A Carbon Bank to manage the transition towards a low carbon economy – for EU and Globally

COP28 Side Event

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ERCST
Roundtable on
Climate Change and
Sustainable Transition

2. European Central Carbon Bank to manage the EU ETS?

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2.1. What is at stake?

- 2050 Net Zero, a situation in which two new elements will appear:
  - the disappearance of any allowances and
  - the use of removal certificates, which are still on the drawing board.
- Will the EU ETS in its current architecture be able to deliver?
- Some stakeholders advocating for a proactive European Carbon Central Bank (ECCB) enhancing the efficiency of carbon markets by managing liquidity and building confidence.

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2.2. Arguments in favour of an ECCB

- ❑ Markets move too fast to function under automated rules such as the MSR.

- ❑ Allowances seen a currency and currencies are managed through central banks.

- ❑ EUAs are not an insignificant currency. Should carbon allowances not be subject to the same type of management?

- ❑ An institution similar to a Central Bank is seen as a tool that could:
  - optimise the functioning of carbon markets and
  - facilitate the global transition to a low-carbon economy,
  - while maintaining a competitive and industrial EU.

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2.2. Arguments in favour of an ECCB

- An ECCB can be perceived as a tool for market stability and liquidity and could be directed to manage the EU ETS. This can be especially relevant in a scarce scenario.
- It could help manage the disruptive moment, and the period leading to it, and ensure price stability in strategic market for EU industrial production.
- It could trigger a virtuous behaviour among hard-to-abate (e.g., unavoidable emissions linked to process).
- It could bridge between emitting, and carbon removal entities during an initial phase.
- It could purchase carbon removal credits on the EU and international market and then release in the EU ETS market as demand arises. A liquidity provider.