refinement process. It must ensure that emissions are either captured, stored, or properly accounted for during the conversion process. When the CO_2 eventually reaches the end user (e.g. an aircraft combusting e-kerosene), that user is liable for the final emissions and must surrender allowances accordingly.

[5] Emissions need to be recorded at every point to ensure proper accounting. This, however, needs to be done by each installation anyway as inflows and outflows of CO2 are costs or revenues. Effectively, every step of the CO_2 value chain becomes an ETS installation. Note: This example omits CO_2 recorded as indirect emissions incurred with the capture, transport and production of kerosene.

This system ensures that all CO_2 is still fully accounted for, but the liability is distributed more logically along the value chain. It removes the need to track CO_2 all the way back to the original emitter in cases of CCU, simplifying administration while improving environmental integrity and economic fairness. In other words, the total accounting of the CO_2 does not change from the current case – all carbon is accounted for – but this approach spreads risk more evenly and solves the issue of having to track the CO_2 to any specific emitter.

Finally, ZEP wishes to highlight the fact that while CCU can offer clear benefits – such as displacing fossil carbon and achieving minimum emission reductions – the impermanent nature of many uses and potential for mitigation deterrence require that its integration into the ETS be carefully managed. The proposed chain-of-custody approach helps mitigate these risks by maintaining full accountability and ensuring demand for allowances when previously captured CO_2 is ultimately released. It can thus also contribute to decarbonisation efforts and even long-term price stabilisation. However, ZEP believes that advancing permanent geological storage must remain a clear priority if the EU is to meet its long-term climate targets. CCU can play a complementary role, but it should not be seen as a substitute for durable removals or storage.

5. Linkage to Other Carbon Markets: Untapped Potential

Linking the EU Emissions Trading System (EU ETS) to other carbon markets presents a strategic opportunity to enhance the system's effectiveness, reduce administrative burdens, and accelerate decarbonisation. ZEP supports efforts to pursue such linkages—particularly with the UK Emissions Trading Scheme (UK ETS)—provided certain safeguards are in place to protect the integrity of the EU system.

The primary rationale for linking ETSs is efficiency and market effectiveness, rather than carbon leakage prevention per se. Since linkage is pursued only with jurisdictions that already operate a carbon market, the risk of leakage is inherently low. Instead, linking allows for broader market coverage, increased liquidity, and more cost-effective emissions reductions, benefiting all participants. It can also eliminate the need for mechanisms like the Carbon Border Adjustment Mechanism (CBAM) in the linked jurisdiction, reducing compliance complexity and administrative costs for European industry.

For industrial carbon management more specifically, linkage has added importance. The UK holds roughly one-third of Europe's estimated CO_2 storage capacity, yet EU emitters cannot

currently access this potential due to the absence of cross-border legal and regulatory arrangements. Linking the EU and UK ETSs would unlock these storage routes, enabling more efficient and cost-effective CCS value chains across borders. As recognised by both parties in May 2025, establishing a formal link would create the certainty and scale needed to underpin long-term investments in industrial decarbonisation and storage infrastructure.

While the benefits of linkage are clear, several challenges must be managed. Chief among them is the need to maintain environmental integrity and avoid market distortion. Linking should not result in an oversupply of allowances, which would depress prices and weaken the carbon signal. In principle, the Market Stability Reserve (MSR) is not required to adjust in response to linkage – as demonstrated by the current approach to Swiss allowances – but in practice, EU policymakers may need to assess and manage the potential effects of linkage on overall supply-demand balance. To safeguard the functioning of the EU ETS, linkages should only be pursued with systems that meet key compatibility criteria, including:

- Similar levels of climate ambition, to prevent the outsourcing of emissions reductions.
- Comparable MRV (Monitoring, Reporting, and Verification) frameworks, to ensure environmental integrity and avoid double counting.
- Aligned approaches to free allocation and carbon leakage protection, to maintain a level playing field.
- Consistent treatment of carbon removals, including adherence to the EU's Carbon Removal Certification Framework (CRCF) for any credits that might enter the market.

While some elements of market design can be negotiated, these core principles should guide any linkage discussions. Flexibility is possible, but environmental integrity and a fair competitive environment must not be compromised. Ultimately, linking with jurisdictions like the UK – whose system is already well-aligned with the EU ETS – offers an opportunity to support decarbonisation at scale, especially for sectors reliant on cross-border CCS infrastructure. ZEP strongly encourages the EU to prioritise such partnerships, using ETS linkage as a tool to deliver more effective climate action across borders.

