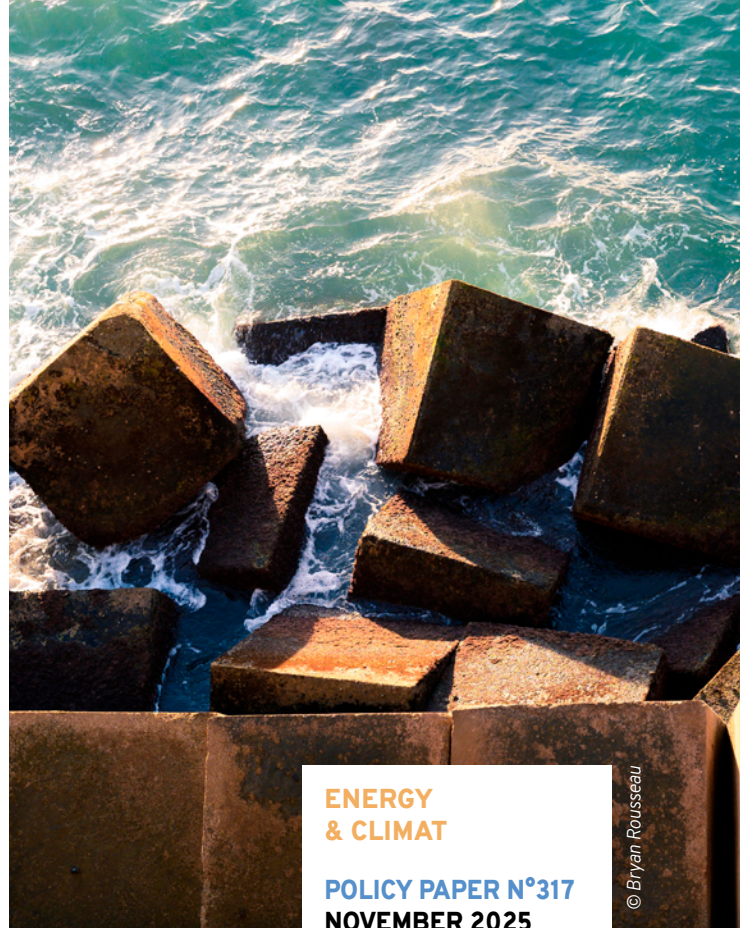


Delivering the ETS2: Do or die time for the European Green Deal?



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& CLIMAT

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Frontloading future carbon revenues to bring certainty and overcome insufficiency

This policy paper is part of a series of publications on the second European carbon market (ETS2), that includes an [infographic](#) detailing the functioning of the instruments and its initially foreseen implementation schedule, as well as a policy paper that makes recommendations on how to strengthen the social acceptability of ETS2 through a targeted and transparent policy on the use of carbon revenues.

• Executive summary

Between 2005 and 2021, the sectors covered by ETS1 (electricity generation, heavy industry) reduced their emissions by 36%, while the transport, buildings, and small industry sectors, now covered by ETS2, reduced theirs by only 11%. **Proposed in 2021, ETS2 was expected, according to our modeling, to account for nearly half (48%) of the additional effort required in these sectors to achieve the FitFor55 targets, with the other half to be provided by sectoral regulations and national policies.** However, given that the European Union is currently engaged in a process of dismantling the European Green Deal, the Union's ability to meet its targets is questionable.

Whether through the early activation of legal review clauses—such as those attached to CO₂ emission standards for cars—or under the aegis of ‘simplification policy,’ the recent downward revisions of climate targets are mounting additional pressure on the carbon market mechanism and, by extension, its future price trajectory. **Moreover, regulatory adjustments within sectors covered by ETS2 are now being negotiated in a fragmented, asynchronous manner, a stark depar-**

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ture from the integrated ‘package’ approach exemplified by Fit for 55. This shift effectively erodes the transactional leverage of the ETS2, which in the previous legislative cycle operated as a pivotal bargaining asset and facilitated cross-regulatory compromises, most notably with the Carbon Border Adjustment Mechanism. By contrast, ETS2 now finds itself recast as a mere bargaining chip at the center of ongoing negotiations around the EU’s 2035 and 2040 climate targets. Several EU member states have, in fact, made a one-year deferral of the ETS2 launch a condition for supporting these longer-term targets. As a result, ETS2, instead of serving as the foundation of the EU’s climate architecture, has been relegated to the periphery—its transactional role diminished, its strategic value subordinated to short-term political deals.

Now that it has been agreed on, the 2028 postponement raises two legal questions that need to be clarified. The first concerns the validity of the legal maneuver behind the postponement, which consists of amending the European climate law rather than amending the ETS directive. The second relates to the amount of the Social Climate Fund. While European leaders invoked Article 30(k) of the ETS Directive, which states that this postponement is possible in the event of exceptionally high energy prices, it should be noted that the conditions set out in the article are not met in this case. As such, there appears to be legal questions regarding the Fund’s budget total budget being either €65 billion or €54.6 billion. With the social climate plans due to come into force in 2026, **clarification from the Commission on the exact amount of the Fund is essential.**

As illustrated by the postponement decided by the Member States, the implementation of the instrument will *ultimately* be subject to their renewed approval. **In view of the new ETS2 implementation timetable, we believe that several States could be tempted to make their agreement to the future European budget conditional on a further postponement of ETS2 if, in their view, the enabling conditions are not met.** In order to better understand their expectations, this *policy paper* maps out each state’s position on the instrument and possible reforms. The positions of the states were established on the basis of data collected through in-depth individual interviews with stakeholders (administrations, ministerial offices, *think tanks*, NGOs) in each of the 27 member states, supplemented by an analysis of secondary literature. The results show that:

- **There is no direct link between transposition and support or opposition to the instrument.** As of November 25, while 17 states had fully transposed ETS2, some of them still remained opposed to the system, such as Italy, Bulgaria, Romania, Slovakia, Cyprus, and Malta. Similarly, while seven states have partially transposed the directive, this can be explained either by domestic policy considerations (Belgium, Spain, Portugal, Latvia) or by delaying tactics (Czech Republic, Poland, Slovakia). Finally, three countries have not transposed the directive: Hungary, Estonia, and France.
- **With the exception of France, the countries with a national carbon price in the ETS2 sector are among the main supporters of the scheme.** In France, the prevailing governmental instability has certainly delayed the ability to reach a political decision, but the main explanatory factor appears to be the coincidence between the initial date of entry into force of ETS2 (January 1, 2027) and the presidential elections of May 2027. However, as things stand, in the vast majority of countries concerned (with the exception of the Czech Republic) by an upcoming or recent election, ETS2 is not a topic of public debate.

- **There is a geographical overrepresentation of Eastern and Southern countries among those opposed to the ETS2.** This is because the carbon price is unified at the European level, so its impact will be proportionally greater in countries with a gross national income per capita below the European average.
- It is the **search for certainty that guides the current actions of governments.** They want to be able to dispel the perception that actions will be taken to contain prices, but rather that, if necessary, prices will actually be contained through the existence of a dedicated and reliable mechanism. When it comes to carbon revenues, **the prevailing feeling is one of inadequacy:** the Social Climate Fund is underfunded, the funds currently available prior to the entry into force of ETS2 are insufficient, and the specific characteristics and difficulties of each country are not sufficiently taken into account.

Based on these lessons, we make three recommendations:

1. *Frontload* ETS1 and ETS2 revenues to substantially finance decarbonisation.

As illustrated by the postponement to 2028 imposed by the Member States on the Commission and the European Parliament, marginal adjustments will not be enough to convince the Member States. In order to respond to the need for certainty and the issue of insufficiency, we propose a mechanism that would allow the EIB to make greater advances on carbon revenues, consisting of *frontloading* ETS1 revenues (as Japan is doing) and ETS2 revenues, while setting a floor price and a ceiling price (price corridor) for both markets, which could be transitional or more permanent over time. **This would allow to raise €200 billion over the period 2028-2034.** The borrowing period is modeled on the next Multiannual Financial Framework, as discussions on ETS2 are likely to resurface in the framework of these negotiations.

→ A floor price on ETS1 would ensure a minimum level of revenue generated by the market in order to guarantee repayment of the loan. It would be progressive, with a gradual increase in percentage terms and an adjustment for inflation. By 2034, the floor could be €110t/CO₂.

→ A price cap on ETS1 would keep prices at a level that provides sufficient long-term incentive for manufacturers to invest in decarbonisation processes, while avoiding to disproportionately damaging their current competitiveness level. By 2034, the ceiling could be €180t/CO₂.

→ A floor price on ETS2, guaranteeing minimum revenues and preventing any reversal in European carbon prices in the sectors concerned. By 2034, the floor could be €70t/CO₂.

→ A price cap on ETS2 would protect against excessive price volatility, providing greater certainty as sought by Member States. It would guarantee that Member States would not intervene in the event of a price surge to demand a reduction, as they would have initially agreed on the price cap level. By 2034, the cap could be €125tCO₂.

This money, made available in advance by the EIB, should be used exclusively for investment expenditure. In order to take into account the specific situation of Eastern European countries, we also recommend *frontloading* the revenues of the Modernisation Fund. This proposal comes within the framework of a reopening of the ETS directive, which we consider inevitable and which also requires the unanimous agreement of the Member States. In terms of timing, an initial agreement by

mid-2026 on the proposed amendments presented by the Commission (stability reserve, advanced auctions, allocation of the Social Climate Fund and *frontloading*) and the initial price levels for the corridors would be desirable. Then, in a second phase, **an agreement would be negotiated on corridor price levels, their respective timeframes, the governance framework and the rules governing cases requiring intervention.**

2. Maintain the Social Climate Fund allocation if necessary by *frontloading* carbon revenues

We recommend, at a minimum, maintaining the 2026 timeline for the implementation of social climate plans, while calling on the European Commission to clarify the maximum amount available for the implementation of the Social Climate Fund, justifying the legal basis where necessary. Although they were initially set up to respond to a surge in prices and were not designed to respond to the risk of a surge in prices, we conclude that this would **justify reviewing the impact of the postponement in the context of the trilogue negotiations, in particular in order to safeguard the maximum budget for the Fund.** If the amount of the Social Climate Fund is confirmed at €54.6 billion, we recommend that part of the money from *frontloading* carbon revenues be earmarked to compensate for the 16% reduction in the Fund, corresponding to around €11 billion, following the one-year postponement of ETS2.

3. Include the Social Climate Fund in the National and Regional Partnership Plans (NRPPs)

In the context of the upcoming European Council meeting on 18 and 19 December, we recommend the integration of climate social plans into the NRPPs and the establishment of the requirement to comply with the provisions of the ETS Directive (including timely transposition in the event of future reform) as an intermediate objective for the granting of European funds.

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• Introduction

Achieving the objectives of [the European Green Deal](#) by 2030 is now more of a political than a technical challenge.¹ Indeed, the latest assessment published at the end of May 2025 by the European Commission² estimates that, as things stand, the European Union (EU) would be able to achieve a cumulative reduction of 54% in greenhouse gas emissions by 2030 (compared to 1990), which is only 1% short of the target set in the *FitFor55* legislative package.³ This means that achieving the climate targets now depends on **two cumulative legal conditions with regard to the texts voted on during the previous term of office: on the one hand, their diligent implementation, i.e., on time, and, on the other hand, their application under existing European law.** In this sense, the effective delay of 10 Member States in transposing⁴ the **second European carbon market (ETS2)**, combined with recent decisions to amend certain parametric elements of the system and postpone its entry into force until 2028 (instead of January 1, 2027), testify to the concrete difficulties currently encountered in complying with this dual conditionality.

Derived from *FitFor55*, ETS2 is a new carbon market based on the polluter pays principle. The ETS2⁵ is a system for trading (buying and selling) pollution rights—also known as emission allowances or permits—where one allowance corresponds to the right to emit one ton of CO₂. ETS2 directly affects distributors of fossil fuels and combustibles **in the road transport, building, construction, and small industry sectors.** Since the use of fossil products sold by distributors emits CO₂, distributors will have to purchase a number of permits equivalent to the emissions generated by their use. This **additional cost should then be fully passed on to the end consumer**, i.e., households or small businesses, increasing the price of fuels (diesel, gasoline) and heating (gas, fuel oil, coal). The aim of this **harmonised price signal is to encourage users to change their behavior by switching to carbon-free alternatives** (electric vehicles, heat pumps, etc.).

