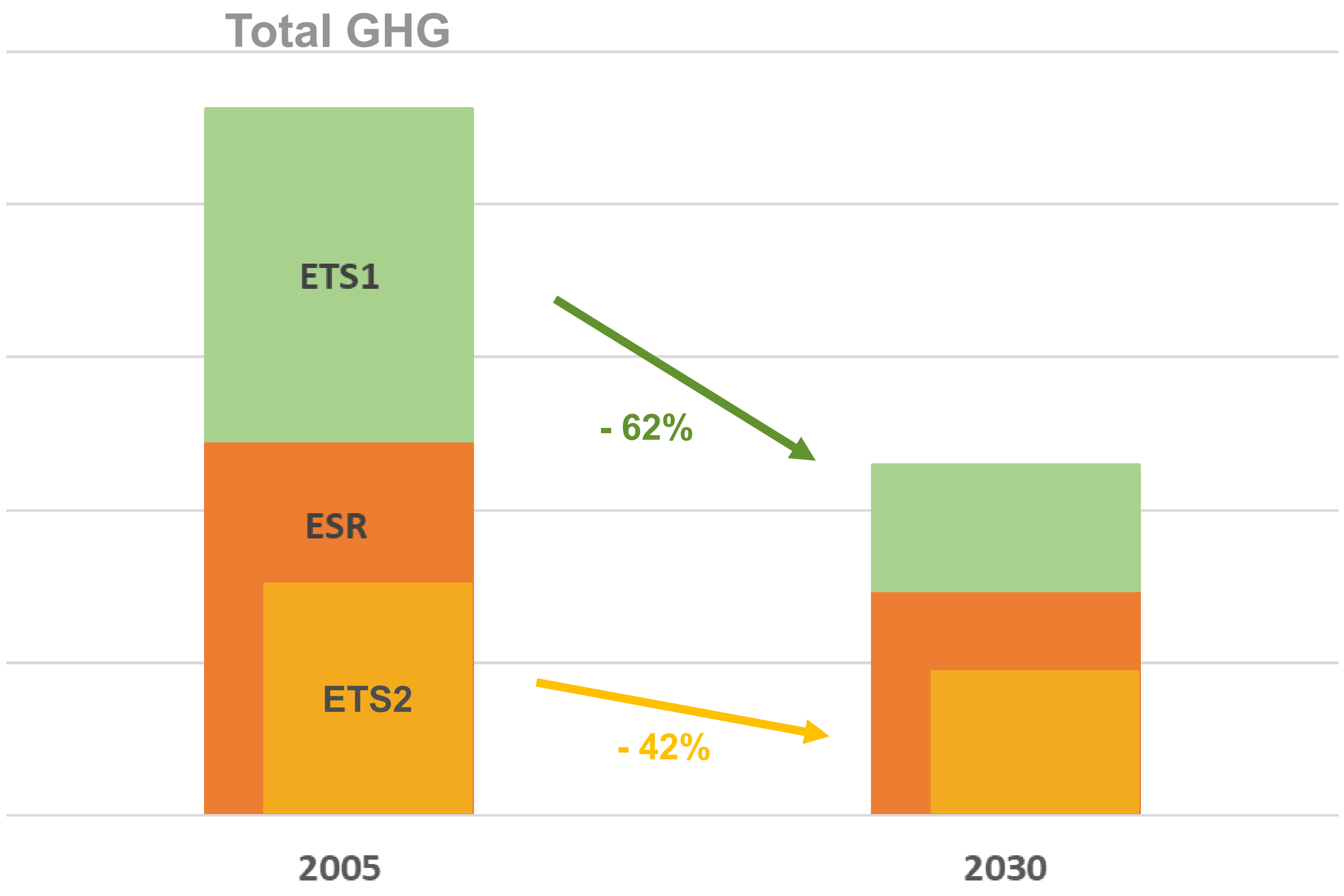
Emissions Trading for road transport, buildings and additional sectors (ETS2)