More broadly speaking, ETS linkage should be seen as a tool for implementing the EU's industrial policy objectives. As Europe scales up clean technologies and carbon management solutions under frameworks like the Net-Zero Industry Act (NZIA), international carbon market integration

can support a level playing field, foster investment certainty, and accelerate the deployment of net-zero infrastructure across borders.

6. Other considerations: Waste and CO_2 Transport

Municipal Waste Incineration (MWI)

ZEP welcomes the EU's ambition to decarbonise all sectors of the economy, including the waste sector, which plays a dual role: mitigating greenhouse gas emissions and delivering essential public services. The potential inclusion of municipal waste incineration (MWI) in the EU Emissions Trading System (ETS) must therefore be approached with careful analysis, fairness, and proportionality.

The municipal waste sector finds itself in a difficult situation regarding carbon pricing. As the end point of the waste management chain, MWI already contributes to emissions reductions by facilitating material recovery and energy substitution for fossil fuels—both key elements of the EU's climate and circular economy objectives. Furthermore, MWI ranks higher in the waste hierarchy compared to other forms of waste treatments, such as landfills. While the latter can technically be classified as a carbon sink, they ultimately emit CO_2 as waste degrades over time, as well as other harmful greenhouse gases such as methane. Landfilling does not benefit the recycling initiatives proposed by the EU either. The EU aims to reduce landfilling to just 10% of municipal waste (by weight)[6], making MWI an essential interim solution. However, MWI operators have limited control over waste input composition. An uneven regulatory treatment – such as including MWI in the ETS without equivalent measures for landfills – could thus result in reduced waste acceptance and unintended shifts in waste flows (i.e. increasing waste volumes in other final treatment installations).

Crucially, the unequal inclusion of only MWI in the ETS could undermine climate goals rather than support them. First, increased operational costs may incentivise waste exports to jurisdictions with weaker environmental standards – or even illicit disposal – creating a leakage risk. Second, excluding other waste treatment methods (such as landfilling) from carbon pricing gives them a competitive advantage despite their lower environmental performance – including the fact that these other routes do not have the same incentives for recycling or recovery of

[6] Council Directive 1999/31/EC. Available at: eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:31999L0031

materials. Municipal budgets, already constrained and planned over long timelines, would struggle to absorb new ETS costs without adjustments elsewhere in the waste system. Therefore, it is likely that introducing MWI into the ETS without other measures would be detrimental.

To prevent these negative consequences, any inclusion of MWI in the ETS must be accompanied by a supportive and coordinated policy package. This should ensure that:

- Cost pass-through to municipalities and service users is made possible, where currently structural barriers exist.
- A level playing field is maintained among all waste treatment options, preventing regulatory distortion.
- Adequate financial and technical support is made available for decarbonisation investments.

CCS and CCU technologies offer promising pathways for decarbonising MWI plants, but the latter also have limitations – including space availability next to their facility – and CCS/U will not be a viable option for all of them. CCS/U solutions are capital-intensive, require significant physical space, and entail long permitting and construction timelines. For CCS/U to be a viable part of the MWI strategy, cost certainty, long-term planning tools, and support for infrastructure development must be part of the broader policy context.

More broadly, the inclusion of MWI in the ETS must uphold the polluter pays principle, even if a downstream emissions accounting model is used. Provisions should ensure that municipalities, who ultimately bear the cost, are empowered to allocate it fairly across the waste chain without undermining service provision or public trust.

The coming years should be treated as a learning phase for the potential inclusion of MWI and other waste-related installations in the ETS. If the Commission decides to move forward, it is vital that such decisions be grounded in robust empirical evidence, designed with regulatory proportionality, and aligned with the broader goals of climate neutrality and circularity. The MWI sector likely wants to contribute to EU climate targets, but must not be disproportionately burdened – as this would ultimately hinder, not help, those very goals.

Harmonisation of the ETS transposition with regards to CO_2 transport provisions

ZEP recommends that the ongoing review of the EU ETS also addresses the national transposition of CO_2 transport-related provisions. Greater harmonisation is needed to ensure clarity, consistency, and efficiency across Member States, in particular as many projects are of a cross-border nature.

