



Briefing

The countdown to ETS2: projections vs reality. Where do we currently stand?

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Background

The EU's new Emissions Trading System for buildings and road transport (ETS2) and its accompanying funding instrument, the Social Climate Fund (SCF), are facing growing political challenges and alarm bells as the start date approaches. The current debates are centered around the timing, price controls, and equitable fund distribution aspects. What are the key arguments and most recent projections? Who are the main political opponents? What are the biggest social and political risks? And after all, is the reality as concerning as it looks at first glance? This briefing addresses these aspects.

The European Union's Emissions Trading System (ETS), known as ETS I, is a crucial component of the EU's climate strategy. It is widely regarded as a success in reducing greenhouse gas emissions in heavy industries, such as power generation, manufacturing, and aviation, covering around 40% of the EU's total emissions. Despite these achievements, emissions from the housing and mobility sectors have remained persistently high, as these areas (buildings and road transport) were not included in the original ETS I. To address this gap, the EU has decided to introduce a second, separate emissions trading system (ETS2) starting in 2027, specifically targeting emissions from fuel distribution for buildings and road transport.

How will this work in practice?

The EU ETS2, launching in 2027, will impose a carbon price on emissions from the transport and building sectors, requiring fuel suppliers to purchase allowances for CO2 emissions, which will increase costs for consumers. To mitigate the social impact, particularly on low-income households, the EU established the Social Climate Fund (SCF), which aims to mobilise at least €86.7 billion from 2026 to 2032, primarily by pooling revenues from the auctioning of ETS2

allowances and mandatory national co-financing (at least 25% of the total estimated costs must be covered by national contributions). However, several researchers, NGOs and other stakeholders argue that the fund is too small to effectively support the poorest European households, especially given the scale of energy poverty and the investment needed for deep building renovations and green mobility. Besides the SCF, there is another “safety net” foreseen for the ETS2 carbon market, namely the Market Stability Reserve (MSR). It automatically adds or takes away carbon allowances to help maintain price stability and prevent large price fluctuations. In theory, this ensures that the system operates smoothly. In practice, there could be some potential drawbacks related, for example, to the establishment of thresholds (such as the number of allowances in circulation) to trigger the addition or removal of allowances. For example, small changes around these thresholds can cause large, sudden adjustments in the market, leading to price uncertainty and potential volatility rather than stability.

This change is significant as it targets smaller economic actors, such as small businesses, transport services, and ultimately individual households, rather than large industrial players. Despite the sound reasoning behind this decision, the establishment of ETS2 also introduces **political sensitivity and significant challenges concerning implementation**.

Specifically, the setup of ETS2 underscores the risk of exacerbating social inequalities, as poorer households may face higher costs if adequate support mechanisms are not put in place. Adding to this, public support for climate policies is already waning in recent years due to perceived unfairness. Recent studies, including the FES Competence Centre for Climate and Social Justice [Milieu study](#), indicate that there is a widespread perception among the public that poorer households are disproportionately affected by climate policies, as the low-income families typically spend a higher share of their income on essentials like energy, heating, and transport. As a result, measures such as carbon pricing can have a more significant financial impact on these groups compared to wealthier households. This could erode further if ETS2 is seen as placing an undue financial strain on vulnerable groups. As a result, this discontent could be politically amplified by populist movements, which may capitalise on these real economic risks that can directly affect those least equipped to bear its costs, and even expand it further as the large part of the respondents in the above-mentioned Milieu study clearly fear higher costs.

Growing political pressure and alarm bells

As the EU prepares to launch the new ETS2 in 2027, political pressure is rising. Some Member States, led by [Poland](#) and supported by Czechia, Slovakia, and Bulgaria, are pushing to **delay the start of ETS2** to 2028 and to change the rules that control carbon allowance prices. These countries argue that the system could place a heavy burden on households and the economy, especially if energy prices remain high. **Is it technically and legally possible?** The short answer is yes. The European Commission has set specific conditions under which ETS2 could be postponed: if gas or oil prices are exceptionally high, the system may be [postponed](#) to 2028. The Commission will assess this in mid-2026, using two key indicators: the average price of natural gas and the price of Brent crude oil (a global benchmark for oil prices). These indicators will help them understand energy costs and market trends to make informed decisions.

