



What will the ETS2 price be?



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Price control mechanisms

During the political debate over the creation of the ETS2, the need for price controls and safeguards was front and centre. As a result, the ETS directive and Market Stability Reserve decision (MSR) already contain several price control mechanisms for ETS2:

- The early auctioning of 30% more emission EUAs in the first three years, later deducted from future EUAs.
- If the average EUA price for three consecutive months is more than twice the average price for the six months prior, 50 million EUAs will be released from the MSR2 – Article 30h(1). Within 2027/2028 the rule is more sensitive and the price must only be 1.5 times higher than the average of the last six months for three consecutive months to trigger the release of the 50 million EUAs.
- The average EUA price for three months in a row is more than three times the average EUA price for six months before, 150 million EUAs will be released from the MSR2.¹
- A soft price cap is in place at an inflation adjusted rate of €45 (likely to be closer to €60 by 2027). If the average EUA price exceeds the price of the soft cap for more than two months, an additional 20 million EUAs are released by the MSR2.²
- In the case of very high oil or gas prices in mid 2026, the ETS2 will be postponed by one year³ to 2028.
- Finally, an additional clause also allows the European Commission to respond to high ETS2 prices by issuing an implementing act if a certain low volume of EUAs is met twice within a 12 month period.

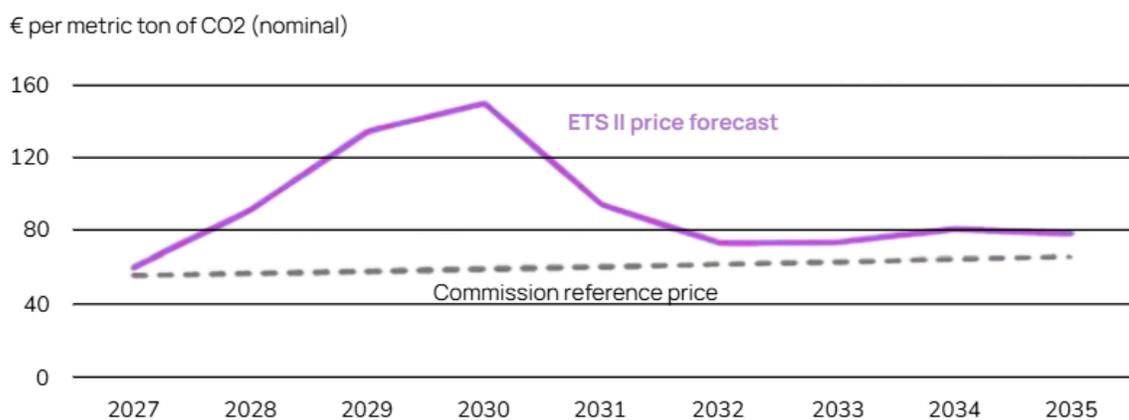
¹ Article 30h(3)

² Article 30h(2)

³ The average price for natural gas from January–July 2026 must be higher than the average price in February and March 2022, or the average Brent Crude Oil price from Jan–July 2026 must be more than double the average price during the last five years. As these metrics are quite high, it is quite unlikely that this clause would be triggered, unless the EU experienced an external shock such as the Russian invasion of Ukraine in 2022. The Commission will publish in the Official Journal by 15th July 2026 if these conditions are met.

These price controls are in place until 2029 when the European Commission is required to report on their functioning, and could propose to extend and expand price controls following their review, if needed. In 2028, the European Commission must review the functioning of the ETS2 to ensure proper market functioning and stable pricing. This timing is important as many of the models predicting ETS2 prices, including that from BloombergNEF below, show a price increase up to 2030, which can be addressed by this review process in 2028 if needed, depending on the outlook once the market is up and running.

Figure 6. Forecast EU ETS2 emissions allowance price



Source: BloombergNEF Note: The reference price is based on €45 per metric ton of CO2 in 2020 that is indexed to consumer price inflation.

2 Article 30h(3)
3 Article 30h(2)

Many market analysts are predicting a wide variety of price expectations highlighting the difficulty in accurately predicting the future ETS2 price as clear by the table below:

