IETA

ETS2 - IETA Position Statement
April 2026

ETS2 Readiness and Market Integrity: IETA Policy Recommendations

As a global business organisation representing key players in the EU and international carbon market ecosystem, IETA remains firmly committed to advancing credible, market-based climate solutions that deliver cost-effective decarbonisation in Europe. We reaffirm our strong support for the timely launch of ETS2 on 1 January 2028, extending emissions trading to buildings, road transport, and additional sectors.

IETA is confident that the supporting measures to implement and transpose ETS2 at national level can be deployed in time to ensure all entities are ready for the start of the new system. This includes the launch of early auctions to allow early hedging and grant Member States early access to revenues, mobilising financial support from the Social Climate Fund, and establishing the ETS2 Frontloading Facility in partnership with the EIB. We emphasise, however, that ETS2 should not be the subject of the upcoming review of the EU ETS Directive planned for July 2026. Such a revision could undermine the credibility of the system before it enters into force and risk further delay beyond the one-year postponement.[1]

To ensure a smooth and credible launch of ETS2, IETA recommends that the Commission adopts a coherent and coordinated implementation approach across all regulatory elements. This approach should prioritise timely national transposition, transparent auctioning procedures, and a harmonised compliance framework. IETA also recognises that outreach and clear communication will be essential components of building public understanding and support for carbon pricing.

We call on co-legislators to take into consideration the following points:

1. Member State transposition

Harmonised transposition across Member States will be crucial to guarantee market readiness for ETS2. In our view, the start of the new system will be compromised if countries fail to transpose the necessary ETS2 provisions by the start date. Furthermore, the timely transposition of ETS2 provisions at national level would provide Member States with additional resources to facilitate the transition ahead of the system's start. As such, we call on Member States to continue taking steps to integrate ETS2 into national legislation to make best use of supporting measures like the Social Climate Fund (SCF) and revenues from early auctions to support their transition ahead of 2028.

Investments in alternative infrastructure and low-carbon solutions for road transport and buildings must be prioritised well ahead of the start of the ETS2, alongside national programmes that protect and support vulnerable groups. We strongly encourage national governments to finalise and adopt their Social Climate Plans (SCPs) without delay to enable timely access to financial support for these purposes. To do so, Member States are required to submit their SCPs and set out planned measures, including key milestones and targets for each, between 2026 and 2032.

[1] The MSR for ETS2 is already subject to a built-in review cycle. Under Articles 30k and 30i of the EU ETS Directive, ETS2 will be assessed based on observed market functioning and, with the one-year delay to 2028, will be reviewed by 1 January 2029.

The SCF will mobilise €86.7 billion in this same time frame, including co-financing from EU countries.[2] First auctions for this will already take place in 2026, through the EU ETS1. The EIB will make €3 billion available to support Member States with the transition and finance early investment.[3] Together, up to €17.9 billion (€4 billion and €10.9 billion allocated to the SCF in 2026 and 2027 respectively, in addition to the €3 billion mobilised by the EIB) will be available to Member States before the start of ETS2 in 2028.[4] However, to date, only five Member States have submitted SCPs to the Commission, with Sweden's plan being the only one approved thus far.[5] This demonstrates the urgent need for Member States to transpose ETS2 provisions to fully benefit from the financing available for this transition.

2. Early auctions for ETS2 allowances

IETA strongly supports the proposal to launch early auctions for ETS2 on 1 January 2027. Early auctions are an essential instrument to enhance liquidity on secondary markets, thereby supporting long-term hedging, reducing price uncertainty, and providing market participants with the confidence required to manage risk ahead of the 1 January 2028 start date. We consider this timeline to be sufficient to ensure that both market participants and the necessary administrative processes are prepared for early auctions. Nonetheless, our view is that an even earlier start date for auctions would accelerate these benefits, particularly for sectors where delivery contracts are signed several years in advance.

