



Implementing ETS2 for buildings, road transport and additional sectors

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New ETS2 for buildings, road transport, non-ETS1 industry: Context and summary

Context: ETS2 and the policy mix to deliver -55% GHG emissions by 2030



Pricing

Emissions Trading System (ETS1)
more ambitious | includes electricity emissions, most of industrial emissions and district heating emissions

New ETS2 for buildings, road transport and non-ETS1 industry

Energy Taxation *Directive*
aligns minimum tax rates with Green Deal objectives

CBAM
Carbon Border Adjustment Mechanism



Targets

Effort Sharing *Regulation*
sets yearly MS emission targets (incl. ETS2 sectors)

LULUCF *Regulation*

Renewable Energy *Directive*
targets that support uptake of renewables in heating and transport

Energy Efficiency *Directive*
e.g. binding MS energy savings obligations



Rules

CO₂ emission standards for cars, vans and heavy-duty vehicles

New infrastructure for alternative fuels

Energy Performance in Buildings *Directive*
provides minimum standards and renovation plans

F-gas & Ozone-depleting Substances *Regulations*
incl. heat pumps

Promote innovation, build solidarity and mitigate impacts for vulnerable citizens - notably by channeling revenues through the new **Social Climate Fund** and the enhanced **Modernisation and Innovation Funds**

Support Measures

New ETS2 for buildings, road transport and non-ETS1 industry fuels

- For the buildings and road transport sectors, the new ETS could contribute 45% of the **additional emission reductions** needed in 2030 compared to what current policies would achieve in 2030
- 30% of building heating emissions, electric vehicles and large part of industry fuel emissions **already covered** by existing ETS
- **Separate upstream ETS** for buildings, road transport, non-ETS1 industry combustion fuels: compliance obligation triggered by release on the market of fuels for combustion in ETS2 sectors
- **Emission cap** set in line with cost-effective contribution:
 - 42% GHG reductions 2030 to 2005, LRF of 5.1% (cf 2024)
- No free allocation, **auctioning revenues** to be used to finance Social Climate Fund or by MS for climate and social purposes.



ETS2: a smooth start of the system

- Permits for regulated entities (building on excise duty law provisions on tax warehouses and fuel suppliers) by 1 **January 2025**
- Monitoring to enable reporting of emissions from **April 2025**
- System operational **from 2027**, with possible postponement by one year in case of exceptionally high gas or oil prices
- **Front-loading** of additional 30% of 2027 auction volumes to ensure a smooth start with sufficient liquidity
- **Market Stability Reserve (MSR)** for ETS2: initial volume of 600 million allowances and **volume-based** thresholds of 210 and 440 million allowances for MSR release or intake
- **Price (increase)-based** mechanisms for MSR releases to **counter** risks of **excessive prices and fluctuations**;
Additional trigger until 2029 if carbon prices reach €₂₀₂₀ 45



Social Climate Fund

Will mobilise **EUR 86.7 billion** over **2026-2032** period
EUR 65 billion from the Fund + 25% national contributions from Member States

Eligibility of expenditure as of 1 January 2026

based on auctioning of 50 million EU ETS allowances in 2026 (frontloading)
& ETS2 auctioning as of 2027 (initially as external assigned revenue)



Support vulnerable households, transport users & micro-enterprises concerning impact of ETS2



Support investments in energy efficiency & renovation of buildings, clean heating & cooling



Finance zero- & low-emission mobility & transport, including public transport



Provide temporary direct income support

Implementation of ETS2: where are we now

ETS2: Regulated activity and exemptions

ETS Directive Annex III: Activity covered by ETS2

1. Release for consumption of fuels which are used for combustion in the sectors of buildings, road transport and additional sectors.

Carbon dioxide

This activity **shall not include**:

- (a) the release for consumption of fuels used in the **activities set out in Annex I** to this Directive, **except if** used for combustion in the activities of transport of greenhouse gases for geological storage (activity row twenty seven) or if used for combustion in installations excluded under Article 27a of this Directive;
- (b) the release for consumption of fuels for which the emission factor is zero;
- (c) the release for consumption of **hazardous or municipal waste** used as fuel.

ETS2: Sectors (CO₂) covered (Annex III)

2. The sectors of buildings and road transport shall correspond to the following sources of emissions, defined in 2006 IPCC Guidelines for National Greenhouse Gas Inventories, with the necessary modifications to those definitions as follows:

- (a) **Combined Heat and Power Generation (CHP) (source category code 1A1a ii) and Heat Plants (source category code 1A1a iii)**, insofar as they produce heat for categories under (c) and (d) of this point, either directly or through district heating networks;
- (b) **Road Transportation (source category code 1A3b)**, excluding the use of agricultural vehicles on paved roads;
- (c) **Commercial / Institutional (source category code 1A4a)**;
- (d) **Residential (source category code 1A4b)**.

