

# A fair and effective ETS2 - how do we get there?



2 December 2025



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# Launch of ETS2 101 guide & ETS2 state of play

Emma Wikström  
Carbon Market Watch

2 December 2025



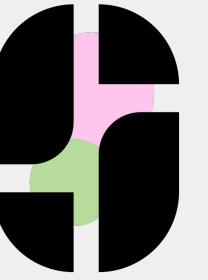
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# ETS2 101 guide



How will ETS2 work and deliver for climate and people?

The ETS2 101 guide includes:

- What is ETS2? (based on current legislation)
- The Social Climate Fund
- ETS2 revenue spending
- Role of complementary measures

Guide is accessible in two forms:

- ETS2 101 guide
- Six online training modules

Available in six languages:

- English, Dutch, Greek, German, Italian & Portuguese
- With more on the way!



**ETS2 101**  
An introductory guide to the ETS2 (Emissions Trading System for buildings and road transport), and the Social Climate Fund

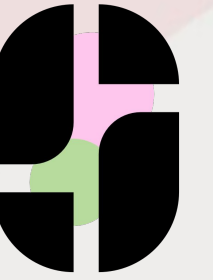
**To read the full publication visit**  
[life-effect.org/training-modules](https://life-effect.org/training-modules)

**LIFE Effect**

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# ETS2 state of play



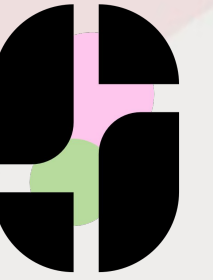
## Background:

- **Long overdue implementation of ETS2**
  - Only 17 member states have transposed ETS2 (due June 2024)
  - Just 3 member states have submitted National Social Climate Plans (due June 2025)
  
- **Asks to weaken ETS2 from member states**
  - Concern about potentially high ETS2 prices and social impacts of ETS2
  - Anti EU/climate policy narratives




→ Calls for Market Stability Reserve (MSR) reform in letter signed by 19 member states

→ Calls to postpone ETS2

# Proposed changes to ETS2



## Proposals from Commission:

- 1. Frontloading facility via European Investment Bank 
- 2. Launch early auctioning 
- 3. Market Stability Reserve Reform 

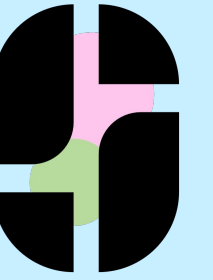
## Proposal from Council and Parliament:

- 4. One-year delay of ETS2 

# MSR reform

**MSR reform EU COM proposal published  
27 November:**

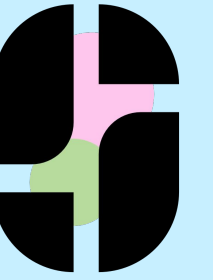
1. Quadrupling of the price control mechanism
2. Earlier and more gradual intervention of the MSR quantity trigger mechanism
3. Extending lifetime of all allowances in the MSR beyond 2031



**Climate impact of MSR reform:**

- Emissions can increase rather than decrease in a year
- Massive increase in allowances released – all 600 million allowances in MSR highly likely enter ETS2
- Slow down the energy transition

# One-year ETS2 delay



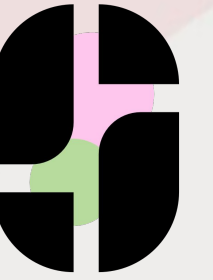
## ETS2 delay in 2040 climate target discussion:

- Council and European Parliament have proposed a one-year delay in positions on the 2040 climate target
- Final decision during trilogues

## Delayed climate action and support to vulnerable households:

- No carbon price signal in 2027
- 50 bn in lost auctioning revenues in 2027
- Backloaded Social Climate Fund revenues (less SCF revenues in 2027, but added in 2028–2032)

# How to make ETS2 fair and effective



- All ETS2 revenues to fund decarbonisation and targeted direct payments
  - Social targeting, transparency and additionality key
- Fit-for-purpose National Social Climate Plans
- Expand and extend Social Climate Fund beyond 2032
- Frontloading ETS2 revenues applying SCF principles
- Strengthen complementary climate and social policy
- End to fossil fuel subsidies and ensure favourable taxation on electricity to strengthen the price signal

# Thank you!

emma.wikstrom@carbonmarketwatch.org  
<https://life-effect.org/>



# ETS2 state of play



## Timeline of key ETS2 policy developments in 2025:

- **25 June:** Letter signed by 19 member states (lead by Czechia) asking for Market Stability Reform (MSR) reform
- **21 October:** Commission responded to letter announcing five proposals including MSR reform
- **5 November :** Suggestion to delay ETS2 by one year in Council's general approach on the 2040 climate target
- **13 November:** European Parliament approved position including a one-year delay
- **27 November:** Commission published MSR proposal

## Upcoming ETS2 policy developments:

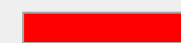
- Trilogue outcome on the 2040 climate target
- Co-legislative procedure on Market Stability Reserve

# Commission's ETS2 proposals



Proposals announced 21 October:

1. Frontloading facility via European Investment Bank  
→ Allows early climate investments
2. Launch early auctioning  
→ Improves price predictability
3. Market Stability Reserve Reform  
→ Increasing allowed emission from ETS2 sectors



# A Subtitle

## Title of point 1 which is a good 1

This is it! Time to introduce the campaign. This is where you set the tone of your entire brief. It's helpful to give your team a little history on the background of the campaign and set clear objectives as to what the client wants you to achieve.

## Title of point 2 which is a good 1

Creativity can be a lot of chaotic, messy fun. Briefs are here to keep creatives on track while kickstarting the creative process. Make sure you balance being specific about what the client is looking for while encouraging creatives' creativity.



# One-year ETS2 delay



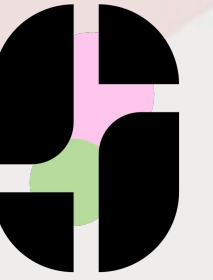
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# MSR reform proposal



MSR reform EU COM proposal published 27 November:

1. Quadrupling of the price control mechanism
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3. Extending lifetime of all allowances in the MSR beyond 2031

## Effects:

- Emissions can increase rather than decrease in a year
- Massive increase in allowances released – all 600 million allowances in MSR highly likely enter ETS2
- Slow down the energy transition

# How to make ETS2 fair and effective

- **All ETS2 revenues** to fund decarbonisation and provide financial support
  - Social targeting, transparency and additionality key
- **Fit-for-purpose National Social Climate Plans**
- **A well-endowed Social Climate Fund**
  - Expand and extend SCF beyond 2032
- **Frontloading ETS2 revenues** applying SCF principles
- **Strengthen complementary** climate and social policy
- **End to fossil fuel subsidies** and ensure favourable taxation on electricity to strengthen the price signal