Before the summer, 19 Member States⁶ issued a statement calling on the European Commission to consider amending the instrument in order to better address “*price uncertainty and social repercussions*.” Indeed, as the effects of the energy price crisis⁷ fade in Europe, the prospect of a further increase in energy prices is rightly worrying Member States. This is all the more so if such an increase were to be motivated by environmental considerations, at a time when a widespread sense of environmental *backlash* is being felt across the continent. Although probably overestimated⁸ by policymakers, the scope of *the backlash* is nevertheless leading to a **refusal to take**

1 Nguyen, Phuc-Vinh. “Objectifs climatiques 2030: un défi plus politique que technique.” Blogpost, Institut Jacques Delors, July 2025.

2 European Commission, “[EU moves closer to its 2030 climate and energy targets, says European Commission](#)”, Press Release, European Commission, 28 May 2025.

3 Defard, Camille, and Phuc-Vinh Nguyen. “[En route vers l’objectif de neutralité climatique: quelles transformations pour 2030?](#)” Infographic, Institut Jacques Delors, February 2024.

4 European Commission. “2025 Environmental Implementation Review: Environmental implementation for prosperity and security,” Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions, COM(2025) 420 final, 7 July 2025.

5 The operation of the instrument is comprehensively summarised in the form of an infographic available at the following link : <https://institutdelors.eu/en/publications/en-ets2-fuel-for-the-yellow-vests-or-driver-of-the-green-transition/>

6 Austria, Belgium, Bulgaria, Croatia, Spain, Estonia, France, Germany, Greece, Italy, Latvia, Lithuania, the Netherlands, Poland, Portugal, the Czech Republic, Romania, Slovakia, Slovenia.

7 Nguyen, P-V., Pellerin-Carlin, T. “[Energy Price Surge in Europe](#)”, Institut Jacques Delors, October 6, 2021.

8 Abou-Chadi, T., Janssen, J., Kollberg, M., and Redeker, N., “[Debunking the ‘Backlash’: Is the European Green Deal driving Euroscepticism?](#),” Policy Brief, Jacques Delors Centre, March 2024.

the necessary steps to implement the ETS directive, which was adopted only two years ago (April 2023).

However, such behavior is all the more problematic given that ETS2, due to its close interconnection with the other *FitFor55* texts, is **the cornerstone of the latter. Calling ETS2 into question would, through a domino effect, jeopardise the overall architecture on which European policy to combat climate change by 2030 and beyond is based** (I). Beyond the letter signed by the 19 Member States, the ETS2 has recently been the subject of several political statements openly questioning the appropriateness of its implementation. This has been reflected in national statements calling either for its postponement like [Czech Republic](#), [Poland](#) and [Cyprus](#) or for its repeal, as in the case of [Estonia](#). Similarly, MEPs either from [the European People's Party](#) or [mainly from the conservative and radical right](#), have expressed their reservations about the instrument. In view of the growing opposition to ETS2, it is important to identify the various reasons that are leading states to adopt such positions. **This opposition is not necessarily motivated by a rejection of the carbon pricing instrument in principle, but by multifactorial considerations specific to each country** (II). Indeed, understanding the motivations of each state appears to be a prerequisite for the **successful implementation of the many reform options currently under discussion, some of which are indeed worth pursuing in order to enhance the effectiveness of the mechanism** (III).

I • ETS2, the cornerstone of *FitFor55*

I ETS2: THE ROLE OF PRICE SIGNALS IN ACHIEVING CLIMATE TARGETS

In 2019, driven by young people, strong mobilisation in the streets⁹ and then at the polls¹⁰ democratically legitimised the acceleration¹¹ of the fight against climate change, leading to the European Green Deal being made the top priority of the von der Leyen Commission. As an operational translation of this ambition, the *FitFor55* legislative package presented in July 2021 raised the target—which dated back to 2014—of a 40% reduction in greenhouse gas emissions by 2030 to at least 55%. To achieve this, it orchestrated a **combination of public policy instruments (*policy mix*)**, combining **regulations** that set binding norms, standards, and targets at the European level with **carbon pricing instruments** (market mechanisms, fiscal measures) that guide behavior through price signals and are complemented by **support measures**.

Empirically, the use of such a *policy mix* has already enabled the EU27 to reduce its net greenhouse gas emissions by 37%¹² between 1990 and 2023¹³ (see graph - “Total” curve).

9 Pellerin-Carlin, T., Chopin, T., and Pons, G., “[Climate Change: At the Heart of a New European Political Balance](#),” Jacques Delors Institute, Brief, May 22, 2019.

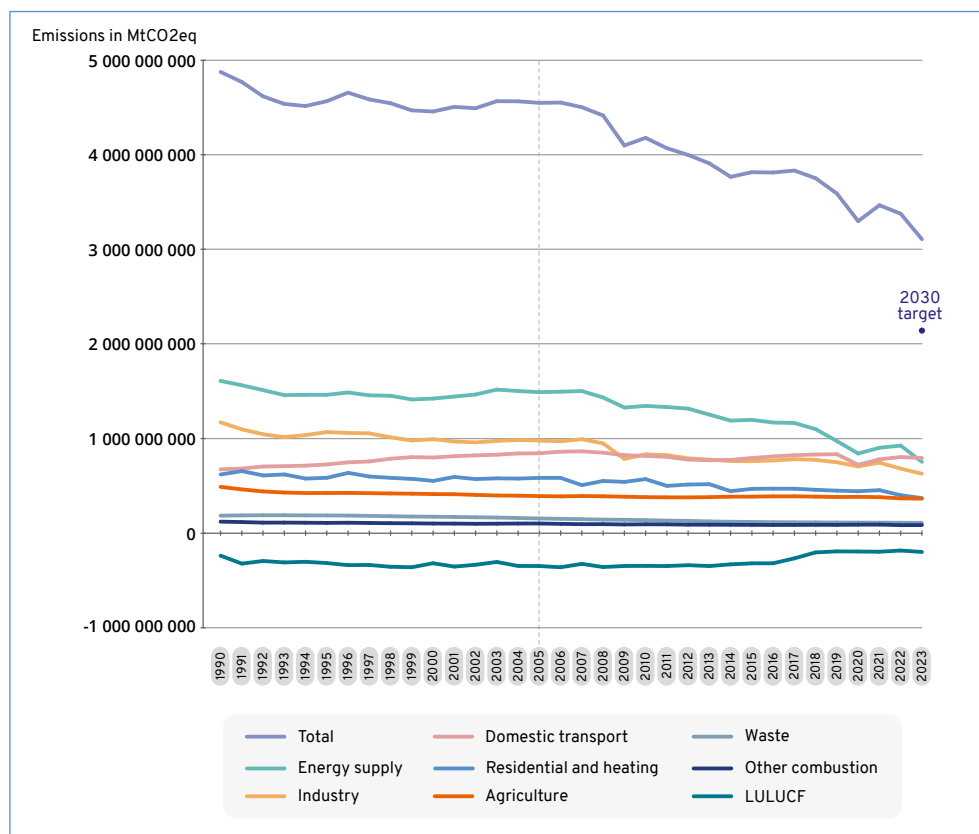
10 European Commission, Directorate-General for Communication. “[Standard Eurobarometer 101.3 - Spring 2024: Public Opinion in the European Union](#),” Eurobarometer, Spring 2024.

11 Von der Leyen, U., “The European Green Deal”. European Commission, Press Corner, Speech 19/6751, December 11, 2019, https://ec.europa.eu/commission/presscorner/detail/en/speech_19_6751.

12 European Environment Agency (EEA). “[Greenhouse Gas Emissions in 2023](#),” Newsroom, EEA, November 29, 2024.

13 Including Land Use, Land-Use Change and Forestry (LULUCF), but excluding international aviation and maritime transport.

GRAPH 1. Evolution of greenhouse gas emissions in the European Union since 1990



▲ Source: Phuc-Vinh NGUYEN based on data from the European Environment Agency.

Between 1990 and 2022, only the transport sector increased its emissions (+19%) in Europe.¹⁴ It currently accounts for nearly 30% of total CO₂ emissions in the EU, with almost three-quarters (72%) coming from road transport alone.¹⁵ Over the same period, the buildings sector reduced its emissions by a third (-33.5%), with heating and cooling buildings using fossil fuels now accounting for 13% of European emissions.¹⁶ More specifically, taking 2005 as a reference point, as the European Commission did in its economic analyses underpinning the “energy-climate” legislative package¹⁷ (see dotted line on the diagram), it is possible to carry out a more granular analysis of the emissions dynamics specific to each sector.

¹⁴ European Environment Agency (EEA). “Greenhouse Gas Emissions from Transport,” Analysis Indicator, EEA, March 12, 2024. The increase reaches approximately 26% when accounting for international transport: <https://www.eea.europa.eu/en/analysis/publications/sustainability-of-europes-mobility-systems/climate>.

¹⁵ European Parliament. “Climate Change in Europe: Facts and Figures,” Article, European Parliament, October 23, 2024 (last updated).

¹⁶ European Environment Agency (EEA). “Greenhouse Gas Emissions from Energy Use in Buildings,” Analysis Indicator, EEA, March 12, 2024.

¹⁷ European Commission, Climate Action. “Effort Sharing and National Emission Targets,” About Effort Sharing, European Commission, May 29, 2024 (last updated). According to the Commission, “calculating emission reductions and renewable energy shares for 2020 and 2030 against 2005 levels therefore gives a transparent and easily understandable picture of the changes needed.”

Between 2005 and 2022, the transport sector¹⁸ reduced its greenhouse gas emissions by only 4.5%¹⁹, compared with -34%²⁰ for the buildings sector and around -42%²¹ for industrial installations (mainly electricity²² and heat production, followed by heavy industry²³) covered since 2005 by the European carbon market (ETS1).²⁴ More specifically, it is worth considering the exact scope of the future ETS2 market, given that not all emissions from the transport and building sectors will be covered, as some are already partially covered by ETS1.²⁵ **Whereas the sectors covered by ETS1 reduced their emissions by 36% between 2005 and 2021, the sectors covered by ETS2 reduced their emissions by only 11%²⁶ over the same period.** Broadly speaking, ETS2 emissions can be broken down as follows: road transport accounts for more than half (56%), followed by fossil fuel consumption for heating, cooling, and cooking, which accounts for around one-third (32%), with the remainder coming from small industry and small energy installations (12%).²⁷ The rationale behind the ETS2 is the European Commission's desire to **replicate the success observed within the scope of ETS1 in the ETS2 sectors, while coupling the introduction of this carbon price with a concomitant increase in sectoral regulatory ambition (FitFor55).**

I CARBON PRICE ASSUMPTIONS AND ASSOCIATED REVENUES

The emissions reduction **target** for ETS2 sectors is -42% by 2030 (compared to 2005), which implies a fivefold increase in the rate of emissions reductions observed between 2005 and 2021. To achieve this, the future carbon price aims to steer end consumers towards low-carbon alternatives by increasing their bills. As things stand, there are many projections for the carbon price in 2030:

¹⁸ Here, the transport sector includes domestic transport, international aviation, and international maritime transport.

¹⁹ European Environment Agency (EEA). "Climate," in Sustainability of Europe's Mobility Systems, EEA, January 23, 2024.

²⁰ European Environment Agency (EEA). "Greenhouse Gas Emissions from Energy Use in Buildings," Analysis Indicator, EEA, March 12, 2024, including direct and indirect emissions.

²¹ Klimko, R. et Hasprova, S. « *Environmental Externalities in the Theory of Economics* », Economics and Environment), vol. 72, n° 1, 2020.

²² Thus, the greenhouse gas emission intensity of electricity production fell by 32% between 2005 and 2022 at the European level.

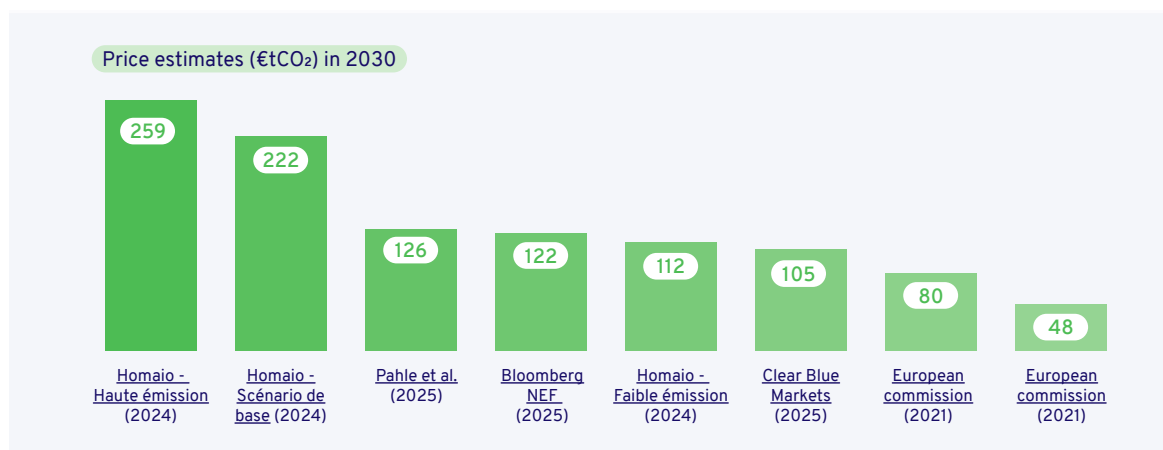
²³ Including aircraft operators from 2012 onwards.

