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EBF KEY POINTS ON THE EU ETS REVISION PROPOSAL

The European Banking Federation welcomes the Commission's proposal to revise the EU emissions trading system (ETS) and calls on co-legislators to maintain a strong, credible and predictable carbon price signal and ensure long-term certainty to support both investments in the clean energy transition and long-term financing.

Our main recommendations are as follows:

1. **Keep the ETS focused on driving transition investments and financing in the long run:** Calibration of the ETS elements, including the linear reduction factor, free allocation of allowances and the Market Stability Reserve, should maintain a strong, credible and predictable carbon price signal and avoid the re-emergence of structural allowance surpluses, while ensuring compatibility with industrial competitiveness in the long run. The key design parameters should follow a clear long-term trajectory and should not be subject to abrupt or retrospective changes. This is essential to provide the planning certainty needed for long-term investment in transition-oriented projects and long-term financing.

2. **Protect frontrunners:** Recalibration of the ETS should take into account investments and transformation efforts already undertaken by companies. We support the rapporteur's suggestion in the draft report to give extra free allowances to frontrunners.

3. **Preserve financial institutions' participation in the ETS**: Banks support the effective functioning of the ETS as market makers and client facilitators, supporting liquidity, price discovery and risk management. A deep and liquid carbon market strengthens the credibility of the ETS price signal and helps companies manage carbon-price risks and plan long-term decarbonisation investments. Additional restrictions could reduce market liquidity and increase the cost of managing carbon-price risks for ETS compliance entities. Participation should continue to be subject to proportionate transparency, market-integrity, and anti-manipulation safeguards.

4. **Ensure access to clean energy in sufficient volumes at competitive prices:** One of the main challenges for companies is access to clean energy in sufficient volumes at competitive prices. Therefore, expanding clean energy generation, grid capacity, energy storage, alongside faster permitting and connection times and support for clean technologies must go hand in hand with a strong and predictable carbon price signal. Together, these measures will enable companies to invest in clean energy production and transformation of industrial processes, thereby strengthening the competitiveness of the European industrial sector.

5. **Earmark national ETS revenues to strengthen the business case and de-risk investments in clean technologies:** At least 25% of national ETS auction revenues should be directly dedicated to supporting clean technologies. This would correspond to half of the 50% of national ETS revenues that the proposal earmarks for the decarbonisation of ETS sectors. The remaining share of ETS revenues should prioritise de-risking instruments that mobilise private capital in other clean energy projects and related infrastructure, including supporting SMEs and households.

6. **Ensure that the Industrial Decarbonisation Bank (IDB) makes clean projects bankable:** IDB should focus on addressing market gaps and unlocking private capital to projects which are not bankable without suitable de-risking instruments. To deliver on decarbonisation objectives, the IDB should focus on commercial risks rather than technological risks and support projects that are sufficiently mature and close to a final investment decision. IDB should crowd in and not crowd out private capital. Instruments such as

Contracts for Difference (CfDs), and fixed premia should be deployed accordingly and, if necessary, be able to match the maturity of long-term financing provided. Additionally, the IDB should deploy a diversified toolbox of financial instruments targeting both CAPEX and OPEX and actively incorporate blended finance and other risk-sharing mechanisms to mobilise private capital. A stronger use of blending mechanisms will enhance project finance structures and improve overall bankability. Instruments must address one of the main barriers to scaling investments: revenue uncertainty and demand risk, while also supporting the development of competitive, self-sustaining industrial value chains. IDB should prioritise investments that enable structural industrial decarbonisation.

7. **Maintain the agreed phase-out of free allowances alongside effective CBAM protection, low-carbon infrastructure and investable lead markets, with transparent review triggers. Mandate free allocation funds towards actual investments (FID) or proportional to milestones. Otherwise claw-back.** A well-functioning CBAM is essential to safeguarding European competitiveness and supporting the climate transition. CBAM primarily addresses carbon leakage arising from imports into the EU, while export-oriented European industries remain exposed to carbon leakage risks. Free allocation and compensation for indirect carbon costs are measures to counter carbon leakage**.** Any new conditions, including the investment conditions above, should take into consideration this function and be designed so as not to increase administrative burdens or reduce predictability for companies.

8. **Allow a limited and complementary use of high-integrity international carbon credits within the ETS**. International credits can act as a market-based safety valve by mitigating extreme price volatility, supporting investment planning and safeguarding the competitiveness of hard-to-abate sectors. Their use should be subject to clear and harmonised EU eligibility criteria, robust environmental and financial integrity safeguards and alignment with Articles 6.2 and 6.4 of the Paris Agreement, without weakening the ETS price signal or displacing domestic decarbonisation efforts.

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