

EMISSIONS TRADING SYSTEM 2 – ETS2 (COVERING FUELS USED IN BUILDINGS AND ROAD TRANSPORT)

Directive (EU) 2023/959 establishing a system for greenhouse gas emission allowance trading within the Union and Regulation (EU) 2023/955 establishing a Social Climate Fund

WHAT'S IN IT?

OBJECTIVE	GOOD PROSPECTS IN VIEW OF THE OBJECTIVE	MIXED PROSPECTS	A STEP BACKWARDS, UNDERMINING THE OBJECTIVE
Climate ambition in view of respecting the limit of 1.5°C global warming under the Paris Agreement			
100% renewables accelerating the phase-out of fossils and nuclear			
Fair participation of citizens in the benefits of the European Green Deal			

WHAT'S NEXT?

STATUS	MILESTONES					
Entered into force						
	From 2025 EU Member States start implementation	By June 2025 EU Member States to submit a Social Climate Plan	From January 2026 Implementation of the Social Climate Fund	From 2027 First trading of allowances	By January 2028 European Commission report on inclusion of road transport and buildings in the ETS	From January 2028 European Commission evaluation of the Social Climate Fund

WHAT TO WATCH OUT FOR?

RISKS	LIMITED RISK	MEDIUM RISK	HIGH RISK
Speed. Slowing down the EU law's progress or implementation.			
Money. Conflict on distributional effects or lack of finance for making this EU law impactful.			
Fossil fuels. Open door to supporting the use of fossil fuels.			
Nuclear power. Open door to supporting the use of nuclear power.			

NO RISK N/A NOT APPLICABLE



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eu.boell.org/green-deal-risk-radar

WHAT'S IN IT?

Climate ambition

Integrates into the ETS concept (albeit in a parallel track) emission reductions in sectors currently covered by the Effort Sharing Regulation (ESR— see our dedicated scorecard) and not yet on a path towards climate neutrality. For these sectors, a separate but parallel trading system will be established, starting from 2027, implicating fuel suppliers. The annual linear reduction of emission allowances for fuel suppliers is set at 5.1%, aiming to reduce emissions by 42% by 2030 (slightly higher than the 40% reduction under the ESR). The carbon price set by the ETS2 should provide a market incentive for investments in building renovations and low-emissions mobility.

100% renewables

As with the ESR, renewables are not specifically targeted, but as with the ETS, income from auctioning of emission allowances will be partially used to support renewable energy development through the Innovation and Modernisation Funds.

Fair participation

Fossil fuel suppliers will transfer the additional costs of emission allowances to their customers, leading to an expected increase of households' energy bills. Together with the ETS2, a Social Climate Fund is established, for the period from 2026 to 2032, aiming to reduce the negative impact on vulnerable households. At least €86 billion € of ETS revenues generated should be used to address these social impacts in the 2026–2032 period. Given that the ETS2 can lead to important price increases for fossil fuels in transport and for citizens who use fossil fuels for heating their homes, the legal provisions and the volume of the Social Climate Fund appear to be insufficient.

WHAT TO WATCH OUT FOR? RISKS

 **Speed**  **Money**  **Fossil fuels**  **Nuclear power**

From 2027, EU Member States may extend the ETS2 to other sectors not covered by the ETS (e.g. agricultural energy use, inland waterways, non-commercial/small aviation and diesel trains). A broader debate, however, relates to the possible inclusion (or development of separate trading systems) of agriculture emissions and/or carbon removal (possibly based on the provisionally agreed voluntary Carbon Removals Certification Framework). This could potentially undermine the further development and/or implementation of Member States' policies and measures because including carbon removals opens a door for watering down the sector-specific emission reduction targets and carbon price signals. Moreover, it is important to improve safeguards, in particular for low-income households. Instead of buffering fossil fuel prices through subsidies, Member States need to provide targeted support schemes for building renovation, renewable heat and affordable public transport. EU legislation and funding needs to be leveraged for this purpose.

WHAT'S NEXT?



STATUS

Entered into force

- The ETS2 was adopted as part of the latest revision of the ETS Directive and entered into force on 5 June 2023. Implementation of the ETS2 will gradually start from 2025 with first trading of allowances starting in 2027.
- The Social Climate Fund Regulation entered into force on 5 June 2023. Implementation should start in January 2026.

Transposition by EU Member States

Member States should build up capacity related to the expansion of the scope of the ETS. Furthermore, each Member State should submit a Social Climate Plan by June 2025. On 25 July 2024, the European Commission (EC) launched an [infringement procedure](#) against all Member States except AT for failing to transpose the Directive.

Revision clauses and reporting duties

By 1 January 2028, the European Commission (EC) shall report on the effectiveness and practical application of the inclusion of road transport and buildings in the ETS.

By the end of October 2031, the EC shall assess the feasibility of fully integrating the ETS2 sectors in the ETS.

Early 2028 (two years after the start of its implementation in January 2026), the EC shall provide an evaluation report on the implementation and functioning of the Social Climate Fund.

Delegated acts and other related legislative action

The EC shall decide, by means of delegated acts, on their support for EU Member States' Social Climate Plans.

HOW TO IMPROVE IT? OPPORTUNITIES

The European Commission's assessment of the effectiveness of the ETS2 will be a crucial opportunity to discuss what measures work best to phase out greenhouse gas emissions in the traditional ESR sectors (transport, agriculture and buildings) where until now progress on substantial emissions reductions has been (very) limited.

In view of the fair participation of citizens in the benefits of the European Green Deal, the financial volume of the Social Climate Fund should be substantially increased.

FURTHER READING

- [Open letter by 116 academics, businesses, civil society organisations and research institutions, January 2024](#)
- [Climate Action Network \(CAN\) Europe: Three proposals for the next EU cycle on Just Transition, July 2024](#)