

02 December 2025

Changes to the ETS2 framework

An impact assessment

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Brussels, 27.11.2025
COM(2025) 738 final
2025/0380 (COD)

Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

amending Decision (EU) 2015/1814 as regards the market stability reserve for the
buildings, road transport and additional sectors

State of play

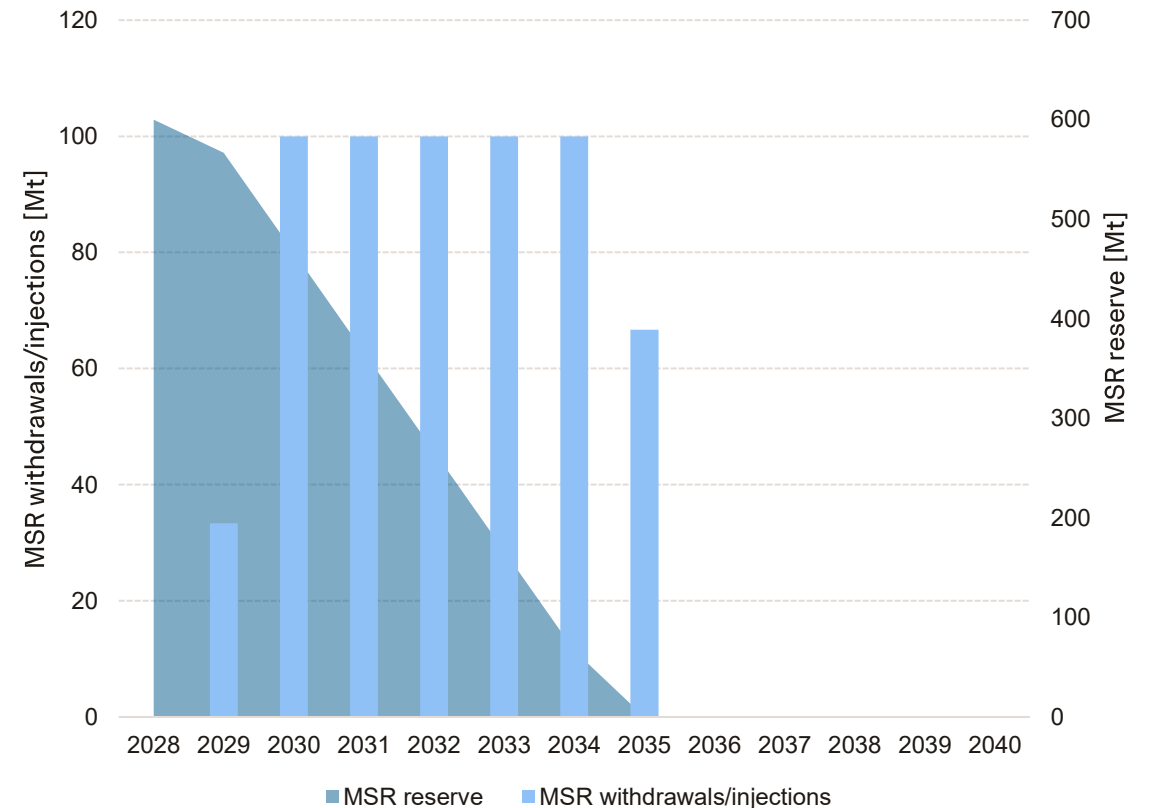
- **Delayed start:** Instead of starting in 2027, the scheme is postponed by 1 year to 2028
- **Double the MSR outflow and allow for two releases per year.** When the average price exceeds €45 for a period of two consecutive months, the ETS2 MSR is set up to release up to 20 Mt worth of EUA2s. The new proposal doubles that amount to 40 Mt, and this can take place twice a year.
- **No cancellation of unused MSR volumes.** The 600 million allowances in the MSR were supposed to get invalidated after 2030. This restriction will be lifted, allowing all allowances coming to market.
- **Include a dynamic threshold to smooth the MSR intervention.** In addition to the fixed thresholds a buffer will be implemented, starting at 260Mt. Injection will be 100 million allowances minus twice the difference between the TNAC and the 210 million threshold.
- **Early auctions.** Likely in 2027, ahead of the market start.
- **Earlier carbon revenues:** ETS2 Frontloading Facility under the EIB