DG CLIMA

Objectives of ETS2

- Challenge to reduce emissions for buildings and road transport: **emissions in both sectors do not decrease fast enough** and even increased between 2014 and 2019
- ETS2 will **complement other policies** in the sectors covered by providing an economic incentive to achieve the expected emission reductions
- Ensures a **level playing field** within sectors (heating, road transport and industry) and across fuels as carbon price will apply now to most sectors
- Gives longer term **investment security** to clean solutions as ETS2 will set a longstanding carbon price.
- **Efficient use of ETS2 auction revenue** will help channel the investments needed for a quicker and fairer diffusion of decarbonization technologies and will help address the social and distributional concerns

ETS2 and FF55



European Commission

Architecture of ETS2

- **Separate system** from existing ETS but builds on ETS architecture (e.g. monitoring, reporting and verification rules)
- **Upstream system** regulating fuel suppliers. The obligation to surrender allowances falls on fuel suppliers, not end consumers
- **Sectoral scope** includes road transport, buildings and fuel combustion by industry sectors not covered by the existing ETS
- All allowances to be **auctioned**
- **Cap setting:**

  - **2027 cap** (1 036 Mt) based on GHG inventory data;
  - **2028 cap** to be re-based on 2024-2026 (verified) emissions

European Commission

A smooth start for ETS2

- "**Emergency brake**": Possible delay of start of the new system by one year in case of exceptionally high gas or oil prices
- **Front-loading**: in 2027, 130% of first year cap is auctioned. This is to ensure a smooth start with sufficient market liquidity
- **Market Stability Reserve:** rule-based mechanism adapting the supply of allowances, volume-based thresholds for intervention
- **Measures in the event of excessive price increase:** allowances released from the MSR if triggered, with low intervention levels in first two years and absolute price trigger in the first three years

Timing ETS2

Monitoring of the emissions by the fuel suppliers starts in **2025**

Reporting: by end **April 2025** report emissions for 2024

Verification: by end **April 2026**, report verified emissions for 2025

Auctioning: from **2027** ETS2 becomes fully operational with the start of the surrendering obligation and auctioning

Surrendering: by end **May 2028**, surrender allowances equal to the emissions for the previous year

European Commission

ETS2 implementing framework ready for 2025 MRV start

MRV

Monitoring and Reporting Reg. (Oct 2023)

MRR Guidelines **(Feb 2024)**

Accreditation and Verification Reg. (May 24)

AVR Guidelines **(Spring 2025)**

Registry Regulation (Oct 2023)

RR 2d batch **(2025)**

Auctioning Regulation (Oct 2023)

Scope

ETS2 2027 CAP Decision **(Dec 2024)**

Opt-in AT (1Mt, Oct 24)

Opt-in NL (5.9Mt, Oct 24)

Opt-in SE (1.7Mt, Nov 24)

Opt-in FI (1Mt, Apr 25)

Use of ETS2 revenues

- **Impact** of carbon price more **visible for households** on fuels than on electricity
- Most ETS2 revenues go to Member States, which must be spent on selected climate, energy and social purposes:
  - (i) Co-finance **Social Climate Fund** (SCF) or
  - (ii) Finance measures with climate and social purposes
- Purpose of SCF: to address the social impacts arising from the new emission trading system on vulnerable groups in the EU, especially those affected by energy or transport poverty
- The SCF, which is **financed mainly from revenues from the new ETS**, starts **one year before the new ETS (2026 – 2032)**.
  - **Size: EUR 65 billion**
  - SCF will mobilise at least EUR 86.7 billion with the national contributions of minimum of 25% from the estimated total cost of their Plans

Questions to participants

- What is the level of awareness in Slovakia about the forthcoming implementation of the ETS2?
- What are the main challenges and opportunities of the transition from fossil fuel use in the ETS2 sectors in Slovakia?
- What complementing climate measures could be introduced to support the decarbonisation of the building and road transport sectors and alleviate the social effects of ETS2 in Slovakia?