

# IETA's Vision for the Post-2030 EU ETS

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**In March 2026, the European Union adopted a net 90% emissions reduction target for 2040 relative to 1990 levels, framing the broader post-2030 climate policy architecture in which the review of the EU Emissions Trading System (EU ETS) will play a central role. At the same time, EU climate policy is progressing in an increasingly complex context shaped by energy security priorities, geopolitical uncertainty, and the urgent need to reinforce industrial competitiveness.**

For over 20 years, the EU ETS has delivered substantial emissions reductions in power, heat, and industry, while generating over EUR 245 billion in auction revenues as of mid-2025.<sup>1</sup> This success reflects its core features: environmental integrity, market-based efficiency, transparency, and rule-based governance. After 2030, however, the system will operate under new conditions, including a shrinking cap and stronger competitiveness pressures. The ETS must therefore evolve to remain effective, without weakening these key principles.

To do so, the EU ETS must continue to be well aligned with complementary policies, like the Effort Sharing Regulation, the Renewable Energy Directive, the Carbon Removals Carbon Farming (CRCF) Regulation, the Clean Industrial Deal, the Industrial Accelerator Act, and the LULUCF Regulation, to avoid overlaps, gaps, or conflicting signals that could undermine the effectiveness of the system.

In the upcoming review, key elements such as the cap and linear reduction factor, the Market Stability Reserve (MSR), free allocation, carbon removals, international credits, linking, ETS revenues, and competitiveness safeguards must be assessed together for an integrated post-2030 vision. Moreover, the EU ETS should preserve industrial competitiveness in Europe through effective carbon leakage protection measures, the improved use of ETS revenues to support industrial decarbonisation, and predictability of investment conditions.

In this paper, IETA sets out its vision for this transition, with a clear objective: preserve the EU ETS as Europe's central climate instrument by increasing its efficiency while adapting it to the realities of the post-2030 period.



[1] EU Climate Action Progress Report 2025.

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## Predictability and Regulatory Stability

A predictable cap trajectory and clear rules are key to driving investment and innovation. In the post-2030 EU ETS, market functioning will need to manage increased scarcity as the cap declines. This requires an integrated framework that connects key elements of the system, including the revised MSR, carbon removals, international credits, linking, CBAM, free allocation, and evolving demand from industry, maritime and aviation. Together, these components shape supply, demand, and hedging behaviour.

As prices are expected to rise, risks of political intervention may increase (i.e. the 1 April proposal for a short-term revision of the MSR for ETS1 or the negotiated one-year delay of ETS2).

IETA stresses that the EU ETS should remain rule-based and free from ad-hoc measures that undermine investor confidence and market functioning. Predictable governance and broad market participation helps efficiency, price discovery and access to hedging for compliance entities.

In this regard, IETA supports tools that contribute to price predictability and support investment in decarbonisation measures, such as the Industrial Decarbonisation Bank, Carbon Contracts for Difference (CCfDs), and a more strategic use of EU ETS revenues directed towards hard-to-abate sectors to accelerate progress towards net zero and support innovation across sectors.

Moreover, the MSR plays a central role in supporting the market functioning of the EU ETS and should be adapted to a changing context. Its critical role is supported by clear evidence on how it has helped absorb surplus allowances and stabilise the market during periods of external shocks. Current parameters were designed for surplus conditions, while the post-2030 market is expected to face tighter supply as the cap declines. The MSR should therefore transition from a surplus-management tool to a predictable market-stability mechanism suited to a shrinking cap. Reform should be based on clear and transparent rules and consider liquidity conditions, hedging needs, and demand across sectors, including industry, CBAM-covered sectors, maritime, and aviation. Finally, any adjustments to the MSR should remain consistent with the broader EU ETS framework, ensuring that the introduction of additional flexibilities in the European carbon market — such as a potential delay in the phase-out of free allocation, the role of removals, or the use of international credits — together with changes to the MSR, do not risk diluting the EU's climate ambition.

## EU Emissions Trading Domestic Expansion

IETA believes scope expansion of the EU ETS will provide a valuable contribution to the achievement of net-zero emissions in the EU and improve the efficiency of existing carbon markets. Expansion of carbon trading to new sectors should ensure environmental integrity, maximise cost-efficient cross-sectoral decarbonisation, protect competitiveness, and support a just transition. IETA supports broader and more diversified carbon pricing to improve its efficiency in reducing emissions and market functioning. This includes evaluating the potential addition of waste incineration to ETS1 or extending ETS2 to cover remaining fossil fuel uses such as rail, inland waterways, off-road machinery, and agriculture fuels. This would simplify administration and ensure a level playing field. IETA also supports including non-CO<sub>2</sub> aviation emissions and assessing further extensions, in the long term, agricultural non-CO<sub>2</sub> emissions. Any future expansion, however, must be based on robust MRV systems and careful assessment of carbon leakage, particularly for sectors already covered by the Effort Sharing and LULUCF Regulations.