MSR will be depleted

The new normal – supply is plentiful

- Larger and longer allowance release into the market, increasing overall supply
- All 600 million allowances will be released, compared to 160 million in original proposal
- MSR remains active beyond 2031 it can intervene during the period of greatest market tightness

Market Stability Reserve buffers tightness

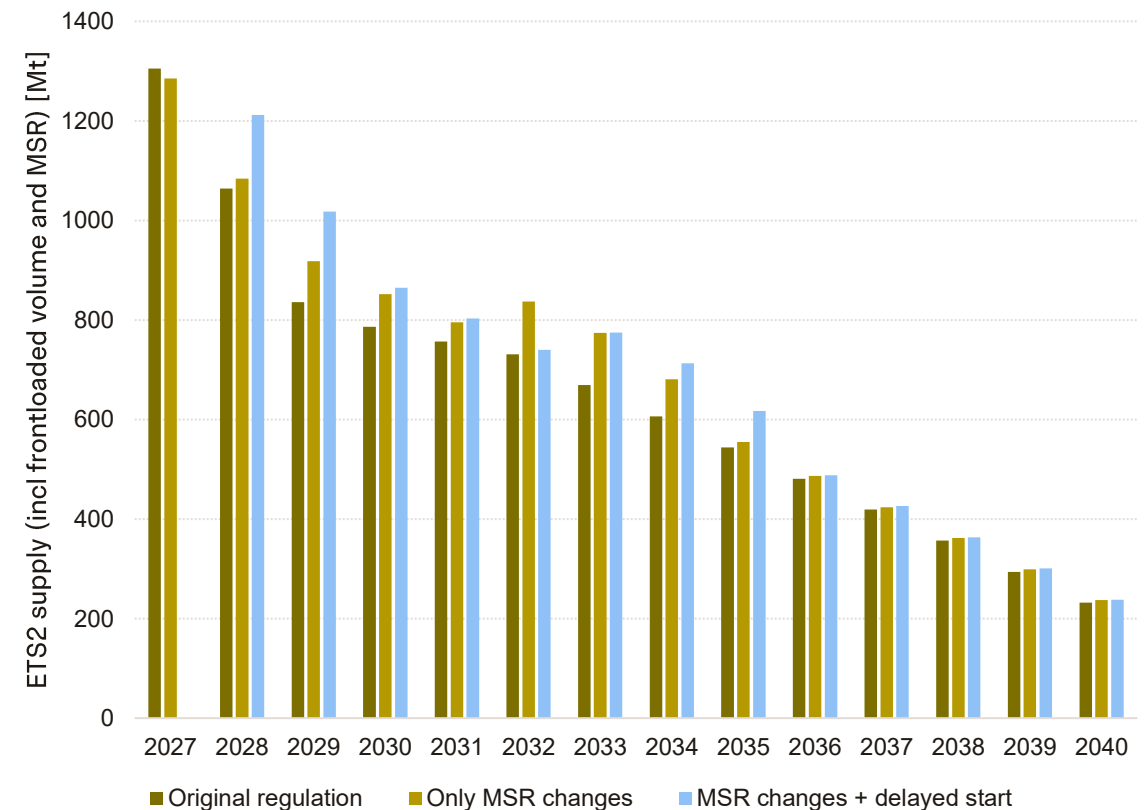


Plenty of supply available

MSR changes release additional supply

- 2028 supply will be calculated as 2027 supply would have been without the delay
- 2024 as the base year with a 5.1% linear reduction factor
- MSR amendments, bring over 400 million allowances, that were previously cancelled, back to the market.
- Front-loading starts one year later: 30% of the 2028 cap is withdrawn from the 2030–2032 auctions and placed into 2028–2029 auctions