²⁴ Lehne, J. Moro, E. Nguyen, P.-V. and Pellerin-Carlin, T. "The EU ETS: from cornerstone to catalyst", Policy paper, Jacques Delors Institute, April 2021.

²⁵ Like aviation and maritime transport in the transport sector, which are already covered under ETS1 but accounted for in the "transport" sector, or fossil fuel-based electricity used in buildings and most emissions related to district heating, which are also already covered by ETS1.

²⁶ Graichen, J., Ludig, S. « *Supply and demand in the ETS 2 – Assessment of the new EU ETS for road transport, buildings and other sectors* », Interim report, German Environment Agency, February 2024.

²⁷ Seibert, D., Kasten, P., Graichen, J., Wissner, N. "EU 2040 Climate Target: Contributions of the transport sector", Oeko-Institut, Berlin, juillet 2024.



▲ Compiled by [Phuc-Vinh Nguyen](#) (Jacques Delors Institute)

For example, according to European Commission estimates, a price of €48/tCO₂²⁸ in 2030 would lead to a surplus of 11c/l for gasoline and 13c/l for diesel. For building heating, the additional cost could be in the range of 10% to 30% depending on the fossil fuel concerned and the Member State in question. For its part, BloombergNEF recently modeled a price of €122t/CO₂ for 2030, which would lead to an increase in average fuel prices for road transport and buildings of up to one-third.²⁹

The upward effect of the carbon price on bills will also vary depending on how each state decides to combine the ETS2 with existing domestic carbon taxes. Following the example of France and its Climate-Energy Contribution (CCE), eight other EU states³⁰ have a carbon tax with a scope similar to the one of ETS2, particularly with regard to the use of fossil fuels in buildings. As pioneers in carbon pricing, these states now have more leeway to manage the transition from national taxes to the European carbon market. They can either:

- completely replace the national instrument with the European instrument,
- combine the two instruments by adjusting the scope of the national instrument as they wish (e.g., by removing the tax on the road sector but maintaining it on the building sector),
- request an exemption from ETS2 until 2030 due to the existence of a carbon tax, as Ireland has done.

Conversely, **states without a carbon tax will see a significant increase in their bills, as no carbon pricing mechanism is in place in their countries.** This is all the more problematic given that the countries concerned are mainly located in the East and their inhabitants have a [gross national income per capita below the European average](#), meaning that they are proportionally more affected³¹ by the harmonised carbon price.

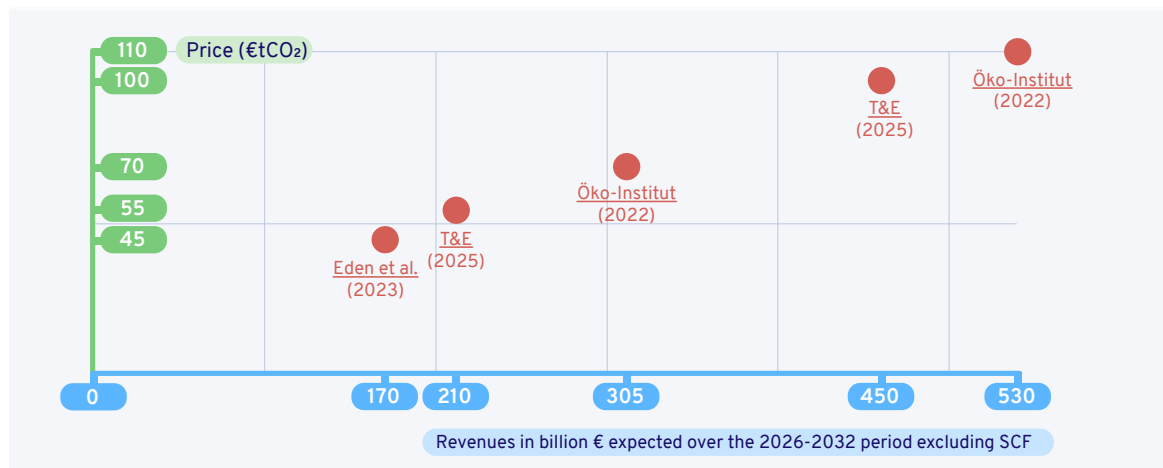
²⁸ European Commission. “Commission Staff Working Document, Impact Assessment accompanying Directive (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Directives 2009/125/CE and 2010/30/EU”, 2021.

²⁹ Chang, H. Harrison, K « EU ETS II Pricing Scenarios: Balancing Cuts and Costs », BloombergNEF, 2025

³⁰ Germany, Austria, Denmark, Finland, France, Ireland, Luxembourg, Slovenia, Sweden.

³¹ Braungardt, S., Schumacher, K., Ritter, D., Hünecke, K., Philipps, Z. “The Social Climate Fund – Opportunities and Challenges for the buildings sector”, Öko-Institut e.V., Freiburg/Berlin, juin 2022.

To address this imbalance, the Commission has accompanied ETS2 with a **Social Climate Fund (SCF)** which, between 2026 and 2032, will redistribute approximately one-third of the revenues from the carbon market from high-income countries to low-income countries.³² However, as the redistribution under the Social Climate Fund is capped at €86.7 billion, it is likely to be insufficient given the challenges of energy poverty and transport.³³ This is particularly true as this amount could be reduced with the one-year postponement of the entry into force of ETS2. The redistribution of revenues will therefore have to be supplemented by the use of carbon revenues from the ETS2 market which, unlike those from the SCF, will not be subject to Commission oversight as long as they are spent on climate and energy-related actions. As revenues are directly dependent on the carbon price, their exact amount remains uncertain but has been estimated:



▲ Compiled by [Phuc-Vinh Nguyen](#) (Jacques Delors Institute)

Although crucial, the issue of the proper allocation of carbon revenues, which will increase the acceptability of the ETS2 system, will not be addressed in this study but in a dedicated *policy paper*³⁴ available here. This choice is explained by the fact that our analysis below (III) shows that **the main issue facing ETS2 is not the redistribution of carbon revenues, which is certainly important, but rather the regulation of prices to ensure that they do not reach excessive levels.**

II • ETS2, a safeguard against the unraveling of the European Green Deal

Given the scopes of ETS1 (~40%) and ETS2 (~35%), approximately 75% of the EU's greenhouse gas emissions will be governed by a European carbon pricing system. However, this does not make the ETS system the silver bullet of European climate policy.

³² Keliuskaitė, U., B. McWilliams, G. Sgaravatti and S. Tagliapietra (2024) 'How to finance the European Union's building decarbonisation plan', Policy Brief 12/2024, Bruegel. Cela suppose un prix de 60€/tCO₂ pour la période 2027-2032.

³³ Carbon market watch., T&E., WWF. "Frequently asked question, Social Climate Fund", July 2024.

³⁴ Eisl, A. Nguyen, P.-V "How to make the ETS2 socially acceptable? Lessons from national CO₂ price systems for well-designed carbon revenues redistribution and investments", Paper, Jacques Delors Institute, November 2025.

BOX 1. What role does the ETS2 play in achieving our climate goals?

According to our modelling³⁵, when it was proposed in 2021, the ETS2 was expected to contribute nearly half (48%) of the additional effort needed to achieve the newly set targets for the sectors concerned. The other half would be achieved through changes brought about by sectoral regulations (e.g., energy renovations triggered by the Energy Performance of Buildings Directive or the electrification of the vehicle fleet resulting from the regulation on CO₂ emission standards for vehicles) or national policies. At present, due to the changes ahead, whether in ETS2 or in sectoral regulations affecting the scope of the new carbon market, and in the absence of an impact assessment, it is difficult to accurately assess the role that the ETS2 will play in achieving the 2030 targets. Nevertheless, our “pre-adoption” estimate shows that, based on the Commission’s initial logic, **no single instrument could enable the sectors covered to achieve the -55% target. This finding lends credibility to the argument regularly used by the Commission according to which a major change to *FitFor55* could jeopardise the overall architecture, thus justifying the adoption of a *policy mix* combining carbon pricing and sectoral regulation.** This would avoid having one of the tool bear a share too large in regards to the effort required.

A corollary to this observation is that, with climate ambitions remaining constant (-55% by 2030), any major European amendment to one of these two types of instruments comprising the *policy mix* will require equivalent compensation from the other instrument, similar to the principle of communicating vessels. ETS2 can therefore be seen as the safeguard of the European Green Deal, as it requires Member States to be credible and diligent in the implementation of their decarbonisation policies. Due to its close interdependence with sectoral regulations, it prevents any excessive backtracking on the latter, as this would result in a massive increase in the price of carbon and therefore in end-user bills. This is a factor to be taken into account in order to best calibrate the nature of the changes that can actually be made in the near future, in the context of the review of several *FitFor55* dossiers.

I THE ETS2: A COLLATERAL VICTIM OF THE EARLY ACTIVATION OF LEGAL REVIEW CLAUSES

Legally, twelve of the thirteen texts adopted that make up *FitFor55* (the energy taxation directive still being under negotiation) include review clauses. These legal review clauses set out, according to a number of pre-negotiated conditions, how these files can be reopened in order to adjust the defined targets upwards or downwards, but also to begin negotiations on the targets for the period 2030–2040. An examination of these clauses—listed by us on [pages 15 and 16 of the June 2024 policy paper](#)³⁶—shows that initially, no major changes were to be made before 2026 (see below). However, the decision by the President of the European Commission to bring forward by one year (to 2025) the review clause relating to the assessment of the need to re-examine the target for ending sales of new combustion-engine vehicles in 2035 shows that **legal commitments can quickly be called into question when faced with political considerations.** Under pressure from her own political

³⁵ The estimate has been made on the basis of impact assessments accompanying the presentation of the Fit for 55 package files and taking into account the policies that already existed at that time for the transport and buildings sectors (small industry being set aside).

³⁶ Nguyen, P.-V. “European Green Deal: continuation or end?”, Brief, Jacques Delors Institute, June 2024.

group, the European People's Party (EPP)³⁷, and part of the automotive industry³⁸, Ursula von der Leyen has set **a precedent that could serve as jurisprudence to the detriment of ETS2**. On the one hand, despite the conclusions of the review, agreeing to carry it out earlier than expected paves the way for **regulatory instability that could delay investment**, particularly private investment, in the transport sector (electric mobility, charging stations, etc.) pending the final decision of the European executive. On the other hand, by acting that way, there is now a **risk of widespread early reopening, which would lead to other review clauses being activated earlier than initially planned**, for example in the building sector. However, as a corollary to the phenomenon of communicating vessels described above, **any dismantling of European standards will increase the pressure on the carbon tool, and therefore its price**, to ensure that it leads to a sufficient reduction in emissions. In this regard, **the postponement of ETS2 to 2028, coupled with this unraveling of European standards, risks triggering an upward trend in the carbon price**, given that the latter will have to increase further to compensate for the likely failure to reduce emissions that should have occurred by 2027 following the entry into force of ETS2.

To illustrate this risk in concrete terms, the table below shows the timetable for the revision of the main regulations relating to the scope of ETS2 (transport and buildings), comparing the dates initially planned with those actually announced by the European Commission.

³⁷ PPE Group. “[Revise the Combustion Engine Ban](#)”, European People's Party Group, 2025.

³⁸ InfluenceMap Europe. “[EU Light Duty Vehicles CO₂ Targets](#)”, InfluenceMap Europe, 2024.

TABLE 1. Timetable for future legislative revisions related to ETS2

No later than December 31, 2028	Subject of the revision	Initially planned revision deadline	Actual revision date
Carbon Border Adjustment Mechanism (CBAM)	Possible extension of scope	Before December 31, 2025	December 10, 2025
Regulations on CO ₂ emission standards for new cars and vans	Planned assessment of the 2035 end-of-sale target for new combustion-engine vehicles, taking into account technological developments and the importance of an economically viable and socially equitable transition	2026	December 10, 2025
ETS Directive	Aviation, maritime transport, and stationary installations	By July 2026	Q3 2026
	Inclusion of municipal waste and emissions removed from the atmosphere and stored	By the end of July 2026	To be determined
ETS Directive	ETS2 evaluation (effectiveness, administration, and implementation)	Before January 1, 2029 (ETS2 assessment)	To be determined, likely postponed to January 1, 2029
	ETS2 price stability mechanism	December 31, 2029	To be determined
	Integration of ETS2 sectors into ETS1	In 2031	To be determined
Social Climate Fund Regulation	Assessment of the effectiveness of resource use and direct income support, as well as the application of definitions of energy and transportation poverty	(two years after the start of implementation of social climate plans)	To be determined
Alternative Fuels Infrastructure Deployment Regulation (AFIR)	Assessment to take into account the achievement of objectives, the impact on the competitiveness of sectors (simplify, reduce implementation costs, estimate the burden on businesses)	No later than December 31, 2026	To be determined
Energy performance of buildings (EPBD)	Assessment to evaluate progress in relation to ETS2 and the advisability of introducing binding minimum energy performance standards for the entire building stock	No later than December 31, 2028	To be determined: omnibus risk?

