POSITION PAPER

CAN Europe views on ETS2 (August 2025)

EXECUTIVE SUMMARY

CAN Europe stresses the urgent need for immediate and bold action to avert a climate catastrophe, in which the most vulnerable people will suffer first and most, existing inequalities will increase, and a more significant burden will be placed on future generations, in Europe and worldwide. Bold climate action is necessary to avoid high socio-economic costs whilst generating co-benefits for people. A socially just transition that includes all segments of society is necessary for the EU's transition to net zero greenhouse gas emissions by 2050 to succeed and to secure public trust and support.

The **Emissions Trading System 2 (ETS2)** is a new EU carbon market designed to cut emissions across road transport, buildings, and small industries[1]. It is set to launch in 2027 and will operate separately from the existing EU Emissions Trading System (ETS I) which primarily covers the power sector and energy-intensive industries. The ETS2 was introduced as one of the core elements under the EU Green Deal due to insufficient progress in the decarbonisation of buildings and road transport sectors, noting that transport emissions had increased since 1990 and building emissions have not fallen fast enough. The ETS2 will gradually lower the number of pollution permits for sale over time. This will encourage, incentivise and support consumers to make sustainable technology choices and decarbonise buildings and road transport. The ETS2 targets set ensure that a reduction of emissions by 43 per cent compared to 2005 levels by 2030.

Revenues from The ETS2 will generate significant funds that - if used responsibly and transparently - can help finance a fair and equitable transition towards a resource-efficient renewables-based society and economy. With negotiations on the new EU Multiannual Financial Framework underway, all ETS2 revenues must be dedicated to climate action and social fairness, not diverted elsewhere. However, adequate measures are **needed to ensure environmental effectiveness and to proactively address social impacts from the outset.**

With these objectives in mind, CAN Europe presents the following main recommendations:

1. **Operationalise ETS2 without delay,** in a way which maximises its effectiveness to drive change while containing and addressing the challenges from potentially higher carbon prices with focus on the needs of the most vulnerable households.

2. **Strengthen the implementation of the Social Climate Fund (SCF)** through effective, participatory and just Social Climate Plan design and closely monitored implementation with the consistent, robust application of the 'Do No Significant Harm' (DNSH) principle.

[1] More information: https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/ets2-buildings-road-transport-and-additional-sectors_en

3. **Introduce complementary measures:**
    a. Provide complementary investments and measures focusing on vulnerable households beyond the SCF, financed by Member States from their ETS revenues and other EU Funds, and in addition to available funding for climate action;
    b. Integration of ETS2 in a comprehensive and coherent policy mix reducing emissions from transport and energy, while harnessing multiple socio-economic benefits;
    c. Take structural action with measures to address the inequality root causes of energy and transportation poverty;
    d. Implement fair redistribution measures, including by reforming national tax systems, introducing levies on high-emission sectors and wealth concentration, and phasing out environmentally harmful subsidies and taxes that slow down the shift from fossil fuel based transport and heating to electrified and renewables-based alternatives.

If these steps are taken, ETS2 and the SCF will be essential tools to achieve the EU's climate targets while addressing social equity. Delaying ETS2 would not lead to better investment outcomes but would instead hinder the momentum needed to transform Europe's energy and transport landscape. Prompt, inclusive, and well-structured implementation is both possible and necessary.

CAN EUROPE DEMANDS IN DETAIL

1. Operationalise ETS without delay, in a way which maximises its effectiveness to drive change

The ETS2 will generate significant funds that can and should be used to support people –and micro-enterprises in limited cases – in their transition towards a resource-efficient renewables-based economy. This presents a **historic opportunity to drive deep, structural decarbonisation** in two sectors that have long underperformed in emission reductions. **Delaying its full operationalisation, as proposed by some Member States and stakeholders, would be harmful to the EU's emission reduction efforts** and undermine the functioning of a carefully crafted policy approach designed to help people facing high energy prices from fossil fuels and poor access to transport. Governments should proactively address concerns in relation to its expected social impacts (see following sections for details), ensuring clear and transparent communication, careful planning and adequate support to ensure a smooth launch.

CAN Europe recalls that any delay in implementing ETS2 will **result in a loss of revenues** -- and therefore funds – for a fair and fast transition that can be used by the Member States and the SCF directly. It is therefore highly concerning to see that twelve Member States have not yet transposed ETS2 into national law, which would also prevent them from receiving SCF funding.[2] Even a one-year[3] delay in starting the ETS2, would reduce SCF revenues from EUR 65 billion to EUR 54.7 billion, thereby weakening the fund's ability to tackle energy and transport poverty.

