IETA

ECS Report

May 2025

INSIGHTS FROM ECS 2025

# CARBON MARKETS IN TRANSITION

# ECS 2025
# 1-3 APRIL
# LISBON, PORTUGAL

SINCE 1999 IETA HAS BEEN THE LEADING VOICE OF BUSINESS ON AMBITIOUS MARKET-BASED CLIMATE CHANGE SOLUTIONS AND DRIVING NET ZERO. IETA ADVOCATES FOR TRADING SYSTEMS FOR EMISSIONS REDUCTIONS AND REMOVALS THAT ARE ENVIRONMENTALLY ROBUST, FAIR, OPEN, EFFICIENT, ACCOUNTABLE AND CONSISTENT ACROSS NATIONAL BOUNDARIES. REPRESENTING MORE THAN 300 LEADING INTERNATIONAL ORGANISATIONS, IETA IS A TRUSTED PARTNER IN DEVELOPING INTERNATIONAL POLICIES AND MARKET FRAMEWORKS TO REDUCE GREENHOUSE GAS EMISSIONS AT THE LOWEST COST WHILE BUILDING A CREDIBLE PATH TO NET ZERO EMISSIONS. SEE WWW.IETA.ORG FOR MORE INFORMATION.

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# INTRODUCTION

**IETA'S EUROPEAN CLIMATE SUMMIT TOOK PLACE IN LISBON PORTUGAL FROM APRIL 1-3 THIS YEAR. AS INTERNATIONAL MARKETS WERE ROILED BY THE ANNOUNCEMENT OF WIDESPREAD US IMPORT TARIFFS, STAKEHOLDERS GATHERED TO REITERATE THEIR COMMITMENT TO ACHIEVING THE GOALS OF THE PARIS AGREEMENT THROUGH BOTH MANDATORY AND VOLUNTARY MARKETS-BASED ACTION.**

Attendees considered the role that carbon pricing plays in accelerating the low-carbon transition and concluded that "carbon markets must evolve to prevent leakage, reward early movers, and support sectors facing the steepest transition challenges."

ECS delegates discussed the approach of trade-based measures such as the European Union's Carbon Border Adjustment Mechanism, the expansion of the EU ETS to encompass fuel use in the region's buildings and road transport sectors and the use-case for carbon removals in the market as the cap on emissions continues to shrink.

And farther afield, the conference considered how corporate climate action is changing amid the spread of net-zero guidance, as the use-case for carbon credits gradually evolves and government regulations are changing the definition of "net zero".

IN A WORLD OF SHIFTING TRADE AND CLIMATE RULES, CARBON MARKETS MUST EVOLVE TO PREVENT LEAKAGE, REWARD PIONEERS, AND SUPPORT THE HARDEST TRANSITIONS.

# TOP 3 TAKEAWAYS

## TAKEAWAY 01

THERE ARE STILL MANY UNCERTAINTIES AROUND EUROPE'S CBAM AHEAD OF THE START OF COMPLIANCE IN 2026. PROPOSALS TO SIMPLIFY THE MECHANISM ARE CURRENTLY UNDER DISCUSSION, AND IT'S VITAL THAT THE AGREEMENT IS REACHED SWIFTLY, AND THAT STAKEHOLDERS HAVE THE OPPORTUNITY TO ENGAGE WITH LAWMAKERS BEFORE THE UPDATED RULES ARE SET.

## TAKEAWAY 02

IMPLEMENTATION OF "EU ETS2" COVERING FUEL EMISSIONS FROM BUILDINGS AND ROAD TRANSPORT, IS CAUSING CONCERN AMONGST STAKEHOLDERS, AS ITS RULES HAVE NOT YET BEEN UNIVERSALLY ADOPTED BY EU MEMBER STATES. SOME COUNTRIES ARE STILL PRESSING FOR A DELAY IN THE START OF ETS2, AND MARKET PARTICIPANTS ARE YET UNABLE TO JUDGE AND HEDGE THE RISK OF A POSTPONEMENT.

## TAKEAWAY 03

CARBON NEUTRALITY MEANS MORE THAN OFFSETTING SCOPE 1 EMISSIONS. GOVERNMENTS NEED TO TAKE THE LEAD IN SETTING GUIDELINES OVER WHAT ACTIVITIES CAN BE CONSIDERED CARBON NEUTRAL AND SETTING OUT USE-CASES FOR CARBON CREDITS AS WELL AS FOR CARBON REMOVALS.