France is also fueling this debate. In March 2025, instead of postponement, the [French government](#) called for the EU to “establish an ETS price corridor defined in coherence with the Union’s emission reduction target and to review the functioning of the market stability reserve to correct its imperfections”. France argues that a price corridor would set minimum and maximum price limits to help prevent extreme spikes that could disproportionately burden consumers, particularly low-income households. While publicly denying calls to abolish ETS2, France supports using the 2026 energy price assessment clause to potentially delay

implementation – a position aligned with Polish and Czech agendas. If France keeps the same position, the European Commission could react to it in mid-2026, when the review is scheduled to take place. However, as of May 2025, neither gas nor oil prices are close to the benchmarks required to justify postponing ETS2. Furthermore, the populist rhetoric in several European countries, including the Netherlands, Poland and Bulgaria, portrays ETS2 as an elitist policy that raises living costs, claiming it will make gas, diesel, and heating unaffordable for ordinary citizens starting in 2027. This rhetoric actively supports the calls to delay or reverse the policy amid economic pressures.

At the same time, it is also important to highlight that **this is not a purely political debate**. Several climate NGOs and think tanks are issuing warnings about ETS2, emphasizing that the **risks involved are real**. Groups such as Carbon Market Watch, the European Climate Foundation, and Friends of the Earth Europe have all highlighted concerns regarding the raise of fuel and energy prices for households, which could increase inequality, and exacerbate energy poverty. Moreover, analysts forecast that ETS2 prices could rise rapidly after launch. For example, the analysis of the Institute of Energy Economics at the University of Cologne (EWI) - [“Impacts and Price Paths of the EU ETS2”](#) - shows that **ETS2 could drive up CO₂ prices in the building and transport sectors**. They used a numerical energy system model and an EU ETS2 model to simulate a possible CO₂ price path. Under the scenario examined, the CO₂ price path increases from about €120/t CO₂-eq in 2027 to over €200/t CO₂-eq by 2035. This carbon pricing level would clearly exceed the European Commission’s target of €45/t CO₂-eq and would have noticeable impacts on households and, through distributional effects, on economies as a whole. The price divergence highlights uncertainty about future market balance, potential for price volatility, and the need for policy adjustments if prices remain persistently above targets.

Additionally, in terms of direct impact on consumers bills, a concrete example in case of an average [Dutch](#) household reliant on combustion engine vehicles and natural gas heating, this transition will likely result in increased annual costs ranging from 319 to 489 euros. It is equally important to also highlight that while the **allowance price under ETS2 will be uniform across all EU member states, the impact on households will vary significantly due to differences in purchasing power and average incomes**. In wealthier countries, like in the case of the Netherlands, the additional €319–€489 per year may represent a manageable share of household budgets. In contrast, in lower-income member states, the same absolute increase can constitute a much larger proportion of annual household income, leading to greater relative financial pressure and heightened energy poverty risks. This dynamic points to considerable inequalities created by ETS2 also between member states.

Another [study](#) conducted by the Potsdam Institute for Climate Impact Research and the E3 Modelling highlights the **crucial role of complementary energy efficiency and renewable energy policies in determining prices in the new ETS2**. Their findings suggest that strong energy efficiency and renewable energy policies are crucial for keeping prices lower in the new ETS. If these supporting policies are poorly designed or weakly implemented, the price of carbon in 2030 could end up almost four times higher. For example, depending on how strong these policies are, the price for emitting one tonne of CO₂ in 2030 could be anywhere from €71 to €261 (across the modelled scenarios, depending on the stringency level of energy efficiency and renewable energy policies). All in all, the above-mentioned political pressure and the alarm bells raised by several researchers, NGOs, and civil society organisations highlight a serious social concern at stake. Therefore, the pressure to design and implement ETS2 with the right measures is higher than ever.