Higher 2028 supply under delay, but 2030 ambition unchanged

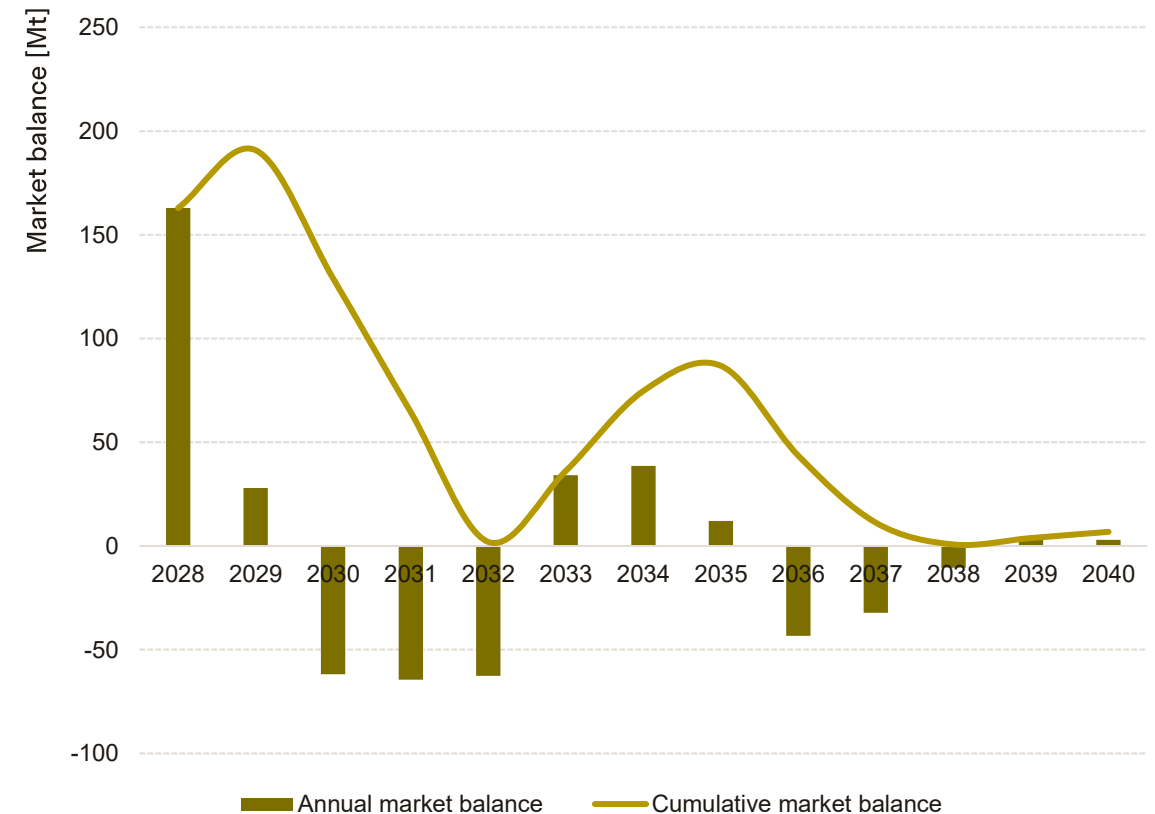


Market balance

Market balance turning tight (but not so much)

- Market balance reflects oversupply from frontloading and MSR dynamics
- Abatement delayed, but 2030 ambition remains (and with it the cumulative abatement)
- MSR acts as bridge function