# DAY 01

# HARMONISATION OF THE VOLUNTARY CARBON MARKET

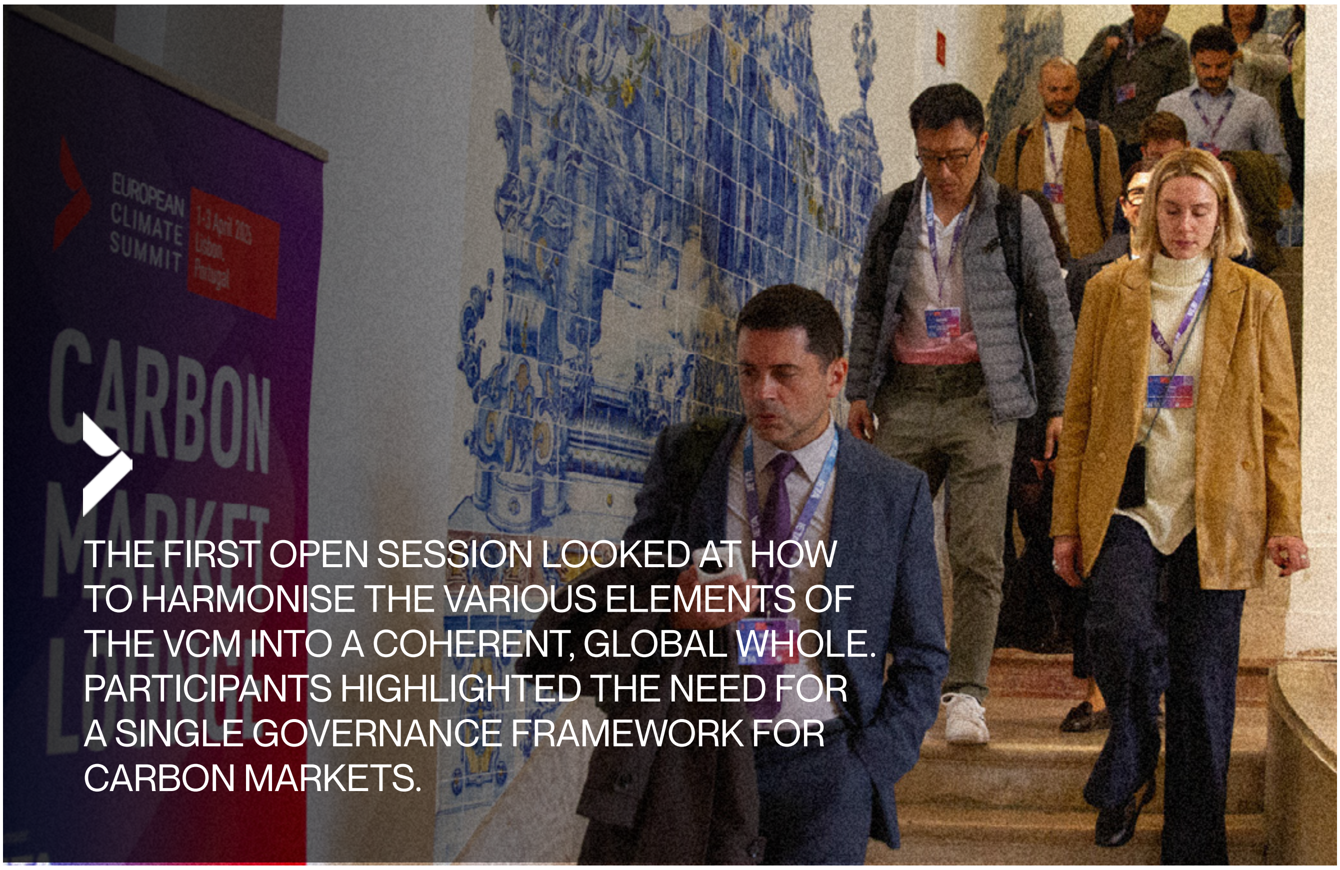
DAY 1 OF ECS KICKED OFF WITH IETA MEMBER SESSIONS, INCLUDING THE EU WORKING GROUP, VCM WORKING GROUP, THE NATURAL CLIMATE SOLUTIONS STRATEGY ROUNDTABLE, LEGAL WORKING GROUP AND ICROA MEETINGS.