Recent developments and persisting challenges

The first ETS2 futures contracts were traded on the Intercontinental Exchange (ICE) on 6 May 2025, with an opening price of €73.57 per tonne. This [price](#) is notably higher than the European Commission's initial target of €45 per tonne for the first year of ETS2. This fact highlights the market expectations of a tighter, more expensive carbon market for buildings and transport. When it comes to challenges, below are the ones that still persist in the design of ETS2:

➤ Targeting

Designing climate policies that accurately target those in need is challenging and expensive, highlights [Bruegel](#), as it demands strong administrative systems that many countries do not have. Policymakers must find a middle ground between simple approaches – which risk giving support to the wrong people – and more precise measures that can be difficult and costly to manage. Administrative limitations are a major obstacle for the Social Climate Fund (SCF), especially in Central and Eastern European (CEE) countries. Effective targeting also poses challenges of data availability and methodology. Hence why substantial effort is needed to develop accurate yet practical indicators that can integrate local-level socio-economic data within each Member State, to define eligible groups, locate households, and tailor the right instruments for delivery.

➤ Equitable fund distribution

ETS2 will bring in financial assistance, but how fairly this money is shared depends on each country's [decisions](#). In Poland, for example, ETS2 revenues are expected to reach €9 billion, while the SCF offers only €4 billion for direct compensation measures. No member state may use ETS2 revenues freely—they are legally bound to prioritise decarbonisation and equity policies. To make sure lower-income households benefit the most, countries need to design fair policies, like regional climate payments or targeted support programs such as Poland's "[bon energetyczny](#)" (energy voucher) for example, which is a direct income support tool to temporarily cushion the impact of rising cost. Moreover, car ownership and heating needs can also be very different depending on where people live and their social class. For instance, many poor families in Poland don't own cars, while in France, rising fuel prices hit working-class people especially hard. Because of these differences, it is vital for policies to be flexible and tailored to specific needs.

➤ Inadequate consultation process with the local and regional authorities

Eurocities, the network of European cities, has highlighted significant shortcomings in how national governments are involving local authorities in the drafting of National Social and Climate Plans (NSCPs). Many national governments are not meaningfully consulting local and regional governments. A [survey](#) covering cities and regions across 14 member states, including Belgium, Finland, Germany, Greece and Spain, shows delayed consultations, inadequate dialogue, and missed opportunities to incorporate local expertise. This puts vulnerable households in the EU **at risk of being underserved** by the €86 billion Social Climate Fund (SCF), due to inadequate consultation of local and regional governments by national governments.

Current state

To access the SCF funding, Member States must submit their NSCPs by **30 June** this year, in which national governments will identify the number of vulnerable households, micro-enterprises, and transport users affected by the introduction of ETS2 and outline specific measures and investments to tackle the social impacts of ETS2, especially on vulnerable

groups. To facilitate the process, the Commission launched a dedicated [Technical Support Instrument](#) for which 10 Member States have applied: Belgium, Czechia, Denmark, Greece, Finland, Croatia, Lithuania, Latvia, Romania, and Slovakia. The goal is to help develop their plans over the 2024-2025 period. The Commission also published a general [Guidance on the Social Climate Plans](#), where it provides [recommendations](#) to Member States on how to use SCF resources to support both: immediate relief and long-term, structural measures.

For instance, the guidance also allows for part of the SCF to be used for temporary direct income support. This means providing financial assistance (such as cash payments or vouchers) to vulnerable households and transport users to help them cope with increased costs from carbon pricing, especially during the early years of ETS2 implementation. When it comes to structural measures, investments directed at renovation of buildings to improve energy efficiency and installation of clean heating and cooling systems (e.g., heat pumps) are listed as the one that are intended to permanently lower energy bills, reduce fossil fuel dependence, and help vulnerable households, micro-enterprises, and transport users transition to cleaner energy. To enable the implementation of the Social Climate Fund (SCF), Member States have also identified the [authorities responsible](#) for the preparation of their Social Climate Plans. In the majority of Member States, this task falls under the authority of national Ministries for Climate or Energy.