Furthermore, **amending – or potentially weakening – the existing mechanism to stabilise ETS carbon prices early on would be counterproductive**. The "market stability reserve" includes a mechanism to partially contain and respond to rapid price increases during the first three years of the ETS2 being operational (2027–2030), helping to mitigate socio-economic impacts on people. It will release more carbon allowances if the price of allowances exceeds €45 (in 2020 prices, i.e. adjusted for inflation) or increase too rapidly.[4]

[2] Bulgaria, the Czech Republic, Estonia, Spain, France, Croatia, Hungary, Luxembourg, Latvia, Poland, Portugal and Romania. The five that partially implemented the law are Belgium, Cyprus, Finland, Slovenia and Slovakia, according to the Environmental Implementation Review from June 2025. 2025 Environmental Implementation Review - European Commission

[3] The ETS directive allows for a possible one-year delay until 2028 only under the condition of extremely high gas and oil prices—conditions that currently appear unlikely to be met.

[4] The rules and conditions for such a release are specified in the ETS Directive.

To maintain ETS2's effectiveness as a decarbonisation tool, the EU must **refrain from adding extra allowances in the ETS system** while implementing further EU-wide emission reduction policies to reduce prices. Currently, the amount of emission allowances issued in the market each year is capped and this system should remain unchanged. The ETS2 cap is designed to cut emissions down by 43 per cent from 2005 levels and by 2030.

In late June, a group of fifteen Member States expressed concerns about price levels and uncertainty in a letter to the European Commission. This also included the suggestions that the Commission begins regularly publishing statistics on ETS2 areas to help market participants shape price expectations; launch earlier unit price auctions to reduce price uncertainty; adjust the market stability reserve to better mitigate large price spikes; extend the market stability reserve beyond 2031 as currently proposed; and strengthen price governance mechanisms. While some of the initial points may be reasonable to explore, **CAN Europe cannot support any proposal that adds further allowances or expands the cap.** This would result in higher emissions which we cannot afford given the climate emergency and insufficiency of the EU's targets. It is advisable to let the ETS2 market function initially and wait for the scheduled review of the price control mechanism in 2029, alongside the boost of complementary measures and the use of ETS2 revenues to reduce fossil fuel use.

Rather than altering the price control mechanism, it is essential to implement strong safeguards in particular for vulnerable households to cushion most of the short- and medium-term adverse impacts (see section on the Social Climate Fund), including direct payments to households and citizens, especially the more vulnerable ones. Although little time remains until 2027 to implement investments at a scale sufficient to cushion adverse impacts, these investments must be prioritised in view of the necessity to drive down emissions as quickly as possible (see section on complementary measures).

2. Strengthen the implementation of the Social Climate Fund (SCF)

Member States must fully leverage the Social Climate Fund (SCF) to support in particular vulnerable households (and micro-enterprises) in managing the price impacts of ETS2. This requires submitting high-quality drafts of the Social Climate Plans (SCPs) by Member States without delay, as only one country abided by the 30 June 2025 deadline. The Plans must be based on comprehensive and meaningful public participation, aligned with other planning tools such as National Energy and Climate Plans (NECPs) and National Building Renovation Plans (NBRPs), and **focused on delivering lasting, structural solutions**. Importantly, all fossil fuel investments – including hybrid or low emission vehicles and boilers – must be excluded to avoid locking in harmful pathways.

Properly designed and implemented, SCPs can direct part of the SCF resources toward upfront investments that reduce energy and transport poverty and enhance climate resilience. Up to 37.5 per cent of the fund could be allocated to direct payment support to the most vulnerable. In the longer term, these investments should also enable vulnerable communities to improve home energy efficiency, adopt energy-efficient technologies, and access renewable energy and sustainable transport — reducing their fossil fuel dependence over time. Temporary direct payments or climate dividends to citizens can complement these measures, particularly where vulnerable households cannot easily respond to the carbon price signal. In a future revision of the Social Climate Fund, reforming the current cap, which currently limits the EU contribution to the SCF to €65 billion for the period from 2026 to 2032, should be considered. This would allow support to reach other affected population groups and fund further sustainability investments.

In the meantime, Member States can and must allocate additional ETS2 revenues beyond the SCF (see section 3.1) to help vulnerable households. They can increase the co-financing rate of their Social Climate Plans beyond the mandatory 25 per cent and through spending of the ETS2 revenue that is allocated for national climate spending.

The Social Climate Fund must be underpinned by strong environmental and social safeguards. CAN Europe calls for a consistent and robust application of the **'Do No Significant Harm' (DNSH) principle** across all EU funding.