▲ Compiled by [Phuc-Vinh Nguyen](#) (Jacques Delors Institute)

However, beyond the phenomenon of early activation of review clauses motivated by political considerations, the ‘**simplification policy**’ as currently pursued constitutes another risk of a setback for climate ambition at the European level.

I A SIMPLIFICATION POLICY IMPLEMENTED AT THE EXPENSE OF THE TRANSACTIONAL LOGIC OF THE *FITFOR55* AND THE ETS2

Aiming to reduce the administrative burden on businesses to boost their competitiveness, the Commission has already presented six so-called “omnibus” simplification packages involving, in particular, files related to the European Green Deal, such as the directives on corporate due diligence (**CS3D**), corporate sustainability reporting (**CSRD**), agriculture, and the Carbon Border Adjustment Mechanism (**CBAM**).³⁹ On the latter, the European Parliament managed to reach a political agreement (EPP-S&D-Renew) at the start of the talks in order to limit the negotiations to the examination of the simplification measures proposed by the European Commission. In addition to speeding up the trilogue negotiation process, this effectively allowed to limit the scope of the revision, avoiding any attempt to undermine the climate ambition contained in the CBAM regulation. While it would be desirable for the political groups in the European Parliament to replicate this approach with regard to other *FitFor55* regulations, the stance on simplification⁴⁰ taken by the EPP, the pivotal group⁴¹, gives cause for skepticism. Finally, with regard to the ETS2, the strongest impact of the simplification policy could be seen in the future presentation of an omnibus package on energy⁴², particularly if it were to concern the Energy Performance of Buildings Directive (EPBD), as it covers the building sector. However, reopening such files as part of a simplification policy does not currently appear to be on the agenda.

This proliferation of factors contributing to regulatory instability is all the more damaging as it has the effect of nullifying the “transactional” dimension specific to the *FitFor55* package. During the *FitFor55* negotiations, ETS2 saw some of these compromises endorsed by stakeholders (such as France) because they obtained, in exchange, concessions on their demands relating to CBAM. However, **this transactional logic will no longer apply once each dossier is negotiated asynchronously.** As a reminder, the CBAM regulation and the regulation on CO₂ emission standards for vehicles will be reopened by the end of the year. For its part, the ETS directive, although due to be reopened in the third quarter of 2026, plans to exclude ETS2 from its scope of revision⁴³ on the grounds that “*it will not become operational until 2027*,” likely postponing its official revision until 2029. In doing so, the calendar discontinuity in negotiations between ETS2 and other related regulations **undermines the ability to maintain a fair distribution between regulatory and carbon pricing efforts.** Added to this is the fact that, at the same time, **ETS2 has become directly involved in another transactional sequence, namely that relating to the determination of climate targets for 2035 and 2040.** In this context, several countries⁴⁴ made the one year postponement of the ETS2 a *prerequisite* for supporting

³⁹ To this are added legislations relating to defence and small businesses.

⁴⁰ PPE Group. “[Europe needs more growth and jobs – Enhancing competitiveness by cutting back bureaucracy and over-regulation](#)”, PPE Group, janvier 2025.

⁴¹ Marchais, I., “[One Year After the Elections, a Profoundly Unstable European Parliament](#)”, Brief, Jacques Delors Institute, July 2025.

⁴² Hubert, A., and Schickler, J., “[There Will Be an Omnibus Package: Dan Jørgensen Announces a Simplification Initiative for Energy](#),” Contexte, 2025.

⁴³ European Commission. “[Review of the EU Emissions Trading System for the Maritime Sector, Aviation, Stationary Installations and the Market Stability Reserve](#)”, Public Consultation, European Commission, 2025.

⁴⁴ Weise, Z. Guillot, L. Mathiesen, K. “[Europe climate bubble bursts eve crucial summit COP 30](#)”, Politico, 2025.

these targets, relegating the ETS2 to the role of a mere bargaining chip where it had previously been a cornerstone of the negotiations. In this regard, one risk we identify is the reproduction of this negotiating practice, particularly in the context of discussions on the future Multiannual Financial Framework (MFF). With the MFF due to be finalised by the end of 2027, i.e., before ETS2 actually comes into force, **several states could be tempted to make their agreement to the future European budget conditional on a further postponement of ETS2.** Such a scenario would be all the more credible and conceivable given that the European Commission's proposals for reforming the instrument were deemed insufficient by the Member States, leading them to force the Commission to postpone it until 2028. This is yet another factor that could undermine stakeholders' confidence in the implementation of the instrument, which is already weakened by the legal uncertainty surrounding the terms and consequences of the ETS2 postponement.

I ETS2 POSTPONEMENT: LEGAL IMPLICATIONS TO BE CLARIFIED

From a legal perspective, two questions arise concerning the upcoming ETS2 reforms. The first concerns the validity of the 27 environment ministers' recourse to an [amendment to the European climate law](#) to postpone ETS2 until 2028. The second concerns the consequences of the postponement on the ETS2 steering and support instruments (Market Stability Reserve, Social Climate Fund, *frontloading*) that are presented in the annex.

Commissioner Hoekstra, responsible for climate action, stated that amending the regulation relating to the European Climate Law *would “automatically postpone [ETS2] by one year,”*⁴⁵ subject to validation by the European Parliament. This validation took place on November 13, with 379 votes in favor, 248 against, and 10 abstentions. However, **the reasoning that amending the law to include the postponement of the ETS2 entry date would allow it to take precedence over the ETS directive, thus avoiding reopening it, is legally questionable.** Admittedly, the objectives of the ETS Directive stem from the ambition set out in the European Climate Law Regulation. However, due to the absence of a direct link that would be reflected within the regulation through an explicit reference to the ETS Directive, the operational method adopted presents uncertain legality. Legally, this method of circumvention by the Commission to avoid resorting to a targeted amendment is questionable, although it could be justified by the fact that the two texts concerned have the same legal basis (Article 192 TFEU). However, given the economic considerations at stake, the validity of the postponement must be guaranteed, which does not seem to be the case here, calling for clarification from the Commission as to the legal basis used.

Legally questionable though it may be, this decision is not politically problematic. Here, the problem facing the European executive is the same as in the event of the ETS file being reopened in the third quarter of 2026 under the legal review clause. In both cases, **the Commission will not be able to guarantee that the scope of the ETS directive review will be limited to the scope of its legislative proposal.** Once the ETS directive is the subject of a Commission proposal, either to make a targeted amendment postponing the entry into force of ETS2 until 2028 or concerning aviation, maritime transport, fixed installations or the market stability reserve, the European Parliament will be able to propose amendments going beyond the subjects mentioned and thus affecting ETS2. If this were to happen, the Commission would then have the option of either withdrawing its proposed amendment⁴⁶ or

⁴⁵ Simon, F. “FEATURE: EU stands on shaky legal grounds with last-minute ETS2 delay”, Carbon Pulse, 7 November 2025.

⁴⁶ Malingre, V., “Under Pressure from the Right and Far Right, the European Commission Intends to Withdraw a Directive Against Greenwashing,” Le Monde, 20 June 2025.

entering into negotiations within the framework of the trilogues. In order to avoid this type of scenario involving the early reopening of the ETS Directive, [in mid-October, the Commission](#) announced its intention to amend two related legislative acts through delegated acts, namely the delegated regulation governing carbon market auctions and the decision on the market stability reserve, in order to address the concerns [raised by 19 Member States](#). Once the delegated acts have been proposed, the Council and the European Parliament will have two months from the date of notification to reach a majority and oppose them. Finally, this political strategy of legal avoidance [adopted by the Commission](#), which consists of using texts other than the ETS Directive, may nevertheless have significant effects on the rate of emissions reduction and generate side effects on the ETS2 steering and support mechanisms (see annex). As such, future negotiations will need to clarify a number of issues raised by the recent announcements of postponement and revision:

From a legal perspective, it is the provision (1a) adopted by the environment ministers that postpone ETS2 until 2028 :

“The operation of emissions trading for buildings, road transport and additional sectors set out in Chapter IVa of Directive 2003/87 is postponed until 2028. The rules set out in Article 30(k)(2) letters (a) to (e) of Directive 2003/87 shall apply. The provisions of Article 10a(8b) of Directive 2003/87 shall apply also in 2026”.

As initially foreseen, within the ETS directive, there was only one possibility to postpone the entry into force of the ETS2, that is to say by using Article 30(k), which stipulates that this postponement would only be possible in the event of exceptionally high energy prices, i.e., if the price of (a) TTF gas or (b) crude oil exceeds a certain price level of more than €100/MWh (compared to €30/MWh currently) for gas and \$160/barrel (compared to \$60/barrel currently) for oil. While article 30(k) was not applied, the provision adopted by the twenty-seven ministers refers directly to (2) letters (a) to (e) in order to govern the terms of the deferral, which provides a better understanding of the practical consequences of the deferral. In concrete terms, this means that:

- Considering point (a) of paragraph 2, the quantity of allowances issued each year will now be determined from 2028, which will be the new starting point from which the linear reduction factor will apply. For its part, the adjustment of allowances will take place from 2029;
- Considering point (b) of paragraph 2, the auctioning of allowances and the allocation of 600 million allowances to the market stability reserve will begin in 2028. **However, a question mark remains over the Social Climate Fund**, as the [regulation](#) governing it states in recital (30) (also presents in article 30d (4) of the ETS directive) that “*where the emissions trading system established in accordance with that Chapter is postponed to 2028 pursuant to Article 30(k) of that Directive, the maximum amount available for the implementation of the Fund should be EUR 54,600,000,000.*” However, the postponement as agreed by the ministers does not result from the fulfillment of the conditions set out in Article 30(k). In principle, the conditions governing the automatic reduction of the Social Climate Fund envelope are based on the implementation of Article 30(k) of the directive, namely a case of exceptionally high energy prices. In this case, since Article 30(k) does not serve as the legal basis for the adoption of provision (1a) added by the ministers, the question arises as to whether or not the maximum amount available for the Fund is still reduced. **In this case, the conditions governing the postponement have been distorted: they were initially designed to respond to a sudden spike in prices, not to accommodate a potential risk of price increases. In our view, this would justify reconsidering those conditions in the context of**

trilogue negotiations, notably in order to safeguard the maximum envelope of the Social Climate Fund. For their part, European environment ministers were able to indicate in the provision amending the climate law that Article 10a(8b) would also apply in 2026. Under this provision, this means that the Social Climate Fund would benefit from the auctioning of 50 million allowances from ETS1 for the year 2025, but also for 2026. In other words, **under the conditions set by the ministers, the maximum amount of the Fund would be €54.6 billion, with funding for the first two years via ETS1 revenues not exceeding €4 billion for 2026 and 2027.** De facto, the postponement of ETS2 would therefore result in the non-mobilisation of revenues of nearly €11 billion, corresponding to the difference between the maximum allocation of the Fund if it had come into force in 2026 (€65 billion) and the €54.6 billion mentioned above. It would, in fact, be rather paradoxical, since depriving Member States of revenue would directly limit their ability to rapidly reduce emissions—and thus lower the future ETS2 price, which remains their principal motivation for action. **Rapid clarification from the Commission on the exact amount of the Fund remains necessary in view of the imminent entry into force of the Climate Social Plans.** In the event of a planned decrease of the envelope, we recommend that the trilogue negotiations settle on an increase of the Fund up to the amount initially foreseen.

- Considering point (c) of paragraph 2, the *frontloading* mechanism of 30% of auctions will see its allowances levied over the period 2030-2032 (compared to 2029-2031 previously) and payments into the market stability reserve taking place in 2028;
- Considering point (d) of paragraph 2, the deadline for the first surrender of allowances is postponed to May 31, 2029 for emissions in 2028;
- Considering point (e) of paragraph 2, the Commission's report on the implementation of the provisions of ETS2 is postponed to January 1, 2029.