A UNIFIED GOVERNANCE FRAMEWORK IS ESSENTIAL IF THE VOLUNTARY CARBON MARKET IS TO SCALE WITH INTEGRITY.

General sessions covered issues such as the nature of carbon neutrality in the context of rising ambition, the risks of public perception, and the need for governmental guidance. Participants also considered the role of removals in the EU ETS, the EU's 2040 target and the role of Article 6 credits in the ETS and CBAM.

The first open session looked at how to harmonise the various elements of the VCM into a coherent, global whole. Participants highlighted the need for a single governance framework for carbon markets. Drawing on examples from other global markets, the discussion reviewed where oversight gaps exist, the role of ICROA, ICVCM and other standard setters.

By creating a clear use-case for carbon credits and by setting out guidelines addressing corporate claims, regulators can create a context for more widespread participation in the market. Speakers also emphasised the central role of Article 6.4 of the Paris Agreement in creating a flow of globally recognised credits.



# DAY 02

# A GLOBAL PERSPECTIVE

## IN THE OPENING PLENARY SESSION OF ECS 2025, IETA PRESIDENT DIRK FORRISTER NOTED THAT CLIMATE ACTION HAS SEEN SOME UNEXPECTED CHANGES IN THE LAST FEW MONTHS WITH SHIFTS IN POLITICAL ALIGNMENT, BUT HE ADDED THAT PROGRESS AT THE GLOBAL LEVEL REMAINS HEALTHY.

Stefano De Clara of ICAP presented the organisation's review of ETS activity around the world, noting the emergence of a number of new compliance markets in emerging economies, including Türkiye.

Hüseyn Ayaz of that country's directorate of climate change presented the draft regulations for its ETS, which is set to begin in 2026. Türkiye's system will be intensity-based but is being drawn up to align with the EU ETS as the country is a candidate for EU membership.

Europe's CBAM is seen as a powerful incentive for countries to implement carbon pricing systems, the conference also heard, with India's developing emissions market characterised as a specific response to the levy.

North American markets are hopeful that the benefits of the Inflation Reduction Act will remain in place, while state-level carbon trading systems are likely to avoid any impact from federal action. The voluntary carbon market was described as "vibrant", particularly in the forestry sector, but the US' withdrawal from the Paris Agreement means that credits from these projects are likely to remain "stranded" in the US.

The day's second plenary looked ahead to the compliance phase of Europe's Carbon Border Adjustment Mechanism. Speakers noted that EU policy makers are working to simplify the system ahead of the start in 2026 and to ease administrative burden for companies. They cautioned against making this "fast-track" adjustment process less transparent and open to stakeholders. All panellists agreed that it is crucial that CBAM is not delayed. Stakeholders need predictability to start managing their financial exposure, as stressed by both Commerzbank and Holcim.

A "deep dive" session on the role of carbon markets in the industrial low-carbon transition heard that the current business environment is seeing climate and ESG concerns being sidelined or downplayed. Companies and governments need to make a strong business case for climate policy and emissions trading to stem the tide. Total, CEFIC and NorskHydro representatives agreed that rising energy prices and global competition are putting pressure on European industry, that is facing the highest carbon and energy costs globally.
A second "deep dive" focused on the CORSIA global aviation carbon market. Attendees heard from the UK on the implementation of the global compliance market at national level. The UK government is proposing a penalty of £100 per tonne for failure to surrender CORSIA eligible units. Final implementation will come after the government reviews comments submitted in a consultation held earlier this year.

Participants noted that the inherently international nature of aviation requires a global solution as opposed to a patchwork, with Lufthansa Group advocating against any EU-based regulation that could undermine an international solution.

Supply of credits continues to improve and further guidance from approved standards such as Verra is being given to help operationalise the needed guarantee mechanisms in the event of revocation of Letters of Approval. Project developers noted that clarity on this insurance issue will help developers bring more credits to market.

## CBAM IS DRIVING GLOBAL CARBON PRICING, BUT PREDICTABILITY AND TRANSPARENCY ARE NON-NEGOTIABLE.

THE WORLD IS MOVING FROM VOLUNTARY AMBITION TO REGULATED ACTION — CARBON PRICING IS GOING MAINSTREAM.

The VCM World Cafe event debated three themes - carbon insetting, use cases for corporates and convergence between VCM and regulated markets.