This includes[5]:

- A clear, cross-cutting exclusion list of climate-harmful activities across EU funds;
- Alignment of eligible SCF investments with the EU Taxonomy's DNSH criteria for "substantial contribution" sectors[6];
- For energy, buildings, mobility and transport investments where "substantial contribution" and DNSH criteria have already been flagged as not science-based by civil society organisations, the Commission should instead use the Independent Science-Based Taxonomy criteria.

The 30 June 2025 **SCP submission deadline** was a critical milestone. All Member States except Sweden missed it, putting the funds to be available from the SCF in limbo. Overall, progress in many Member States appears slow, particularly in terms of public consultation – confirmed also by a recent study on eight Central and Eastern European countries.

Together with other civil society organisations, CAN Europe urges Member States to[7]:

- Ensure early, meaningful and inclusive public participation and engagement, as also required by the European Commission guidelines;
- Prioritise structural, empowering solutions over short-term fixes, explicitly avoiding fossil fuel lock-ins;
- Collaborate with intermediaries—such as housing cooperatives, anti-poverty networks, and energy community federations—to co-design impactful, structural measures;
- Mobilise financing beyond the mandatory 25 per cent national co-financing requirement.
- Ensure complementarity between SCPs and other planning tools.

A well-resourced, socially just and environmentally sound Social Climate Fund is essential to ensure the energy transition benefits all Europeans—not only those who can afford it.[8] Concrete proposals have also been made, and received significant civil society support, to frontload SCF resources so as to have more resources available to invest in CO_2-saving measures ahead of the full application of ETS to further reduce the cost occurring from that.

3. Introduce complementary measures

Four types of complementary measures are essential for the successful rollout of ETS2, ensuring emissions are reduced while addressing social impacts.

3.1 Complementary funds beyond the SCF

Only a small share of ETS2 revenues will be channeled into the SCF. At €45 per tonne, this represents 25 per cent of total ETS2 revenues, with the relative proportion decreasing as prices rise. The fund alone will

[5] For further details, please see here: https://caneurope.org/dnsh-technical-guidance-for-the-social-climate-fund/

[6] "Substantial contribution" sectors under the EU Taxonomy are those economic activities—primarily in energy, manufacturing, transport, and buildings—that meet strict environmental criteria to support the EU's climate and sustainability goals, while not harming other objectives and respecting social safeguards. See https://finance.ec.europa.eu/system/files/2021-04/sustainable-finance-taxonomy-faq_en.pdf

[7] For further details, please see here: https://caneurope.org/content/uploads/2024/09/EU-Social-Climate-Fund-briefing.pdf

[8] The civil society Social Climate Fund Tracker, a collaborative effort of over 35 EU and national organisations which analyses and rates the NSCPs, provides more background.

not be sufficient to enable the ETS2 to support a just transition towards the much-needed decarbonisation in the buildings and transport sectors. Renovation needs of low-income households in ten Eastern and Southern European member states alone are at € 140 billion (IEECP, 2022, Socially Just EU-Renovation Wave).

Beyond the Social Climate Fund, all **ETS2 revenue** is returned to Member States. At a price of €45 a tonne, Member States will receive an estimated €178 billion from 2027-2032[9]. As a result of the latest ETS revision, 100 per cent of this revenue must be spent by Member States on climate action and [direct payments]() such as climate dividends and other measures to offset the social impact of increased ETS prices. As with SCPs, good governance requires governments to transparently and openly involve civil society and other stakeholders in co-designing the approach on how ETS2 funding will be used. Member states must report annually on how the ETS revenue is spent. CAN Europe urges Member States to use the revenues to improve the affordability of emission reduction in buildings and transport, and to support vulnerable households. CAN Europe also calls on the European Commission to closely scrutinise these reports and use all legal means to ensure that ETS2 revenues is only spent in a way that delivers additional climate and social benefits[10].

Crucially, ETS revenues should be additional to available climate action funding and must not replace current funding streams. This is why resources from national budgets and other EU funds such as the Cohesion Policy Funds must be mobilised for the transition. Additional and/or increased resources – including from [the next EU budget]()– should be made available, with reinforced environmental and social safeguards.

3.2 Integration of ETS2 in a comprehensive and coherent policy mix

The ETS2 applies the **polluter pays principle**, making polluting technologies more expensive to create the market conditions that steer investments towards sustainable technologies. However, **a successful decarbonisation will require more than market mechanisms** and ETS2 cannot succeed in isolation. It must be implemented as **part of a comprehensive, coherent policy mix,** designed under the FitFor55 package and, over the longer term, the post-2030 climate and energy policy framework. The framework must guarantee that the EU meets – and preferably exceeds – its targets to reduce greenhouse gas emissions by at least 55 per cent by 2030 and climate neutrality by 2050.[11] Given the scale of past inaction in the buildings and transport sectors, neither the ETS2 alone, nor other policies without it, will deliver the rapid emission reductions required.