The market balance will live long on its surplus

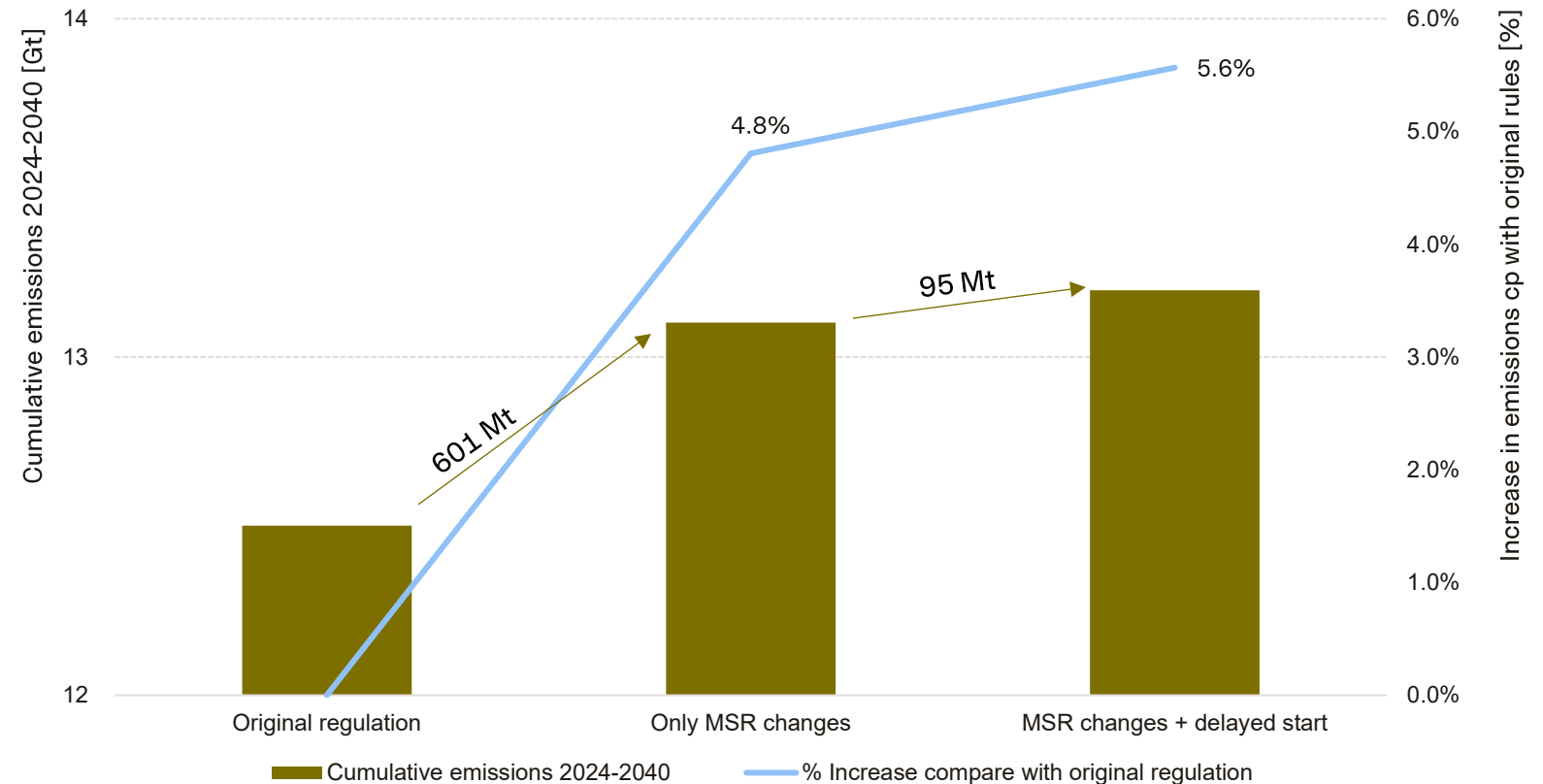


Rule changes result in higher emissions

Lower early-phase prices lead to less abatement

- Additional supply leads to higher emissions
- Cumulative emissions increase by more than the additional MSR release
- Weakened price signals: lower early-phase prices reduce incentives for clean technology uptake, leading to less abatement