For insetting, the room debated how to establish the principles of corporate internal supply chain abatement vs project based insetting initiatives; how to make the business case for insetting and offering recommendations on best practices.
A strong argument was put forward to use carbon credits to offset emissions across Scopes 1, 2, and especially Scope 3, and in particular to offset emissions for hard-to-abate industry sectors and emissions from regions such as Africa, participants heard.

Panellists discussed topics including whether credit use should be mandatory in the case of missed abatement targets, and whether this raised the risk of greenwashing. Some felt that carbon credit use should be restricted to carbon removals in such cases and acknowledged that a rigorous definition of Scope 3 emissions is still needed to provide certainty.

Other discussions included the eventual convergence of voluntary and compliance carbon markets as the world approaches the 2050 Paris Agreement target deadline. While more of the world will soon be covered by mandatory systems, there should remain a place for voluntary action and while supply needs to be regulated to ensure quality and environmental integrity, the demand side should be guided but not over-regulated, stakeholders said.

The global CORSIA carbon market was held up as an example of a market that has grown from voluntary to compliance, and which may provide a template for countries to integrate carbon credits into cap-and-trade systems.

Day Two ended with the traditional EU ETS analysts' round-table discussion. Participants considered the 20-year-old market's gradual transition from power sector decarbonisation, which is now well under way, to the next stage of industrial decarbonisation.
This is particularly clearly shown in the declining role of power industry hedging, which has hitherto been a stabilising influence from the market, they said.

Speakers noted that the industrial sector is not adapting quickly enough to rapid market and policy shifts, but acknowledged that high energy costs, energy supply and the risk of carbon leakage all remain a considerable brake on ambition and investment.

The recent swings in EUA prices from more than €100 to €50 in the space of 18 months highlighted the need for greater stability, to ensure long-term price signals are sent to empower industrial companies to invest in abatement.

Analysts noted that the volatility in carbon pricing has also been a by-product of the significant volatility in natural gas in the wake of Russia's invasion on Ukraine, but also referred to the impact of new and additional EU spending commitments – drawing on revenue from EUA auctions – as a source of added complexity in the market.

The speakers also looked ahead to the new EU ETS2 market, which will target entirely different sectors in a separate market structure. They noted in particular the challenges of demand forecasts for transport and residential sectors, noting that a whole raft of new inputs will be required.

# DAY 03

# IMPROVING MARKETS

## THE LAST DAY OF ECS 2025 KICKED OFF WITH AN EXAMINATION OF THE ROLE THAT EMISSIONS TRADING PLAYS IN DELIVERING NET ZERO.

Speakers identified the key challenge of how to deal with residual emissions once emissions trading systems reach a zero supply of allowances. Panellists asserted that there needs to be an incentive for negative emissions – that is, emission removals – to enter the market system in order to compensate for residual emissions.

To do so requires a clear and unambiguous emissions target, a robust carbon pricing mechanism and a rigorous focus on environmental integrity.

Both the EU and UK are currently considering how to include removals credits into their policy frameworks. While the UK plans to recognise removals in its ETS, with the goal of achieving net zero target by 2050, the EU is still looking at different scenarios, considering whether emissions trading is the right tool to stimulate the market for permanent removals.

The conference then considered the approach of the European Union's "ETS2" market which will focus on emissions from buildings and road transport fuels.


With the start date less than two years away, early actors are already seeking to hedge exposure but there remains no clear price for allowances (the first futures contracts will begin trading in early May 2025).

A number of EU member states have expressed concerns over the potential impact on consumers of the additional cost of allowances, and some have even called for the start of the market to be delayed, which adds to the lack of clarity for potential market participants.

Panellists urged the regulator to provide clarity as soon as possible, not to rule out implementing complementary policies, allow for early auctions, and set out the ETS2 policy in the context of the 2040 target.

The final session of ECS 2025 focused on the voluntary carbon market, and how to restore momentum after a recent period of uncertainty, controversy and stagnating market size.

On the positive side, buyer consortiums are driving demand and capital flows through investment funds are increasing.  However, the key challenge facing the VCM's growth is its fragmented nature, and while "clubs" or coalitions are a positive signal at present, they also operate in silos, each creating their own strict criteria without broader coordination, speakers said. This fragmentation limits scalability and creates inefficiencies — a market can't grow with separate buyer frameworks but through valid, unified business cases.

> TO REACH NET ZERO, MARKETS MUST EVOLVE TO REWARD REMOVALS AND MANAGE RESIDUAL EMISSIONS WITH RIGOR.