In conclusion, legal uncertainties still surround the ETS2. Nevertheless, **the fact that there was a scenario providing for the consequences of a one-year postponement of the instrument does make it easier to manage its implementation in 2028. This will not be the case if the mechanism were to be postponed beyond that date, as no legal provision is made for this in the directive.** This would therefore mean renegotiating all the parametric conditions relating to the ETS2. Future negotiations on the Commission's proposed reform of the market stability reserve and carbon revenue *frontloading* should provide an opportunity to clarify the legal questions raised above. Member States, the European Commission and the European Parliament could, in that regard agree on maintaining the Social Climate Fund at €65 billion during these negotiations, provided that they manage to find a way to finance the loss induced by the delay. As part of these discussions, we provide in the recommendations section a mechanism to allow the preservation of the Fund. Indeed, the early auctioning proposed by the European Commission risks being too short to cover for the total loss aforementioned.

Prior to that part, the following analysis of the progress made in transposing the mechanism into national law and the position of each country with regard to reform aims to help highlight the many concerns expressed by Member States and identify how to address them in order to enable the effective implementation of ETS2 and, by a domino effect, prevent any unraveling of the European Green Deal.

III • ETS2, the subject of multifaceted political controversy

By design, the carbon market has the advantage of guaranteeing that emission reduction targets are met on time, as it caps the total volume of emissions allowed for regulated entities, thereby limiting the number of pollution rights (quotas) available on the market. In doing so, the existence of a carbon price should, in theory, encourage end consumers to **implement the most cost-effective measures to reduce their emissions as quickly and cheaply as possible**. While this reasoning is valid when applied to companies, which are better able to invest using their cash reserves, it is less valid when it comes to individuals. This is due, on the one hand, to the relatively limited competition/alternatives available among fuel suppliers and, on the other hand, to **the inelasticity of demand for road transport and heating in the event of a sharp increase in the price of fossil fuels**. This risk has been identified by Member States, which, concerned about the social consequences of an overly abrupt price increase, have made the **issue of price levels and volatility one of their main reform priorities**, as highlighted in the *non-paper* initiated by the Czech Republic and signed by 19 Member States at the end of June 2025.

BOX 2. Methodology for determining the political position of Member States on ETS2

From a **methodological** point of view, we have mapped out the **position of each Member State on the reform of the ETS2**. The position of each country is determined by a combination of indicators, such as the existence of one or more texts transposing the ETS2 into national law, the number of public consultations organised in accordance with the procedure for drawing up national Social Climate Plans but also the positions taken by states in *non-papers* or other statements by European leaders, in the EU Council of Ministers or on the national stage. This data was collected on the basis of **in-depth individual interviews with stakeholders** (administrations and ministerial offices, *think tanks*, NGOs) **in the 27 Member States, combined with a review of secondary literature**. The aforementioned elements contribute to assigning an individual score to each Member State, ranging from 0 to 4, which enables assessment of its level of support for the instrument. For example, transposition yields a score of 1, compared to a score of 0 for non-transposition or transposition in the context of delaying tactics. Partial transposition driven by domestic policy considerations awards a score of 0.5. Similarly, signing the letter initiated by the Czech Republic grants 0.5 points for constructive reform efforts, while non-signature results in a score of 1 if it stems from support for the instrument itself, or 0 if motivated by a more radical stance. Additionally, presumed participation in the Cyprus letter lowers the overall score by 0.5. Finally, public declarations and other information gathered in interviews can either increase or decrease the score, depending on their nature.

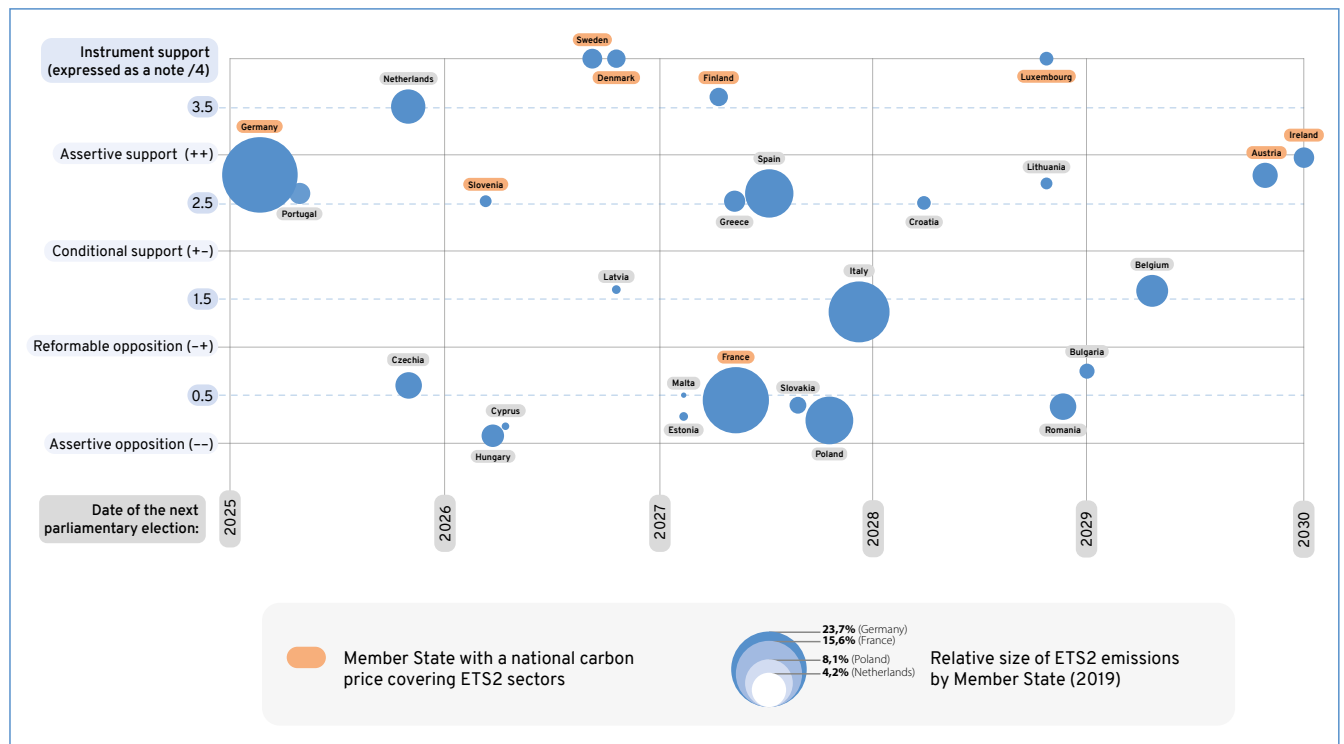
Broadly speaking, our analysis distinguishes four groups of states, outlining a diverse geography and typology of opinions on ETS2, but which nevertheless suggests the existence of potential room for maneuver in terms of reaching a political agreement on reforming the instrument :

- States in favor of ETS2 in its current form (known as “**affirmed support**” or “**++**”);
- States that are in favor of ETS2 but have expressed reservations (known as **conditional support** or “**+ -**”);
- States opposed to the application of ETS2 as it stands and making their possible support conditional on significant reforms (known as **reformable opposition** or “**- +**”);
- States opposed to ETS2 in its current form but more generally opposed to the instrument (known as **firm opposition** or “**--**”).

This classification, presented below in the form of a scatter plot, is then put into

perspective in light of the occurrence of legislative elections, the existence of a national carbon price covering a scope similar to that of ETS2, and the respective ETS2 emissions levels of each Member State.

GRAPH 2. Member States' political positioning on ETS2



▲ Source: Phuc-Vinh Nguyen (Jacques Delors Institute) based on BloombergNEF (2025), Öko-Institut (2024) and own data collection.

The first lesson that emerges from our mapping is **that there is no direct link between transposition and support or lack thereof for the instrument**. In other words, Member States are not necessarily more diligent in transposing the instrument depending on whether or not they support it. As of July 7, 2025, the European Commission reported that 12 Member States⁴⁷ had not communicated on the progress of transposition and that five others⁴⁸ had only partially transposed the legislation. Our more granular survey allows us to go further.

As of November 25, 2025, 17 states had fully transposed ETS2 into their national law. For some of them, this is part of their total and “affirmed” support for the instrument, as is the case for Denmark, Finland, Luxembourg, and Sweden. For others, while certain considerations may have led to a reduction in the intensity of their support—which is now “conditional”—this does not alter their overall support for the scheme. This applies to Austria, Germany, Croatia, Lithuania, and the Netherlands. Nevertheless, **transposition does not necessarily mean unconditional support**. Ireland, for example, which wishes to benefit from an exemption from the ETS2, as it has a price trajectory of €100/tCO₂ in 2030 for the sectors concerned, has cer-

⁴⁷ Bulgaria, Czech Republic, Estonia, Spain, France, Croatia, Hungary, Luxembourg, Latvia, Poland, Portugal, and Romania.

⁴⁸ Belgium, Cyprus, Finland, Slovenia, Slovakia.

tainly transposed the directive, but this does not necessarily imply its support for the instrument in its current form. Furthermore, as in the case of Italy, it is possible to be in a position of **“reformable opposition”** while having transposed the directive (February 2025) well before other states that are totally in favor of ETS2 (such as Luxembourg, which [transposed it](#) in July 2025). In the Italian case, although transposition was confirmed long ago, this did not prevent the country from seriously considering signing the draft letter initiated by Cyprus that was not published in the end but was requesting postponing ETS2 until at least 2030. This scenario is also found in countries such as Cyprus, Malta, and Romania, which have taken a more radical stance, openly expressing their **“strong opposition”** to the new carbon market at the Council of Environment Ministers meeting on October 21, but nevertheless transposing the directive. It should be noted, however, that in the case of Romania, this opposition is even more concrete, as the transposition stipulates that ETS2 should not come into force until 2031, which is illegal. As for Bulgaria, implementing ordinances are still missing to make the instrument fully operational.

Similarly, partial transposition may reflect a variety of considerations. Currently, **seven states are in this situation**. In the cases of Belgium, Spain, Latvia, and Portugal, the delay is mainly due to **domestic political considerations**. In Belgium, unlike the Brussels-Capital Region and Wallonia, the Flemish Region has not yet transposed the text. In Spain, although the text should have been adopted by Parliament in the first quarter of 2025, the procedure has been delayed following a disagreement between the political group forming the majority in place. In Latvia, although the main provisions have been transposed, secondary legislation still needs to be added, with no specific timetable due to a lack of support in Parliament and existing tensions over the transposition of another text from the Green Deal, the Renewable Energy Directive. As for Portugal, the legislative elections in May 2025, followed by the appointment of a new government, have delayed the process, which should pick up speed soon. In contrast, in the case of Slovakia, Poland, and the Czech Republic, partial transposition appears to be a **delaying tactic, which can be explained by the expected impact of the ETS2 on prices**. In Slovakia, this has led the government not to transpose the administrative and control mechanisms that would enable the system to function effectively. For its part, the Polish government has decided not to transpose the obligation for regulated entities to purchase allowances on the market, while the Czech Republic has only transposed the part relating to emissions monitoring.

Finally, **three countries, including France, have not transposed the directive at all**. While fears of price increases are the main factor behind this decision, other factors also play a role. In Estonia, the Parliament granted the government a formal mandate to request the cancellation or postponement of the instrument on the grounds of **“administrative burden”**⁴⁹ and the fact that the expected reduction in emissions if Estonia complied would be very small at the EU level (-0.1%) compared to the costs incurred domestically. In Hungary’s case, Viktor Orban’s opposition to the European Green Deal⁵⁰ has become a political marker, in line with his previous positions, while serving his interests in the run-up to the April 2026 parliamentary elections. Finally, **in France, the current government instability has certainly delayed the ability to reach a political decision, but the main explanatory factor remains the coincidence between the expected date of entry into force of ETS2 (January 1, 2027) and the presidential election in May 2027.**⁵¹

⁴⁹ ERR News. “Estonia joins 14 other EU states in calling for ETS2 amendments”, ERR News, 2025.

⁵⁰ Orbán, V. « Discours de Viktor Orbán à la conférence des Nations Unies sur le changement climatique COP29 2024 », About Hungary, 2024.

⁵¹ Tandjaoui, N., Chemel, T., Volland, M., Hubert, A., and Nail, E., “Extension of the Carbon Market: Administration Seeking Arbitrations Desperately,” Contexte, 2025.

In terms of transposition, the postponement of the carbon market to 2028 could have two consequences. The first concerns the states that have not yet transposed the legislation, or have done so only partially and in a dilatory manner. The postponement could lead them to initiate or complete the procedure as they have obtained the postponement or, on the contrary lead them to ask for more. The second concerns whether states that have already transposed the legislation, incorporating 2027 as the date of entry into force, will find it difficult to amend the text of the law, in accordance with their respective national procedures and in the event of a change in the political majority in the meantime.