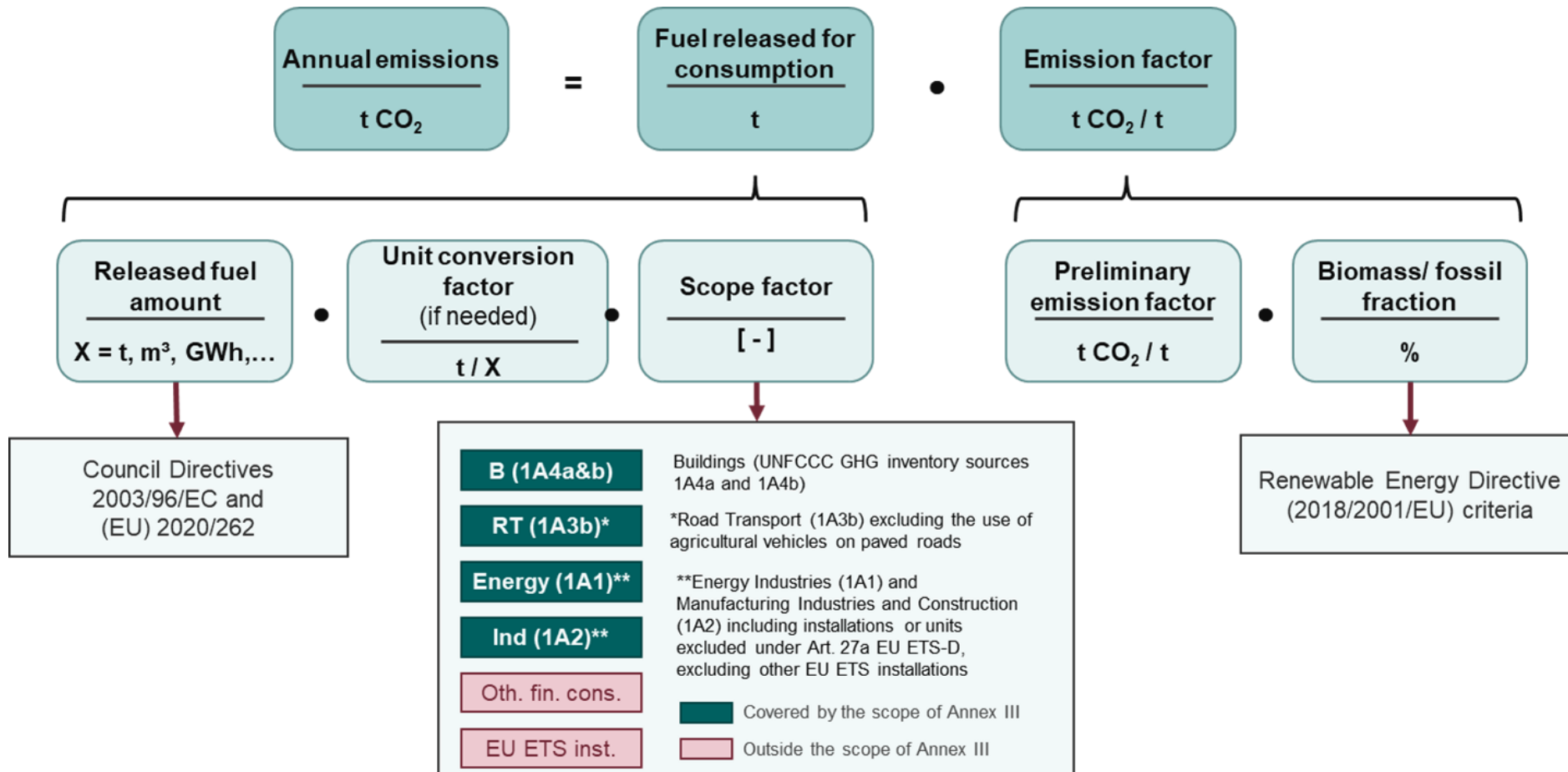
3. Additional sectors shall correspond to the following sources of emissions, defined in 2006 IPCC Guidelines for National Greenhouse Gas Inventories:

- (a) **Energy industries (source category code 1A1)**, excluding the categories defined under paragraph 2 point (a) of this Annex;
- (b) **Manufacturing Industries and Construction (source category code 1A2)**.