Emissions increase as a result of MSR changes and one-year delay

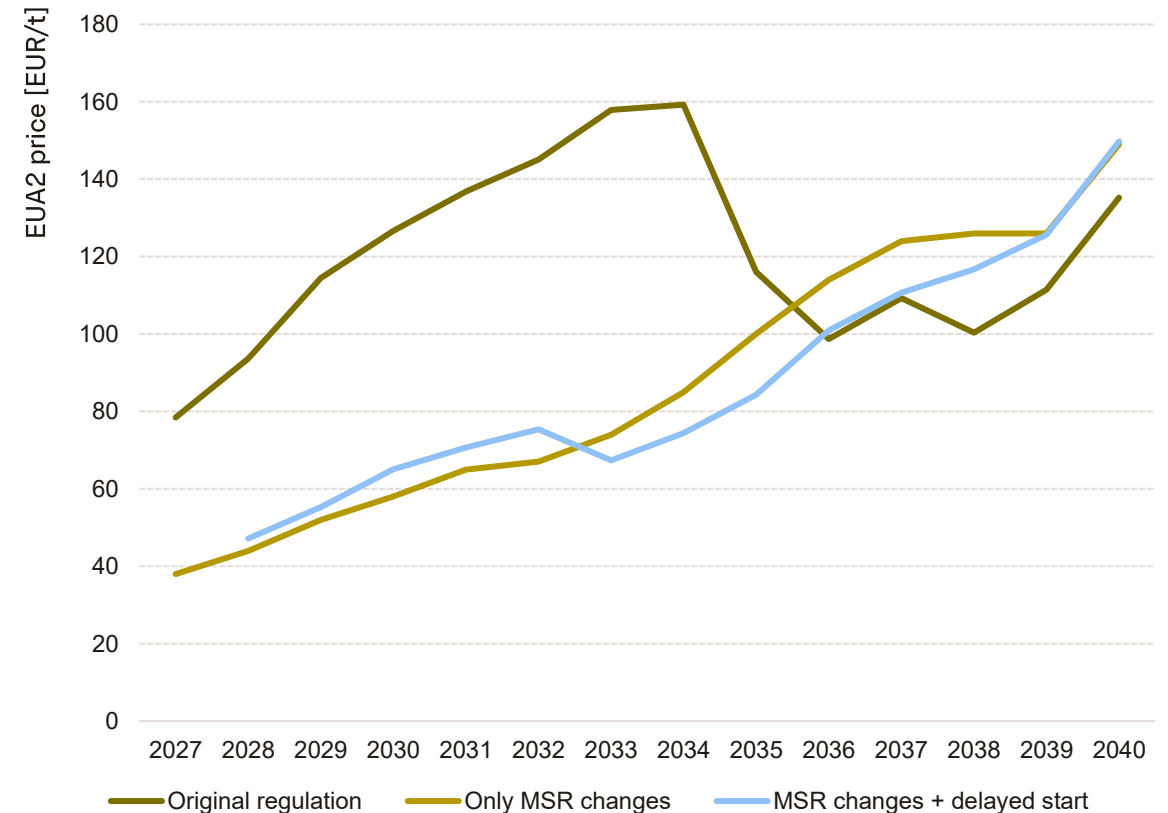


ETS2 prices depressed by MSR changes – late start slightly bullish

Prices are depressed by MSR running longer. 2028 start has a minor bullish effect.

- With one less year of incentives but an unchanged long-term ambition, the system must deliver the same cumulative abatement over a shorter period.
- This means higher prices early on, as the market has to “catch up” to meet the 2030 target once trading begins.
- Higher early-period prices lead to greater near-term abatement, so by the early 2030s the system will have already over-achieved somewhat, allowing prices to ease after 2032

Price trajectory impacted by ample supply





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