As observed in our figure, the proximity of legislative elections (presidential elections in France) to 2027, the initial date of entry into force of ETS2, may have been a contributing factor, as evidenced by the concentration of six states categorised as ‘-’ or ‘+’ around the period 2027-2028, more than in any other part of the diagram. However, a reading of the figure shows that the **concentration of states above 2.5 is almost exclusively reserved for states that already have a national carbon price within the scope of ETS2 (with the exception of France), making this a more significant factor than the electoral criterion alone.** Finally, the figure also reflects each Member State’s relative share of ETS2 emissions. In that regards, absolute emission levels do not appear to be a decisive factor in determining whether a state supports or opposes the instrument. On the contrary, as previously explained, since the carbon price is unified at the European level, its impact is proportionally greater in countries whose gross national income per capita is below the EU average. In this context, there is a noticeable **geographic overrepresentation of Eastern and Southern European countries among those opposed to the measure.**

In conclusion, our analysis shows that a country that already has a carbon price within the scope of the ETS2 is much more inclined to support the deployment of the European instrument. As detailed above, this is because the countries concerned are those with greater leeway to adjust the introduction of the ETS2. The case of France is unique and can be explained by the traumatic experience of the yellow vest protests and the fact that 2027 is a presidential election year. While the proximity of an election may play a role in a country’s position (as in the recent elections in the Czech Republic, with the rise of the “Motorists for Themselves” party rejecting the Green Deal⁵²), it does not determine it. This observation is confirmed by the series of interviews conducted with stakeholders to produce this mapping. It shows that **in the vast majority of countries affected by an upcoming or recent election, ETS2 is not a topic of public debate.** On the contrary, two main lessons emerge from our interviews concerning the concerns of states:

- In terms of prices, it is true that governments emphasise the need to contain volatility and enhance the predictability of ETS2. Nevertheless, it is above all the **search for certainty** that guides their actions. Regardless of the triggering event that could cause prices to soar, **governments want to be able to convey not only that action will be taken to contain prices, but also that, if necessary, prices will actually be contained thanks to the existence of a dedicated and reliable mechanism.**
- **With regard to carbon revenues, the prevailing sentiment among Member States is one of insufficiency.** There is a perceived inadequacy in the allocation of the Social Climate Fund to compensate households facing energy and transport poverty; a **shortage of funds currently available ahead of ETS2 implementation** to enable swift investments in decarbonisation instruments; and **insufficient**

⁵² Zachova, A. “Czech election campaign ignited by EU climate levy on motor, heating fuel”, EURACTIV, 2025.

consideration of the specific challenges facing countries without a carbon price and with average incomes below the European average—challenges compounded by limited administrative capacity, which reduces their ability to identify and support relevant stakeholders.

Based on these two observations and the reasoning outlined above, we have formulated a series of three recommendations designed to address the political, legal, and economic issues raised by the implementation of ETS2.

IV • Recommendations

I FRONTLOAD ETS1 AND ETS2 REVENUES TO SUBSTANTIALLY FINANCE DECARBONISATION

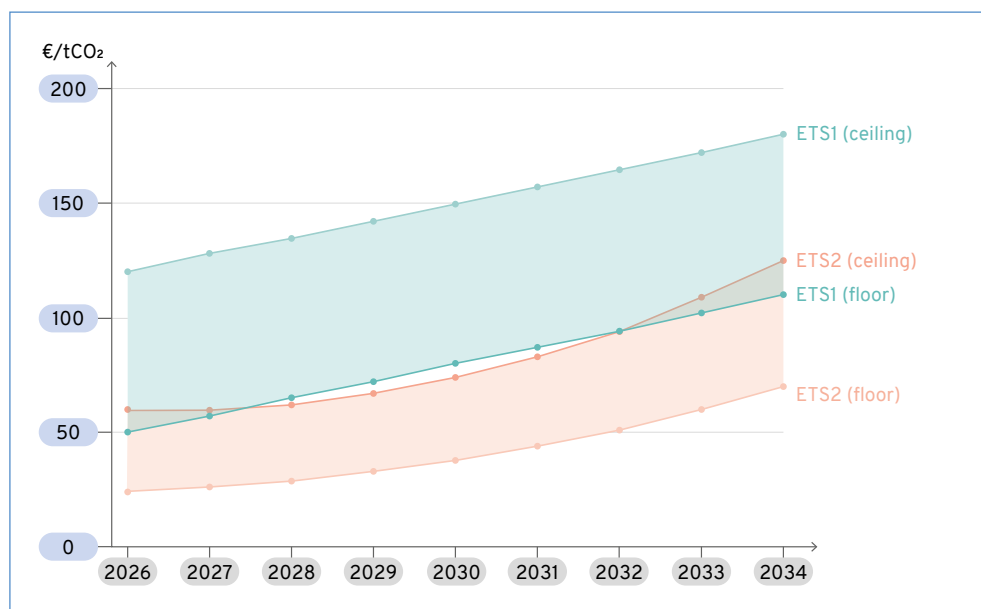
Frontloading carbon revenues from ETS2 would involve the European Investment Bank (EIB) lending money to Member States, which would then be repaid using future revenues generated by the new carbon market. This money could then be used immediately to finance decarbonisation measures whose initial cost is particularly high, especially for low-income households, such as access to electric vehicles or the installation of heat pumps. Proposed by Commissioner Hoekstra in response to the letter from the 19 Member States, this mechanism could, according to EPICO⁵³, raise €50 billion that could be spent over the period 2025-2027. This revenue would correspond to 50% of ETS2 revenue for the period 2033-2035, assuming a price of €65t/CO₂. For its part, Agora Energiewende⁵⁴ estimated the amount available at €36.2 billion for 2025-2027, based on a price of €40t/CO₂, equivalent to 30% of the revenues generated between 2030 and 2035. Both figures are based on a deliberately conservative approach, given that estimating prices over such long time horizons remains particularly difficult, as evidenced by the diversity of price scenarios presented above. In this regard, the postponement of ETS2 generates additional uncertainty regarding the implementation of the instrument, in addition to having had a *bearish* effect on the market, which recently led to a fall in prices: while the ETS2 *futures* price for 2027 stood at €84t/CO₂ on October 20 on the market (ICE), it fell to €66.55t/CO₂ on November 6 following the postponement announcements. However, it is reasonable to consider that the price of €84t/CO₂ remained largely theoretical and was derived from the ETS1 price (€77.4t/CO₂) rather than from market fundamentals related to the ETS2. Indeed, in the absence of sufficient liquidity on the ETS2 market and *hedging* activities by regulated entities, the prices currently reflected should not be used as an indicator of future market prices. This complicates the ability to make reliable long-term price forecasts, especially since these forecasts must also take into account other uncertain parameters such as the obligations set out in existing regulations, which, as demonstrated above, are likely to be changed in the near future.

The political and legal uncertainty currently surrounding ETS2 could, in the context of future negotiations on the *frontloading facility*, lead to the adoption of particularly conservative price assumptions, further limiting the budget allocated to Member States. Furthermore, if the Climate Social Fund envelope were to be reduced by around €11 billion, as Member States may have agreed by postponing the entry into force of ETS2, part of the money lent by the EIB would only be used to cover the difference between the non-deferred allocation (€65 billion) and the new allocation

⁵³ EPICO Klimainnovation and Frontier Economics. “Strengthening the EU ETS 2 through revenue frontloading”. Policy Report. Berlin

⁵⁴ Baccianti, C. Buck, M., Sartor, O., Schröder, C. “Investing in the Green Deal: How to increase the impact and ensure continuity of EU climate funding”, Agora Energiewende, 2024.

(€54.6 billion⁵⁵). For example, this would correspond to more than a third of the amount of revenue that Agora wanted to raise, nullifying much of the benefit of the proposed *frontloading*. We therefore propose a mechanism that would allow the EIB to make a larger advance on carbon revenues, consisting of *frontloading* the revenues from ETS1 and ETS2, while setting a floor price and a ceiling price (price corridor) for both markets, which could be transitional or more permanent. Schematically:



▲ Source : Phuc-Vinh Nguyen (Jacques Delors Institute)

- The introduction of a floor price on ETS1 would guarantee the minimum level of revenue generated by the market. In concrete terms, allowances could not be sold below the set price, and this would apply automatically to each auction. Auctions would then either be accepted or put into reserve. With such a system, it would be possible to replicate the experience currently being carried out by Japan⁵⁶, which, following the establishment of a carbon market, borrowed money that it will repay on the basis of future carbon revenues. Unlike the Japanese government, it does not appear politically feasible for the EU to act as a guarantor to lenders for the repayment of debt incurred without dedicated own resources. Nevertheless, with the existence of a floor price, either progressive or fixed over time, lenders would have certainty about the EU's ability to repay, as they would know in advance the revenues generated on the basis of the floor price. Where Japan intends to raise nearly \$150 billion over ten years⁵⁷, this method could enable the EU to raise, according to our estimates, at least €200 billion over a similar time frame (2028-2034). At the same time, the introduction of a credible floor price for carbon would boost investment in clean technologies and energy efficiency, particularly if the floor price were progressive, as we recommend, while giving manufacturers greater predictability regarding price levels.

⁵⁵ More precisely, since social climate plans can also finance up to 37.5% of expenditures providing direct support, the effective reduction in investment support allocation would be 6.875 billion euros, under the maximalist assumption that Member States had planned to dedicate 37.5% of their Fund envelope to direct compensation, i.e., (4.125 billion euros).

⁵⁶ Saptakee, S. "Japan's USD\$11 Billion Climate Transition Bonds", CarbonCredits.com, 2024.

⁵⁷ Clements, L. Rocamora, A.-R. "Japan's \$1trn bet on the climate transition", LSEG FTSE Russell Insights, 2025.

- At the same time, a **price cap on ETS1** would keep prices at a level that provides sufficient long-term incentive for manufacturers to invest in decarbonisation processes, while avoiding disproportionate damage to their current competitiveness. In practical terms, the cap mechanism would consist of activating the market stability reserve and releasing part of the allowances contained therein. Furthermore, if the Commission intends to pursue its **objective of converging the two ETS systems, the feasibility of which is due to be assessed on October 31, 2031, a price cap on ETS1 could prevent the purchase and retention of allowances on the market in anticipation of future convergence.**⁵⁸ However, this accumulation of allowances would artificially drive up prices in the short term, which a cap would prevent. This could be the case if **the price on ETS1 were lower than that anticipated on the new merged market.** This scenario would also imply a higher price on ETS2 than on ETS1, which is currently only conceivable from the mid-2030s onwards. Conversely, in the more likely scenario where the ETS2 price is lower than the ETS1 price, a merged system would increase the price of allowances paid by users in the building and transport sectors and lower the price for industrial users.⁵⁹
- With regard to the **ETS2**, the introduction of a **floor price** would, in a similar way to the ETS1 floor, guarantee a minimum level of revenue for *frontloading* purposes and, in periods of low prices, reduce the supply of allowances. However, it would be necessary to ensure that states that already have a carbon price and whose floor could be lower than this maintain, at a minimum, their domestic price. Finally, once in place, the floor would prevent any reversal of carbon pricing in the transport and building sectors. This is a significant argument, given that only nine states currently have domestic carbon pricing.
- Finally, a **price cap on ETS2 would protect against excessive price volatility, providing greater certainty as sought by Member States.** It would **guarantee that they would not intervene in the event of a price surge to demand a reduction, as they would have initially agreed on the level of the price cap.** Unlike the price control mechanism described in the annex (*soft cap price*), which can only be triggered twice a year and release up to 80 million allowances between 2027 and 2029, its effectiveness would be assured as it could release allowances several times and in a less limited manner in order to bring prices down. As proposed by KOBIZE⁶⁰, allowances could come from the ETS2 market stability reserve, invalidated allowances from the ETS1 MSR reserve, unallocated ETS2 allowances for 2021-2030, or the ETS1 free allocation *buffer* mechanism. However, unlike KOBIZE, we do not recommend unlimited allocation, since the number of allowances currently provided for under the MSR is strictly defined and adding new ones would therefore increase supply and thus emissions.⁶¹ A fair balance will have to be found on this issue.

The establishment of respective **price corridors on the two carbon markets would therefore guarantee the repayment of the frontloaded carbon advance while ultimately promoting the convergence of the systems through the convergence of the ceiling of one (ETS2) with the floor of the other (ETS1).** This would give Member States a certain amount of leeway to agree on the price levels they consider accep-

⁵⁸ Edenhofer, O., M.Kosch, M. Pahle and G. Zachmann (2021) 'A whole-economy carbon price for Europe and how to get there', Policy Contribution 06/2021, Bruegel.