Moving forward, the market must shift from separate efforts to collective progress, building business models that demonstrate profitability and environmental impact together.

Some progress is being made, participants, said. Convergence between voluntary and regulated markets is increasingly visible, with CORSIA and the ICVCM both playing strong roles in raising integrity standards. There's a move toward cleaner methodologies, particularly in clean cooking projects, with a focus on reducing fraud risk and ensuring proper financing allocation.

The ICVCM is also working on standardising infrastructure, price benchmarking, and ensuring that credits maintain legal validity beyond project lifespans.

And the ongoing development of more robust guidance on corporate net zero goals means that definitions of Scope 1, 2 and 3 emissions are being honed more carefully and the role of carbon credits within this process is being clarified.

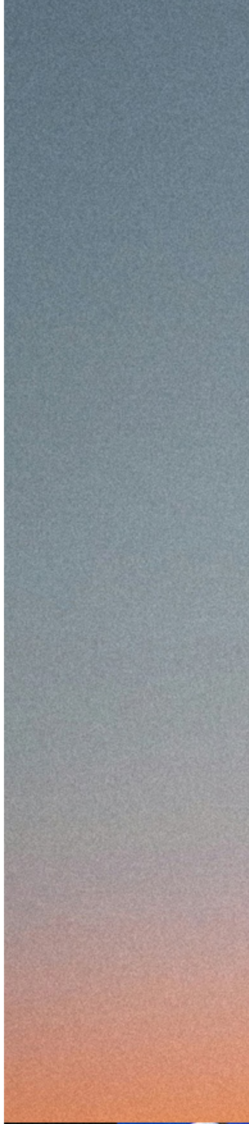
These efforts are helping to boost investment; delegates heard that financial commitments toward climate-related projects rose from $3 billion in 2024 to $5 billion in Q1 2025 alone, showing strong underlying momentum despite regulatory or political "noise".

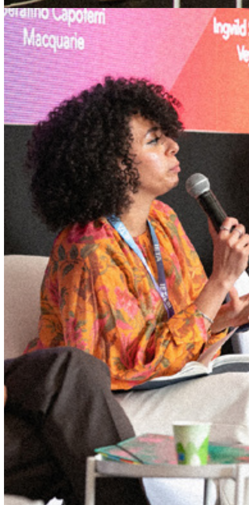
Insurance and rating agencies are stepping into the space, offering underwriting support to improve project and buyer confidence, and professionalism in carbon markets is increasing, with a shift away from poor-quality credits and towards more rigorous, high-integrity systems.

The conference concluded with a renewed acknowledgment that climate change remains a planetary emergency, and that market-based approaches must work hand in hand with leadership courage and long-term vision.

Optimism is warranted, but progress depends on integrity, cooperation, and consistent, high-quality execution.

## TO DELIVER NET ZERO, WE NEED MORE THAN OFFSETS — WE NEED A MARKET THAT VALUES TRUE REMOVALS AND ENVIRONMENTAL INTEGRITY.



# ECS 2025 CONCLUSION

The European Climate Summit 2025 in Lisbon gathered global stakeholders to reaffirm market-based climate action amid geopolitical shifts and upcoming regulatory changes. Day One focused on harmonizing the voluntary carbon market (VCM), with calls for a unified governance framework, clearer corporate guidance, and integration of Article 6.4. Day Two shifted to a global view, covering new emissions trading systems in countries like Türkiye and India, the implementation of Europe's Carbon Border Adjustment Mechanism (CBAM), and the evolving role of carbon markets in industrial decarbonization. Day Three addressed future challenges, including integrating carbon removals into ETS frameworks, the rollout of the new EU ETS2 for buildings and transport, and restoring confidence in the VCM through standardization, investment, and convergence with compliance markets. Across all sessions, the need for integrity, clarity, and coordinated leadership emerged as central to scaling carbon markets and achieving climate targets.


IETA

Headquarters
Grand-Rue 11
CH-1204 Genève
Switzerland
+41 22 737 05 00

Brussels
Rue du Commerce
Handelsstraat 123
1000 Brussels
Belgium
+32 289 55 747

Washington
1001 Pennsylvania Ave. NW
Suite 7117
Washington, DC 20004
+1 470 222 IETA (4382)

Toronto
180 John Street
Toronto, ON
M5T 1X5

Singapore
62 Ubi Road 1 #04-24
Oxley Bizhub 2
Singapore 408734

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