



CDR Integration into EU ETS Position

The DAC Coalition is a 501(c)3 nonprofit organization founded in 2022. It is a growing, global, non-profit, multi-stakeholder coalition of over 110 companies, organizations, and institutions working to advance and accelerate the deployment of direct air capture technology to help address climate change. With over 50 direct air capture technology developers among its membership, the DAC Coalition works to serve as a global platform for education, collaboration, and connectivity throughout this emerging market ecosystem.

We support the integration of high quality, measurable, verifiable, and **permanent removals** into the European Union Emissions Trading System (EU ETS). Inclusion of permanent Carbon Dioxide Removal (CDR) in compliance markets will be key to scaling the nascent industry to the level needed for the EU to meet its net zero targets. A well-designed integration into the EU ETS can provide a long-term robust, sustained, and predictable market for permanent CDR. However, it's broadly recognized that ETS integration of CDR credits without additional support mechanisms will be insufficient to drive deployment and use of permanent removals.

The unique challenges faced by permanent removals projects necessitate a unique approach to ETS integration. These challenges include extended sale cycles due to limited familiarity with the product, the nascent state of CDR credit transactions, lack of market liquidity, evolving science around permanent removals pathways, and dependency on climate policy to motivate purchases.

There are several key features of integration that we believe will be necessary for successful integration that enables permanent CDR projects and maintains the emissions accounting integrity of the ETS.

Key Features for Successful Integration

Measure, verifiable, and permanent removals only:

1. **Ensure the like for like principle is maintained:** Different types of removals have different durations of isolating carbon dioxide (CO₂) from the atmosphere, and therefore it is essential that this is taken into account for ETS accounting. Only removals that isolate CO₂ from the atmosphere on the

timescale of the lifetime of CO₂ emissions should be eligible for integration in order to maintain the integrity of the ETS.

Current best science indicates that durability of storage must be *no less than 1000 years*. This indicates that not all permanent CDR pathways currently recognized under the CRCF should be eligible since the CRCF standard of 200 years is shorter.

2. **All tonnes of CO₂ removed are measurable and verifiable:** In order to be fungible with emission allowances while maintaining emissions accounting integrity, a CDR credit must be verifiably equivalent to a tonne of CO₂ abated. A number of CDR pathways have significant uncertainty in the net quantity of CO₂ removal achieved; these pathways should only become eligible in the future if and when the science of their quantification is sufficiently precise and accurate.

The EU ETS integration is likely to set the global standard for CDR integration into an ETS programs, so it is essential that the model can be replicated while maintaining emissions accounting integrity.

Maintaining the gross cap on emissions while implementing a sub-mandate for removals:

1. **Define a CDR sub-mandate that increases over time:** The EU could define an increasing volume of allowances informed by net zero models that must be satisfied with permanent CDR credits as the ETS cap shrinks. This would compel parties across the economy to begin investing in small amounts of removals today which will be essential to building demand to where it needs to be by 2050. A small but growing sub-mandate would allow the ETS to transition from an Emissions Trading Scheme to a Removals Trading Scheme over time, where any remaining emissions must be balanced by removals. This market transition would enable obligated parties to have the flexibility and liquidity needed to achieve net-zero at lowest cost. This structure would also allow for CDR costs to be shared with industry.
2. **Maintain the gross cap on emissions:** If the gross cap on emissions is maintained, removals can only be used in place of an emissions allowance, rather than to displace an emission reduction. This ensures that action is taken in the near term to reduce emissions without limiting the incentives supporting the long-term viability of the EU's net zero targets. Maintaining the cap therefore

protects both the role of the ETS in incentivising decarbonisation and the role of CDRs in providing additional abatement by avoiding the risk of increasing gross emissions. However, over time this design would require the downward trajectory of the ETS to be revised to maintain a positive number in 2040 and beyond but with 100% removal sub-mandate.

Development of a market intermediary:

There is a critical role for government to play in serving an intermediary function to bridge the needs of CDR project developers and the ETS market to ensure integration is a success.