⁵⁹ Jeremie, P. « Perspectives pour le prix du carbone en Europe », Terranova, 2024.

⁶⁰ Antosiewicz, M., Jeszke, R., Pyrka, M., Lizak, S. "A Fairer ETS2: Policy options ensuring climate ambition with social balance, while addressing price risks and distributional impacts", Institute of Environmental Protection - National Research Institute (IOŚ-PIB), 2025.

⁶¹ Scott, E. "Why the MSR2 non-paper should be a non-starter", Carbon Market Watch, 2025

table for industry (ETS1) and consumers (ETS2) to bear, while at the same time demonstrating that investments are being made thanks to the money made available by the EIB. From an economic perspective, unlike consumption expenditures, which should be financed through taxation, investment expenditures—given their long-term benefits—ought to be financed through borrowing. This approach ensures that the costs are spread over the years during which the investments yield returns and also contributes to improving the overall economy. Given that the ETS is a European instrument, it makes sense to place a related debt instrument at the same level, so that national budgetary rules do not hamper the ability of states to invest in the transition. However, **the *frontloading* mechanism would be reserved for those states that wish to use it, provided that they have transposed the directive and without restrictions linked to a country's economic situation.** Furthermore, since **we recommend that the entire carbon advance be devoted to investment expenditure,** this would legitimise the role of the EIB. The latter, which has additional liquidity reserves, could now make part of this money available for *frontloading* and then borrow at reduced rates, since the money for repayment is guaranteed.

As for the amount that could be *frontloaded*, it is necessary to talk in terms of orders of magnitude. As a reminder, revenues from the ETS in 2023 were around €43.6 billion, of which €33 billion went directly to the states.⁶² With regard to ETS2, there are numerous carbon price forecasts for 2035 and beyond, which result in carbon revenues (excluding the SCF) amounting to several hundred billion euros. The most recent forecast, from BloombergNEF⁶³, for example, estimates revenues of around €644 billion (reduced to €583 billion once the contribution to the FSC has been paid⁶⁴) over the period 2027-2035. However, all of these studies assume that the instrument will be launched in 2027 and do not take into account the adjustments recently announced by the Commission or the possibility that certain regulatory obligations may be revised downwards (which would increase pressure on the carbon price). **Taking a conservative approach, we recommend borrowing between one-third and 50% of the amount of future carbon revenues from ETS1 and ETS2 over the period from 2028 to 2034, corresponding to the next MFF cycle.** As the ETS2 negotiations are part of this discussion and ETS1 acts as an own resource, it would make sense to align the joint borrowing with this timeframe. Furthermore, the mid-term review of the MFF could also be an opportunity to schedule a review of the ETS Directive in order to modify, if necessary, the trajectory of the floor/ceiling prices and calibrate them according to needs.

The reasoning behind mobilizing only between one-third and one-half of future revenues is as follows. Revenues from both ETS1 and ETS2 are also used for other purposes, such as, for ETS1, the Innovation Fund (€12 billion disbursed between 2021 and 2024⁶⁵) or to the next EU budget (€9.6 billion yearly for the period 2028-2034) that then uses it to repay part of the COVID debt (NGEU). For ETS2, the use of revenues was at one point considered as own resources to repay the COVID debt, but the idea has since been abandoned in the proposal put forward by the Commission in mid-July. However, part of the ETS2 revenues will have to be allocated to the SCF until 2032 and also be used to finance compensation measures for the most

⁶² European Commission. “How do Member States use ETS revenues?,” Official European Commission Website on the EU Emissions Trading System, 2025.

⁶³ Chang, H. Harrison, K. “EU ETS II Pricing Scenarios: Balancing Cuts and Costs”, BloombergNEF, 2025.

⁶⁴ Contribution corresponding to an entry into force of the mechanism in 2027.

⁶⁵ Marcu, A., Coker, E., Bourcier, F., Caneill, J.-Y., Schleicher, S., López Hernández, J. F., Caruana, N., Chawah, P., Finlayson, R. “2025 State of the EU ETS Report”, European Roundtable on Climate Change and Sustainable Transition (ERCST), 2025.

modest households⁶⁶ if necessary, particularly in the event of a sustained surge in prices. This would be necessary as academic literature has shown that the compensation needs of the most vulnerable households exceed the amount provided by the Social Climate Fund alone. The rationale for including ETS1 revenues *in frontloading* is that the ETS Directive now requires all ETS1 revenues to be dedicated to climate action, given that 75% of these expenditures were previously reported as such. Among the actions already financed through ETS1 revenues for 2023⁶⁷ were projects related to energy efficiency, heating and cooling of buildings (€2.3 billion) and public transport and mobility projects (€5.1 billion), which have a downward impact on ETS2 emissions. Furthermore, as ETS1 price levels are already well above those expected for ETS2 by 2030, **mobilizing future ETS1 revenues as collateral would have a multiplier effect on the total amount of the loan and, consequently, on the volume of investment that could be immediately devoted to decarbonisation.**

By *frontloading* the revenues from both markets, the allocation key would be based on the guarantee provided by the market concerned. In other words, if €200 billion is advanced by the EIB, with 75% of the guarantee coming from the ETS1 market and 25% from the ETS2 market, €150 billion (75% of €200 billion) will be distributed according to the terms and conditions specific to ETS1 and the remainder according to those of ETS2. **We also recommend that *frontloading* be applied to the Modernisation Fund**, which helps 13 low-income countries (Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania, Slovakia, Greece, Portugal, and Slovenia) to improve energy efficiency and modernise their energy systems. Such actions can directly encourage emissions reductions, either directly or indirectly, justifying the *frontloading* of the Modernisation Fund. Planned to run until at least 2030 with a budget of between €48 and €57 billion⁶⁸, €15.3 billion has already been disbursed between 2021 and 2024⁶⁹, leaving between €33 and €41 billion available to be mobilised. Its formula, which takes into account a country's per capita gross domestic product (GDP), emissions intensity, and level of industrialisation, would allow for **a targeted answer to the feeling of inadequacy expressed by states in terms of taking into account the specificities and difficulties of countries.** Such an approach would also make it possible to convince a number of countries that we identify in our mapping as reluctant to adopt the carbon instrument, such as Romania (recipient of 36% of the funds distributed to date), the Czech Republic (recipient of 31% of the funds distributed to date) and Poland (recipient of 19% of the funds distributed to date). As for the rest of the ETS1 revenues put forward by the EIB, the main emitting states will benefit from more revenue. In 2023, Germany had benefited from €7.6 billion, Poland from €5.4 billion, Spain and Italy from €3.6 billion and €3.5 billion, and France from €2.1 billion.⁷⁰ However, this observation is not neutral, as the Agora Energiewende *think tank* has shown⁷¹ that any action taken must be implemented quickly, i.e., within the next four to five years, and in the main emitting countries (Germany, France, Italy, Poland, and Spain) in order to keep the ETS2 price low. **The more emissions are reduced**

⁶⁶ Eisl, A. Nguyen, P.-V. "How to make the ETS2 socially acceptable? Lessons from national CO2 price systems for well-designed carbon revenues redistribution and investments", Paper, Jacques Delors Institute, November 2025.

⁶⁷ European Commission. "How do Member States use ETS revenues?," Official European Commission Website on the EU Emissions Trading System, 2025.

⁶⁸ Assuming a carbon price of €75/tCO₂ for 2030.

⁶⁹ Marcu, A., Coker, E., Bourcier, F., Caneill, J.-Y., Schleicher, S., López Hernández, J. F., Caruana, N., Chawah, P., Finlayson, R. "2025 State of the EU ETS Report", European Roundtable on Climate Change and Sustainable Transition (ERCST), 2025.

⁷⁰ European Environment Agency (EEA). "Use of Auctioning Revenues Generated under the EU Emissions Trading System," European Environment Agency, 2025.

⁷¹ Gagnebin, M. "Why early action by five countries is key to ETS 2 success", Agora Energiewende, 2025.

in the short term, the less demand there will be for emission allowances to meet the supply of allowances, which remains fixed in advance via the emissions cap, resulting in a lower carbon price.

In conclusion, the exact amount of the loan will depend on the political agreement of the Member States, which now have the upper hand on this issue. For example, it is possible that at the end of the 2028-2034 period, the target price could be €150t/CO₂ for ETS1 and €100t/CO₂ for ETS2. This would then require the corridor to be adjusted accordingly, with, again by way of illustration, a floor price on ETS1 of €110t/CO₂ and a ceiling price of €180t/CO₂ and a floor on ETS2 of €70t/CO₂ and a ceiling of €125t/CO₂. Such a target would generate revenues of more than €100 billion for Member States for 2034 solely. **To achieve this, the initial floors and ceilings could either be high at the outset (particularly for ETS1, where the price is already relatively high) or deliberately low (for ETS2, to facilitate its implementation) and increase gradually (in percentage terms, with an adjustment for inflation) for ETS1⁷² and more sharply for ETS2 as the *frontloaded* investments take effect. By following such a target trajectory for the period in question, it would be possible, according to our calculations, to raise around €200 billion.** It should be noted, however, that following this trajectory would require the establishment of a regulatory authority responsible for adjusting supply (issuing or withdrawing allowances) with the mission of promoting market stability and limiting speculative effects.

Finally, by definition, the establishment of such price corridors requires **the directive to be reopened**. As things stand, we consider this outcome to be inevitable. **By adopting an amendment postponing the entry into force of ETS2, the Member States have openly signaled to the European Commission that, in their view, the proposals on the table are insufficient.** Despite the fact that the proposed changes to the market stability reserve, the advance auctioning of allowances, and the *frontloading facility* are in line with the Member States' requests, the latter do not perceive them as a definitive response to the dual challenges of certainty and perceived inadequacy described above. Furthermore, we also anticipate that the reopening of the ETS Directive in the third quarter of 2026 will see the European Parliament go beyond the initially planned scope of the revision in order to amend ETS2. In this regard, the tabling of an [amendment](#) signed by 49 EPP MEPs to postpone the entry into force of the mechanism by three years, as well as the attempt to request a secret ballot to allow MEPs to not follow the EPP group's voting instructions, illustrate the divisive potential of such a topic. **The ETS2 could therefore see the national interests of MEPs take precedence over group voting discipline, particularly within the EPP.** By postponing the launch of the new carbon market until 2028, the Member States and then the European Parliament have gained time while sending a message. This time must be used to make significant changes to the tool and its accompanying parametric mechanisms. **Otherwise, there is a risk that the date of entry into force of ETS2 will once again be subject to negotiations, this time in the context of discussions on the future European budget.** However, in the absence of an existing legal framework allowing for a postponement beyond 2028, this would likely spell the end of the ETS2 system. Finally, from a legal point of view, the introduction of a price corridor could risk equating the carbon price with a para-tax (a mechanism similar to a tax without being called one). However, while the adoption of the carbon market must be achieved by a qualified majority, a tax must be adopted unanimously by the Council. As this is a subject of legal controversy⁷³,

⁷² Kumar, P., Vangenechten, D., Pellerin-Carlin, T., Nguyen, P.-V., Besnainou, J. "Can a minimum price on carbon accelerate the adoption of clean technologies?", Jacques Delors Institute, 2025.

⁷³ Fischer, C., Reins, L., Burtraw, D., Langlet, D., Löfgren, A., Mehling, M., Weishaar, S., Zetterberg, L., van Asselt, H., & Kulovesi, K. (2020). *The legal and economic case for an auction reserve price in the EU emissions trading system*. *Columbia Journal of European Law*, 26(2), 1-35.

we recommend that an agreement on ETS2 be reached unanimously within the framework of the timetable established for the MFF discussions, i.e., by May 2027. This would take place in two stages, with a preliminary agreement by mid-2026 on the proposed amendments presented by the Commission (stability reserve, advanced auctions, and *frontloading*) and the initial price levels for the corridors, allowing for entry into force in 2028. This would, in particular, reassure stakeholders about the future implementation of the instrument while allowing for more immediate investment in decarbonisation measures, which would *ultimately* reduce pressure on prices. Then, in a second stage, the agreement on corridor price levels, their respective timeframes, the governance framework and the rules governing cases requiring intervention would be negotiated.