Implementation steps up to now

- October 2022 set up of **Climate Change Policy Expert Group formation ETS2**;
May 2023 enlarged with other stakeholders:
 - 8 CCEG ETS2 meetings, 2 joint meetings with TWG MRVA
- May 2023: Flagship call **Technical Support Instrument SCF** covering also ETS2
- June: Amended **ETS directive entered into force**
- October: **ETS2 monitoring and reporting rules adopted**, including monitoring rules to avoid double counting and unintended coverage, part of MRR amendment
- October : Delegated act on **auctioning** rules including ETS2 published
- October: Delegated act on **registry** amendment including ETS2 published
- October: Questionnaire to Member States on **Commission outreach support**
- November: Delegated act on **Innovation Fund** adopted (ETS2 in scope)

ETS2 monitoring methodology at a glance



Scope factor as key new ETS2 element

M&R for ETS2: new elements

- **building** on rules of **existing ETS** on monitoring and reporting where possible
- If regulated entities are the same as for excise duty purposes **monitoring simplifications possible** where data or methods for fuels released for consumption are accepted for tax purposes
- **Tier-based system of methods** to address new monitoring challenges related to the **scope of ETS2**
 - Flexibilities to cater for cost and availability
 - Member States can standardize methods to use by regulated entities
 - Default values as lowest tier due to cost-pass through issues, with some restrictions
- Rules to avoid double counting with ETS1, building on ETS1 verified emission reports and MS experiences

Implementation of ETS2: next steps

ETS2 transposition in national law

Article 3 of the amendment to the ETS Directive

1. Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with Article 1 of this Directive by 31 December 2023. They shall apply those provisions from 1 January 2024.

However, Member States shall bring into force the laws, regulations and administrative provisions necessary to comply with the following articles **by 30 June 2024**:

[...] Article 1(29) of this Directive [ETS2 related changes] with the exception of **Article 30f(3)* of Directive 2003/87/EC** as inserted by that Article. [for that article transposition **deadline 31 December 2023**]

**Article 30f(3):* Member States shall ensure that each regulated entity holding a permit in accordance with Article 30b on 1 January 2025 report their historical emissions for year 2024 by 30 April 2025.

MS to designate ETS2 regulated entities

- Article 3(ae) of the amended ETS Directive defines ETS2 regulated entities
- Points (i) to (iii) link the regulated entity definition to the **liability for paying excise duties** under Council Directive (EU) 2020/262
- point iv) provides **flexibility** for Member States in certain cases where a more appropriate point of regulation can be found:

Article 3(ae) of the amended ETS Directive:

‘regulated entity’ for the purposes of Chapter IVa shall mean any natural or legal person, except for any final consumer of the fuels, that engages in the activity referred to in Annex III and that falls within one of the following categories:

- [...] (iv) if points (i), (ii) and (iii) are not applicable, or if several persons are jointly and severally liable for payment of the same excise duty, **any other person designated by a Member State**

Next steps ETS2 implementation support

- **Template** for ETS2 Monitoring Plans
- **Guidance** document(s) for ETS2 monitoring and reporting
- **ETS2** module for **Emission Reporting Tool** (ERT)
- Commission **ETS2 outreach** activities, supported by a contractor
- ETS2 rules for **accreditation and verification**, as part of AVR amendment
- Delegated acts for **ETS2 opt-ins** and related MRR technical changes
- Implementing act for **avoiding double counting** and **unintended coverage** and providing **necessary financial compensation**
- **ETS2 cap** calculation and decision
- Implementing act on reporting of levels of **cost pass through**

Rules for avoiding double counting and providing necessary financial compensation

- MS shall take appropriate measures to **limit the risk** of double counting of emissions covered under Chapter IVa and under Chapters II and III, as well as the risk of allowances being surrendered for emissions not covered by this Chapter (Art 30f(5))
 - If ex ante monitoring not possible: use of default value of 1 for ETS2 scope and ex post compensation
- Commission shall adopt **implementing acts** concerning the detailed rules for **avoiding double counting** and allowances being surrendered for emissions not covered by Chapter IVa, as well as for providing **financial compensation to the final consumers** of the fuels in cases where such double counting or surrender cannot be avoided. The calculation of the financial compensation for the final consumers of the fuels shall be based on the average price of allowances in the auctions (Art 30f(5))
- **Hospitals** not covered by Chapter III may be provided with financial compensation for the cost passed on to them due to the surrender of ETS2 allowances (Art 30e(4))
- MS shall use their **auction revenues** to provide financial compensation to the final consumers of fuels in such cases (Art 30d(5))

Conclusion

- ETS2 has **similar emission size** as ETS1, but **should be simpler to implement**
- **Competent authorities** will need to have the capacity to deal with **similar number of regulated entities** as in ETS1 (preliminary ETS2 estimate in 2021: 11400)
- **Rapid progress 2023** on important **implementation steps** in less than half a year after the entry into force of the ETS directive, also to facilitate transposition
- **2024 will be key**, with **key role of Member States**: definition of regulated entities, Monitoring plans, GHG permits
- **Commission** continues to stand **ready to support** ETS2 implementation

Thank you!

Reference Documents: [Directive \(EU\) 2023/959 of the European Parliament and of the Council of 10 May 2023 amending Directive 2003/87/EC](#)

[Impact Assessment](#)

[MRR - 32023R2122 - EN - EUR-Lex \(europa.eu\)](#)



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