In the buildings and transport sector, the FitFor55 package includes the Effort Sharing Regulation (ESR), the Energy Efficiency Directive (EED), the Energy Performance of Buildings Directive (EPBD), the Renewable Energy Directive (RED), CO_2 emission performance standards for new passenger cars and vans, which bans the sales of new CO_2-emitting cars as of 2035. **Weakening or delaying any of these policies would not only jeopardise climate objectives, but also undermine investment certainty and destabilise the regulatory framework needed for long-term competitiveness.**

Ambitious implementation of FitFor55 policies will have a big positive impact and will lower future ETS2 prices. The more emissions decrease in buildings and the transport sector, the fewer allowances are needed, leading to a lower ETS2 price. Beyond limiting costs for the entire population, structural measures bring other countless socio-economic benefits: job creation, better public health from better air

[9] https://www.umweltbundesamt.de/sites/default/files/medien/11850/publikationen/09_2024_cc_ets_2_supply_and_demand.pdf pg 34
[10] https://www.wwf.eu/?8275441/ETS-revenues-report-2022
[11] CAN Europe asks for at least 65% gross emission reductions by 2030 and net zero by 2040, for more details on the targets see here: 2024.09.24 Updated-Position-Paper-on-EU-climate-targets-and-equitable-GHG-budget.docx

quality, and saved fossil fuel import costs. CAN Europe's report [Paris Pact Payoff] concludes that the EU could generate over one trillion euros in such benefits by 2030 if investing in a more ambitious transition pathway.

Moreover, governments and EU institutions must lead in proactively preparing for ETS2 implementation, engaging with relevant stakeholders, and social partners to inform and involve them in the communication and dissemination efforts. This involves clear and **transparent communication** about the policy's timeline, expected benefits, and support measures. Such outreach is essential for public readiness and to **counter disinformation** that seeks to undermine climate action.

3.3 Structural measures to combat energy and transport poverty

Energy and transport poverty are already widespread across the EU. Without deliberate safeguards, ETS2 risks exacerbating this problem. Yet, the solution is not to avoid carbon pricing but to end the lock-in of households and enterprises to fossil fuels. Vulnerable groups often live in the worst-performing buildings and have limited access to clean, affordable transport, increasing their exposure to volatile, expensive fossil fuels. These structural inequalities – not carbon pricing – are the root causes of energy and transport poverty.

Member States have multiple instruments to address these issues, many of which are envisaged in the National Energy and Climate Plans (NECPs) and the upcoming National Building Renovation Plans (NBRPs). Also, ETS1 revenues can, in principle, be used to also support socially just measures. These tools must be leveraged and scaled up to accelerate energy-efficient renovations, promote sustainable mobility, and deliver structural changes that reduce energy poverty. Climate dividend schemes can play a role.

Key measures include:

- **For transport:** scale up affordable, accessible public transport, particularly in rural and suburban areas; introduce speed limits and urban planning reforms to reduce car dependency; end tax breaks for company cars and mandate greener corporate fleets; provide leasing and purchase support schemes for electric vehicles for lower-income households including scrappage of fossil-fuelled cars.
- **For buildings:** expand social housing programmes; increase financial and technical assistance for highly effective energy renovations with simplified access; decarbonise heating and cooling systems by replacing fossil-fuel based equipment and shifting to highly efficient, renewable-energy-based technologies.

Low-income households need tailored support to manage the transition. While higher-income groups can absorb short-term costs and invest in new technologies, vulnerable households must be protected through well-targeted programmes that combine direct aid with access to clean alternatives.

3.4 Proactive redistribution measures

The success of ETS2 also depends on the fairness of national fiscal policies. Many EU countries have regressive tax systems that do not distribute the burden fairly, exacerbating social tensions and weakening public support for climate policies and measures. Flat carbon pricing mechanisms such as the ETS2 are more difficult to implement when pre-existing inequalities are high.

To make the energy transition more socially just, Member States must address negative distribution impacts aligning their fiscal systems with redistributive objectives.

Measures could include:

- Reforming national tax systems to make them more progressive, remove fossil fuel subsidies, and ending preferential treatment for capital over labour.
- Introducing new taxes on high-emission sectors and wealth concentrations, for example: Progressive aviation taxes;
- A tax on fossil fuel industry profits;
- A minimum tax rate on the super-rich.

These proposals should also form part of the wider debate on EU own resources, supporting stronger climate finance and greater social cohesion.

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