I MAINTAIN THE SOCIAL CLIMATE FUND ALLOCATION IF NECESSARY THROUGH FRONTLOADING OF CARBON REVENUES

With regard to social climate plans, recital 28 of the SCF Regulation stipulates that Member States, “*for the purposes of more effective planning, indicate in their plans the consequences of the postponement of the emissions trading system [...] by separating them into two scenarios, namely by describing and quantifying the adjustments that need to be made to the measures, investments, intermediate values, target values, the amount of the national contribution, and any other relevant element of the plan.*” This means that the plans as submitted to the Commission remain operational, with no changes required due to the presence of a scenario incorporating the assumption of a postponement of the ETS2. In doing so, **we recommend, as a minimum, maintaining the 2026 timetable for the implementation of the social climate plans**, while calling on the European Commission to clarify the maximum amount available for the implementation of the Social Climate Fund, justifying, where necessary, the legal basis. **If the amount of the Social Climate Fund were to be confirmed at €54.6 billion, we recommend that part of the money from the frontloading of carbon revenues be earmarked to compensate for the 16% reduction in the Fund, corresponding to nearly €11 billion, following the one-year postponement of the ETS2.** This earmarking could be formally agreed as part of the negotiations on the *frontloading facility* proposed by the European Commission with the trilogue that will soon take place. It would be justified by the fact that the purpose of *frontloading* carbon revenues is to enable the immediate financing of costly decarbonisation measures, such as schemes to facilitate access to electric vehicles or the installation of heat pumps. While the reduction in the Fund’s allocation for 2026 and 2027 hinders the effective capacity of Member States to finance decarbonisation measures through investment support, the side effect would be to see the price for 2028 increase if emissions for 2027 have not fallen sufficiently due to a lack of sufficient upstream investment. Since states have already outlined how they will use a budget of €65 billion, it would therefore be appropriate to allow them to use this money **exclusively to finance decarbonisation measures through investment support**. This additional funding for the period 2026-2027 should be reserved solely for this type of action and not be used for cost compensation mechanisms for citizens, since the ETS2 will not yet have come into force. This would also capitalise on the good progress made in submitting social climate plans, since by early October, two states (Sweden and Latvia) had officially submitted their plans and more than half of the states had shared a draft⁷⁴ with the Commission, while encouraging lagging states to speed up the process.

⁷⁴ European Commission, Directorate-General for Employment, Social Affairs and Inclusion. “[Commission Provides New Guidance to Member States on Implementing Social Climate Fund,](#)” 9 October 2025.

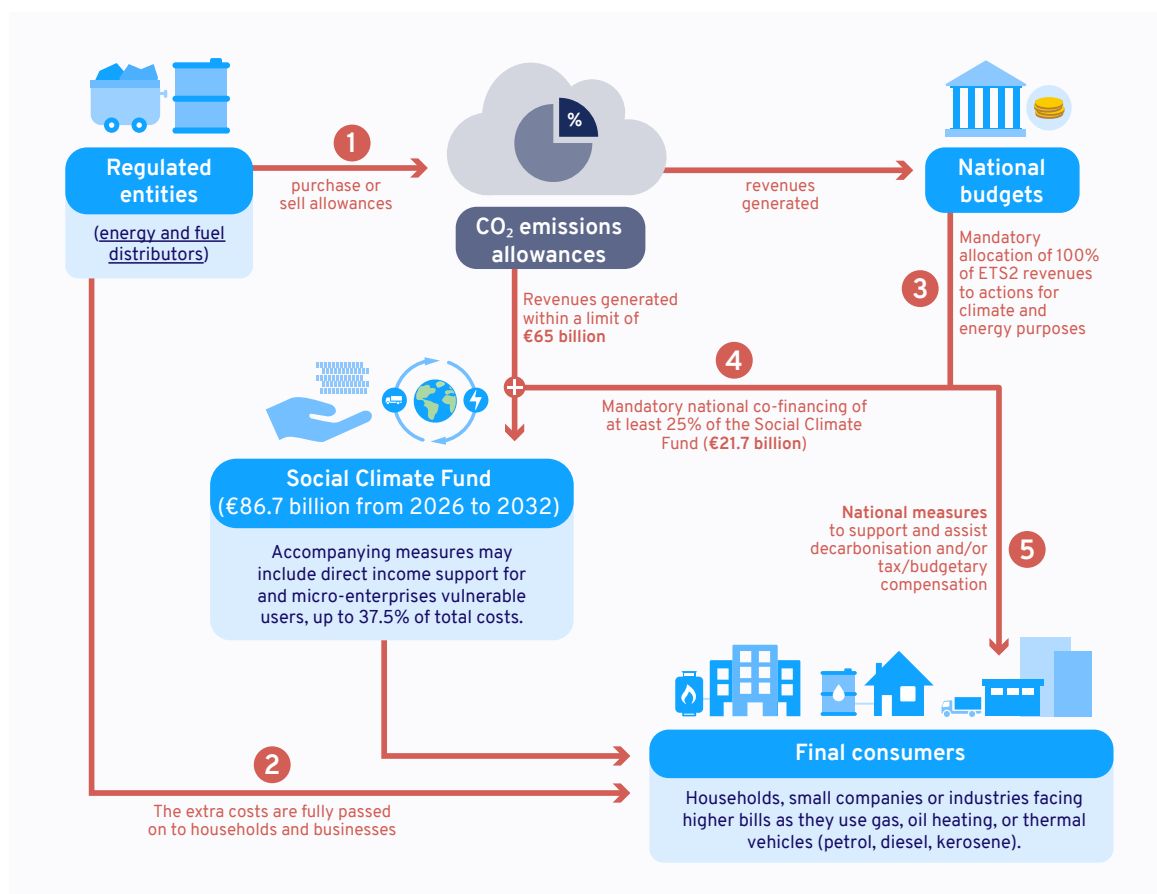
I INCLUDE THE SOCIAL CLIMATE FUND IN THE NATIONAL AND REGIONAL PARTNERSHIP PLANS (NRPPS)

As part of the discussions on the MFF, the question arises as to whether, from 2028 onwards, the social climate plans will be integrated into a dedicated national chapter in the National and Regional Partnership Plans. These NRPPs, which follow the logic of recovery plans, aim to list milestones and targets corresponding to intermediate and final objectives that must be met in order to receive European payments. In order to encourage and accelerate the transposition of the ETS Directive within Member States, **we recommend the integration of social climate plans into the NRPPs and the establishment of the requirement for full transposition of the Directive as an intermediate objective.** In doing so, failure to transpose the directive or partial transposition with the aim of delaying implementation would result in the blocking of European payments. The European Council meeting on December 18 and 19 should be an opportunity to formalise this, as the negotiation document circulated by the Danish Presidency plans to address this issue.

• Preamble

In order to provide readers with a common understanding of how ETS2 works and the main tools associated with it, this two-page preamble summarises and defines all the concepts and mechanisms used in this *policy paper*. This summary is taken directly from the infographic “ETS2 – Fuel for the yellow vests or engine of the green transition?” available online on the Jacques Delors Institute website.

I HOW ETS2 WORKS



ETS2 STEERING AND SUPPORT INSTRUMENTS

POSTPONING

would lead to a price increase



A deferral, to be decided no later than 15 July 2026, in the event of exceptional prices for gas or Brent crude oil during the six calendar months prior to 30 June 2026.



Gas price must be: **> 100€/MWh**

while being at 30€/MWh currently



Brent price **160\$/baril**

while being at 65\$ currently

Such a postponement would effectively reduce the Social Climate Fund's budget and could increase pressure on the carbon price.

MARKET STABILITY RESERVE

would lead to a price decrease



The Market Stability Reserve (**MSR**) is an instrument that regulates the market by absorbing surpluses or releasing quotas in order to maintain price stability.

The MSR is supposed to come live in 2028 but changes have been proposed by 19 Member States :



Starting 2027

the launch of the MSR could be revised and moved forward by a year



2031

Not end in 2031 : the MSR is expected to expire in 2031 but the end date could be extended

To address the Member States' concerns, the European Commission has proposed : Earlier and more gradual injections of allowances from the MSR in case of lower market liquidity

FRONTLOADING

would lead to a price decrease



An early auction of the allowances

30% additional quotas (known as 'frontloading')

1 jan. 2027

may 2028



Operating by taking a portion of the auction volume from the 2029-2031 period.



This frontloading will make the market more liquid and keep prices low due to excess supply.



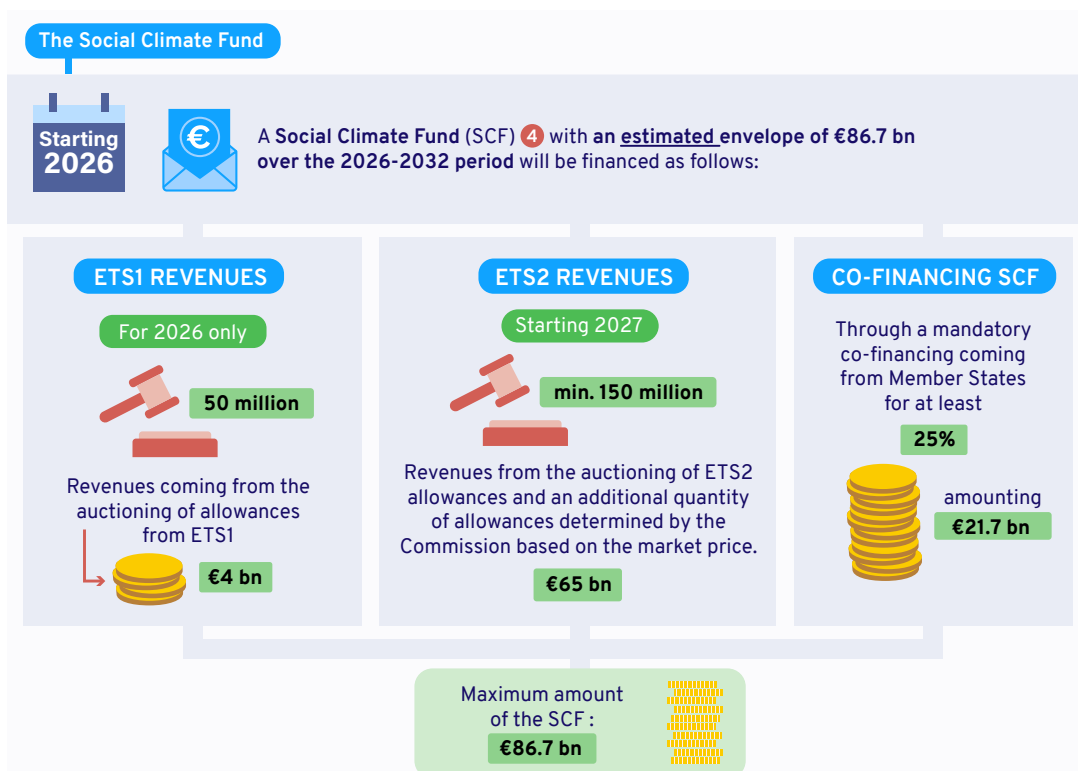
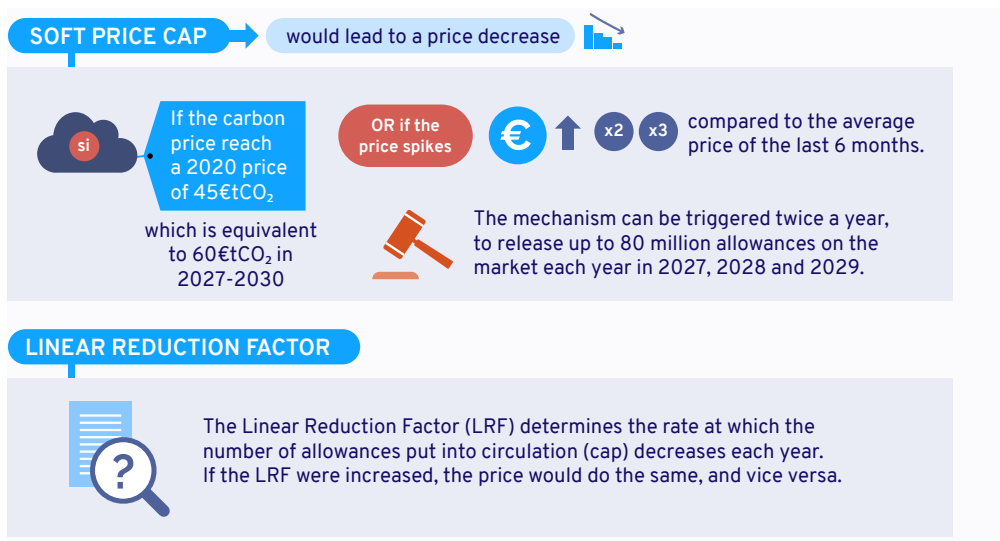
Starting 2029

If emissions from the sectors concerned have not fallen as expected, a significant increase can be expected due to the scarcity of allowances.



This frontloading of allowances should not be confused with the frontloading of carbon revenues as recently proposed by the European Commission through the Frontloading Facility. The frontloading of future carbon revenues consists in granting Member States, in advance and via the European Investment Bank, an amount corresponding to expected future carbon revenues in order to pre-finance decarbonization programs starting now.





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