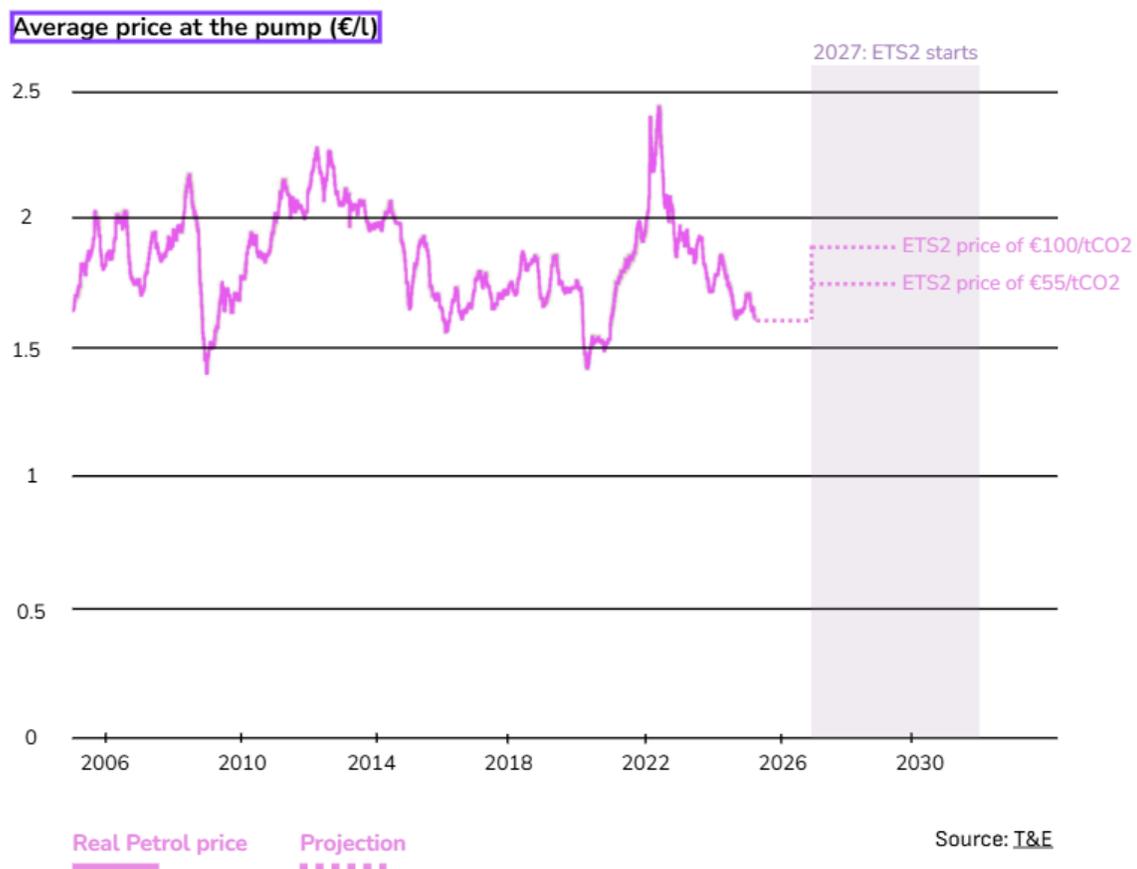
Price Prediction (€ per tonne of CO2 in 2030)	Source
48-80	EU Commission
71-261	PIK
150	Veyt
122	BloombergNEF
69-100	Clear Blue Market
111-259	Vertis
126	Energy Aspects

The great variation in expected prices can be attributed to the difference in the underlying assumptions within the models, predominantly around the levels of ambition foreseen for the implementation of complementary measures to strengthen emissions reductions beyond the reach of the carbon price, such as Energy Performance of Buildings Directive or CO₂ and cars standards. The more emissions are reduced in European homes and road

transport, the lower the ETS2 price will be. Implementing these complementary measures is both feasible and necessary.

A price of €45 per tonne of CO₂ translates into €0.01 per kWh of fossil gas heating. While the concerns over the potential social impact of a volatile ETS2 price are valid, they should not serve as justification for a premature weakening of the ETS2 or to distract from the necessary work that member states must do to improve the fairness of the system. The ETS2 should be allowed to function in its initial years to allow price discovery to take place, incentivise decarbonisation and to raise much needed resources for the energy transition.

Figure 7. Real EU average petrol price and ETS2 premium



As evidenced by Figure 7 from Transport and Environment the fluctuating price of fossil fuels in recent years remains far higher than the effect of an ETS2 price of €100 per tonne of CO₂. This highlights that the real danger and threat to the cost of living is not a carbon price but continued dependency on dirty fuels as fossil fuel companies have proven that they are willing to extract windfall profits.

Any attempt to control the price through increasing the supply of EUAs means more carbon emissions. In order to meet the European climate targets, any weakening of the ETS2 would need to be matched by increasing ambition in either ETS1 sectors or the remaining ESR sectors; agriculture – which remains politically difficult, or land use sectors where the effectiveness of carbon sinks is already at risk.

Ultimately, the most effective way to manage ETS2 price dynamics without undermining ambition is through strong implementation of complementary measures. By reducing emissions in homes and road transport, these measures lower demand for EUAs, which in turn helps to moderate ETS2 price while accelerating decarbonisation.

Publishing information

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