In line with the recent European Scientific Advisory Board on Climate Change report titled “Scaling Up Carbon Dioxide Removals – Recommendations for navigating opportunities and risks in the EU”¹ published in February 2025, direct and unconstrained integration would be problematic, and “*an intermediary institution provides a more comprehensive toolbox of mechanisms to balance static and dynamic cost-effectiveness objectives*”.

Without this intermediary role, removals will struggle to scale even with a sub-mandate supporting the integration. This is due, in part, to the small volume of trades, high transaction costs due to the complexity of the purchases, and inherent need for large capital project to have an expected stream of demand for the duration of the investment.

As such, a **centralized intermediary**, serving as an aggregator on behalf of the EU, should procure removals directly from CDR developers, translate them into blended allowances, and make them available to the EU ETS market. This approach has some key benefits essential to integration success that will not be possible with direct business-to-business credit trading integration:

- a. **Providing sufficiently certain and long-term offtake to support FID:** Even with integration into the ETS, it may be challenging in the near term for a CDR project to overcome the layers of market risk including: new technologies, a nascent market created by a new policy, and buyers with little experience in purchasing CDR credits leading to extended and costly sales cycles. An intermediary with expertise in removal technologies and the ability to enter into large volume, long-term contracts that navigate early-stage market risk, CDR credit contracting terms, and evolving policy durability can reduce barriers for CDR projects to reach FID and do so at

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<https://climate-advisory-board.europa.eu/reports-and-publications/scaling-up-carbon-dioxide-removals-recommendations-for-navigating-opportunities-and-risks-in-the-eu>

reduced cost (due to reduced market risk). This is in contrast to the challenging situation of piecing together offtake across many small purchasers facing high costs in terms of time and resources to understand the product and limited ability to enter into long-term offtake agreements that face some degree of policy risk.

- b. **Determining a strategic mix of projects:** The intermediary can ensure that a portfolio of CDR technologies and projects are supported. Given the nascent state of CDR technologies, it remains uncertain which will be most scalable at lowest cost and therefore necessary to support a diverse set to enable the pathway to lowest cost large-scale CDR. Without an intermediary playing such a role, today's lowest-cost CDR option will outcompete all others irrespective of future cost reduction potential or scalability limits. Additionally, the intermediary can remain adaptable to latest science and economics of CDR, ensuring that high quality thresholds are maintained while also allowing new pathways to enter the ETS as the sector matures.
- c. **Sharing costs with industry:** The intermediary will have the flexibility to combine CDR credits from a portfolio of projects into an EU ETS CDR credit, thereby blending the range of prices paid into one price for the market. In the case where a sub-mandate for removals exists, the intermediary could also have the flexibility to subsidise the price of the EU ETS CDR credit, allowing for cost sharing with industry.

The intermediary would also be able to maintain a reserve of credits, mitigating potential for effects such as large fluctuations in EU ETS allowance price. Although the intermediary's role may include financially supporting the high price of CDR credits in the near future, the price of these credits is expected to decrease over time with innovation and learning by doing. The prevailing ETS price is also expected to increase. Therefore, the net cost to the intermediary would be expected to decrease over time.

To kick-start the industry, the EU's proposed [purchasing programme for CRCF credits](#) could provide a platform to build initial demand from the CDR industry ahead of EU ETS integration to ensure a supply of credits is available and to increase liquidity. As such, the EU should strategically enter into offtake agreements that can be integrated into the EU ETS through mechanisms such as competitive tenders. In the future, the intermediary could extend its procurement into international credits, where it can control the volume and quality of carbon removal credits that could be integrated into the EU ETS or other compliance markets. Flexibility to bring international permanent removal

credits into the EU ETS within the intermediary model would ensure that climate ambition can be reliably achieved while controlling total costs and reducing the risk of CDR supply shortfall. To withstand the growing demand for CDR and ensure emissions accounting integrity of the ETS and Europe's NDC emissions accounting system, consistent access to international CDR credits will help maintain quality thresholds for measurability, verifiability, and durability by ensuring supply is available.

Thank you for the opportunity to provide input on this important matter.

Signatories

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