Because the ETS is governed by a Directive rather than a Regulation, Member States retain some discretion in how they implement its provisions in national law. One key area of divergence lies in the treatment of CO_2 transport infrastructure – specifically, in determining which actor (for e.g. the transmission system operator, a licensed shipper, or the emitting installation itself) is liable for emissions during transport and who holds the corresponding surrender obligations. Member States have adopted divergent liability frameworks, complicating the development of cross-border CO_2 transport and undermining efforts toward a harmonised carbon market.

Similar questions arise when trying to define the exact boundaries of CO_2 transport infrastructure in the ETS. For instance, Article 3(3) in the CO_2 Storage Directive defines a "storage site" as *"a defined volume area within a geological formation used for the geological storage of CO_2 and associated surface and injection facilities"* – but the latter part of this sentence leaves room for interpretation regarding the boundary between storage and upstream transport infrastructure.

The Monitoring and Reporting Regulation (MRR) adds further detail relevant to defining these boundaries. Notably:

- *Article 49.3 ('Transferred CO2') outlines that operators may use either a calculation-based or measurement-based methodology to determine the quantity of CO_2 transferred between installations or transport infrastructures. In the case of measurement-based methodologies, the emission source corresponds to the measurement point, and emissions are recorded as the amount of CO_2 transferred.*
- *Annex IV, Section 22(A) provides specific guidelines for CCS, stating that the boundaries of CO_2 transport infrastructure – "including all ancillary facilities functionally connected to the transport infrastructure, such as CO_2 intermediate storage, booster, liquefaction, gasification, purification stations or heaters" – must be set in the installation's greenhouse gas emissions permit. Each transport system must have at least one start point and one end point, which can include bifurcations or cross-border interconnections, and these must be clearly defined in the permit.*

- *The same section defines "$T_{OUT,i}$" as the amount of CO_2 transferred out of the transport system at exit point i, determined either through a mass balance methodology (Article 25) or a measurement-based approach (Articles 40–46 and Article 49).*

Taken together, these provisions mean that the boundary between CO_2 transport and storage infrastructure is not uniformly defined across the EU but rather determined on a case-by-case basis in the greenhouse gas emissions permits issued by national authorities. While this allows for flexibility, it also leads to fragmentation and regulatory uncertainty which hampers project development and investment.

Given that cross-border CO_2 transport – especially via pipelines or shipping – will have a major role to play in advancing towards the EU's climate goals, a fragmented regulatory landscape presents a structural barrier to scaling up industrial carbon management and deploying CCS and CCU at the European level. With the Commission's upcoming legislative initiatives under the Net-Zero Industry Act (NZIA) and the Industrial Carbon Management Strategy (ICMS), in particular the much-awaited European CO_2 transport and market regulatory package, there is a timely opportunity to align frameworks.

We therefore propose that the European Commission provide stronger guidance or coordination mechanisms to ensure that CO_2 transport infrastructure is treated consistently under the ETS Directive. This could include:

- Clarification of reporting and liability obligations for transport and storage operators.
- Alignment of permitting and monitoring rules, particularly for cross-border infrastructure.
- Guidelines on how ETS allowances interact with CO_2 transportation losses or emissions.

To support the effective deployment of a pan-European CO_2 network, the ETS framework must go beyond emission accounting alone and facilitate the enabling infrastructure required for industrial decarbonisation. A harmonised regulatory environment would accelerate project development, reduce administrative burdens, and increase investor confidence – ultimately ensuring that the ETS works not only as a carbon price, but as a driver of real emissions reductions across Europe.

About the Zero Emissions Platform

Established in 2005, Zero Emissions Platform (ZEP) is the official advisor to the European Union on industrial carbon management. We work on developing and accelerating the commercial deployment of these climate technologies:

- *Carbon Capture and Storage (CCS)*
- *Carbon Capture and Utilisation (where CO_2 is stored in a manner intended to be permanent)*
- *Bio-Carbon Capture and Storage (BioCCS)*
- *Direct Air Capture with Carbon Storage*

ZEP supports the ETIP-ZEP under the European SET-Plan funded by the European Framework Programme and collaborates closely with various services of the European Commission on several common deliverables.

Our comprehensive technical work and policy advice builds on a broad, diverse member base, ranging from energy and industrial companies to infrastructure and technology developers, financial and research institutions and civil society organisations. Supporting the ETIP-ZEP under the SET-Plan, we ensure industry, research, and civil society contribute to EU industrial carbon management policies.

Our mission is to accelerate its deployment and the buildout of CO_2 infrastructure in line with Europe's climate ambition.