In Germany, for example, the current debate centers on how exactly to manage the social and economic impacts of rising CO2 prices in the transport and building sectors. What is clear at this point is that the "climate money" (Klimageld - per-capita payments directed to citizens to offset the financial burden of higher energy and fuel costs) option is definitively off the table according to the new coalition agreement. So, the key point is how to balance the pool of measures that include on one hand, direct payment channels for hardship cases, and on the other hand, the expansion of public transport vouchers or building renovation support. So far, the specifics remain unclear.

Despite the above-mentioned resources, some Member States may delay the submission deadline due to the rising political pressure and challenges at the national level. A similar delay recently happened with the national energy and climate plans ([NECPs](#)), for which only four Member States respected the 30 June 2024 deadline. So far, no member state has submitted a Climate Social Plan to Brussels.

Implementation on the ground will make a difference

The implementation of the Social Climate Fund on the ground will focus on action often carried out at the local and regional levels. This includes renovating buildings to make them more energy-efficient, supporting renewable energy installations, boosting sustainable transport and addressing energy poverty. Moreover, as stressed also in the European Commission recommendations, local and regional authorities have to take part in shaping the national social climate plans. Strategies in the field of climate and energy adopted by regions and cities can provide valuable input to this process.

Furthermore, some of the projects implemented in the past in similar policy areas could serve as an example of measures to be supported under the Social Climate Fund from 2026 onwards. For instance, an [energy poverty intelligence unit](#) (EPIU) was developed by Getafe City Council in Spain, to identify and engage with households with a view to combating hidden energy poverty in the most deprived areas of the city. The project developed a data-driven system to identify both visible and hidden energy poverty in Getafe, particularly targeting the most

vulnerable neighborhoods (Las Margaritas and La Alhóndiga). The system clusters vulnerable groups based on sociodemographic, spatial, and energy consumption characteristics at the home, building, and neighborhood levels. Since its launch in 2022, EPIU has assisted over 2,750 households (more than 6,850 citizens), providing tailored advice, guidance, and interventions to improve energy efficiency and reduce bills. On average, families supported by EPIU [reduced](#) their energy bills by 20–25%. This was achieved through a combination of behavioral advice, technical improvements, and access to social support programs. The Healthy Homes Office, initially piloted in two neighborhoods, has now been consolidated as a permanent, city-wide public service. Lessons learned from EPIU are being used to inform new refurbishment and energy poverty alleviation schemes in other deprived areas of Getafe, with a focus on long-term sustainability and upscaling.

Conclusions

Considering the challenges, we must raise the critical questions central to this debate: **What's left if we skip ETS2? What are the alternatives?** This directly reflects the deeply political nature of the EU's climate policy choices. The introduction of ETS2 is not just a technical or market-based solution; it is a political decision that affects how the EU regulates emissions from buildings, road transport, and additional sectors. If ETS2 is abandoned, the EU would lack a comprehensive tool to put a price on carbon in these sectors, undermining its overall climate strategy and making it much harder to achieve the legally binding target of climate neutrality by 2050. The absence of ETS2 would force the EU to rely on weaker or less coordinated national measures, risking uneven progress and leaving major emission sources unaddressed. This would put the credibility and effectiveness of the whole EU approach to climate policy at stake, as ETS2 is designed to be a cornerstone for achieving emission reductions in sectors where progress has so far been insufficient. To maintain legitimacy and effectiveness, ETS2 must be carefully balanced with robust measures to protect households and small businesses, ensuring that the transition to a low-carbon economy does not deepen social divides or fuel political backlash.

The mid-2026 review will serve as the first substantive test of the extent and effectiveness of political pressure on the implementation of ETS2. However, it is equally important to recognise that the period leading up to the establishment of ETS2 also offers opportunities for policymakers to develop and refine targeted policy measures and instruments. By proactively designing and implementing support mechanisms, such as enhanced social protections, financial assistance, and incentives for energy efficiency and clean mobility for clearly targeted households, governments can help cushion the impact of ETS2 on vulnerable consumers. Ultimately, the effectiveness of ETS2 will depend not only on the robustness of its design and the political will to implement it, but also on the capacity of Member States and regional and local authorities to adapt and respond to emerging challenges.

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