### Conditions for Merging ETS1 and ETS2

Closer interaction between ETS1 and ETS2 has the potential to strengthen market functioning by improving liquidity, reducing volatility, and supporting more consistent carbon price signals across sectors. At the same time, ETS2 has not yet started, and its functioning, market behaviour, and interaction with existing instruments remain uncertain. As such, the overall benefits of closer integration will depend on a range of factors, including regulatory design, system compatibility, and the availability of abatement options in covered sectors.

Additionally, the role of complementary instruments, such as the Social Climate Fund and the potential interaction with international credits, will influence how ETS2 evolves and how it may interact with ETS1 over time. These elements will be important in assessing whether and how closer links between the systems could support EU climate objectives. In this context, IETA supports exploring options for closer interaction between ETS1 and ETS2, including potential merging under appropriate conditions. Any such steps should be based on a thorough evaluation of risks and benefits, with a strong focus on preserving market stability, ensuring effective price signals, and maintaining the integrity of both systems.

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## Linking Compliance Markets

IETA supports linking the EU ETS with other compliance carbon markets as part of a broader international carbon market integration strategy alongside CBAM, Article 6 mechanisms, and the future use of international credits. Linking should be pursued with systems that demonstrate comparable levels of ambition, robust MRV frameworks, and compatible market design. In this context, IETA strongly supports a swift EU-UK linking agreement as a priority. Linking carbon markets offers clear benefits by increasing cost-efficient abatement opportunities and supporting convergence of carbon pricing across jurisdictions. It also helps address carbon leakage and competitiveness concerns by ensuring that industries in different regions face equivalent incentives to reduce emissions, and can complement global CBAMs, including by exempting imports from jurisdictions with fully linked systems.

While IETA favours full linking with unrestricted fungibility and direct registry connections, gradual or restricted approaches can also support market integration over time. Linking should be developed within a transparent, predictable framework with clear timelines and governance. As a long-term tool, it should contribute to carbon market convergence and strengthen confidence in emissions trading globally.

### Carbon Removals and Carbon Trading in Land-use and Agriculture Sectors

IETA supports the critical role of nature-based and engineered carbon removals in achieving EU climate targets, including in the agriculture and land-use sectors. Strengthening market-based mechanisms, with credible pathways towards use in compliance systems, can help mobilise private finance and unlock mitigation and removals in LULUCF, delivering benefits for farmers, foresters, and land managers. The CRCF Regulation provides an important foundation as a robust certification framework for removals, carbon farming, and certain emissions reductions. However, certification and voluntary demand alone are unlikely to drive the scale needed in the EU. Effective policies that create demand for CRCF units will be important to accelerate deployment. In this context, IETA supports the development of well-designed compliance frameworks for all CRCF credits.

In the near term, IETA supports the Commission's intention to integrate BECCS and DACCS into the EU ETS within appropriate, pre-defined limits. At the same time, it will be important to provide clear pathways for high-integrity nature-based removals. This includes recognising that CRCF units, which are supported by robust monitoring and reversal-risk management, can deliver durable carbon storage, and avoiding distinctions in recognition and use based on permanence. Overall, a balanced approach supporting both nature-based and engineered solutions and combining voluntary and compliance-driven demand can help scale high-integrity carbon removals cost-effectively and support the EU's 2040 and 2050 climate objectives.

### International Credits

IETA supports the use of international carbon credits towards the 2040 target, in line with the 5% cap set in the European Climate Law. We strongly recommend that the necessary preparatory work on governance and procurement should start immediately to ensure that pilots can begin from 2031 as currently planned. Credits should act as a flexibility tool that complement, rather than replace, domestic action, while supporting competitiveness, global climate ambition, and international cooperation. A clear and predictable EU framework is essential to create a stable long-term demand signal and to guide investment.

The use of international credits should be based on high environmental integrity, robust MRV, and alignment with international standards, particularly under Article 6 of the Paris Agreement. All credit types, including reductions and removals, should remain eligible on the basis that they meet strong quality criteria, without unnecessary restrictions. International credits can support EU competitiveness and deliver wider benefits, including sustainable development and carbon market growth in partner countries, while ensuring transparency, consistency with EU policies such as the CRCF, and a focus on scalable, high-integrity solutions.

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