At the same time, it is critical that the Commission offers greater clarity regarding rules applicable in Member States with delayed transposition of ETS2 into their national legislation. This will be necessary to avoid market fragmentation, uneven compliance obligations, and unnecessary volatility in auction calendars. Crucially, such an approach could risk reinforcing the assumption that some Member States may not transpose ETS2 before the start of auctions. This would hinder the clear benefits to early auctions and introduce legal uncertainty regarding compliance options. We call on the Commission to carefully assess the potential market impacts of such non-uniform national transposition.

Furthermore, IETA supports the proposal to streamline administrative processes, including simplified procedures for intermediaries bidding on behalf of others, to further reduce regulatory burdens and help secure broad participation in ETS2 alongside the existing EU ETS. Taken together, these measures will reinforce market stability and support robust price formation.[6]

3. Market Stability Reserve for ETS2

In November 2025, the Commission launched the legislative process to amend the Market Stability Reserve (MSR) for ETS2 with the aim to further boost stability and predictability for the start of the system. We acknowledge these efforts from the Commission in response to the joint initiative from 19 Member States in July 2025, highlighting concerns for the start of ETS2 and suggesting proposals for the design of the new system.

IETA supports a targeted revision of the MSR for ETS2 to strengthen the existing safeguards, on the condition that such amendments do not compromise the integrity of the system or lead to market distortion. IETA does not, however, support more extreme safeguards for the MSR for ETS2, such as certain amendments proposed in the responsible committee in the European Parliament,[7] including to allow Member States to temporarily disapply the system to residential buildings or to introduce a stronger emergency mechanism through an additional price ceiling for a defined period. We urge caution in the revision of the MSR for ETS2 and call on co-legislators to preserve the integrity and effectiveness of this market-based instrument.

[2] Social Climate Fund, European Commission
[3] Unlocking €3 billion for investment opportunities in the decarbonisation of buildings and road transport, European Commission
[4] Article 30d(4) of Directive (EU) 2023/959: annual amounts allocated to the Social Climate Fund.
[5] Social Climate Plans by country, European Commission: Latvia, Lithuania, Malta, the Netherlands, and Sweden have submitted plans.
[6] For more information on IETA's position regarding the draft delegated regulation to amend the Auctioning Regulation regarding the timing, management, and specific rules for auctioning ETS2 allowances, please see our full response to the public consultation in December 2025 here.
[7] Draft report on the proposal for a decision of the European Parliament and Council amending the MSR Decision for ETS2, Committee on the Environment, Climate and Food Safety, 10 February 2026

4. ETS2 cost pass-through

The upcoming implementing acts to establish clear rules on the reporting requirements for regulated entities on the pass-through of ETS2 costs to consumers and the financial compensation for final consumers facing ETS2 carbon costs will be essential for ensuring market readiness. Both proposals are expected for adoption in 2026 and present key opportunities for the Commission to clarify administrative processes for regulated entities and final consumers of fuels under ETS2.

On the ETS2 cost pass-through, we welcome the ongoing work of the Commission to consult Member States and key stakeholders to assess the feasibility of proposed methodologies for calculating and reporting requirements. We strongly recommend a simplified and harmonised approach to reporting requirements for the pass-through of ETS2 costs, and stress that any methodology related to the reporting obligation for these costs should not function as a form of price control or limitation. These requirements should be harmonised across all Member States and regulated entities, regardless of size, to ensure that the system works as intended and does not distort competition. Noting that this reporting obligation only applies until 2030, IETA believes that the requirements for the pass-through of ETS2 costs should be designed using a fair, accurate, and simplified approach to ensure that regulated entities are sufficiently able to implement ETS2 provisions ahead of the start of reporting.

Conclusion

The successful launch of ETS2 will depend on maintaining a clear and predictable regulatory framework, ensuring timely transposition across all Member States, and preserving the integrity of the system as a market-based instrument. With the appropriate supporting measures in place, ETS2 has the potential to extend the proven success of carbon pricing to new sectors and deliver cost-effective emissions reductions across the EU. IETA remains committed to working constructively with EU policymakers and stakeholders to support the smooth implementation and transposition of ETS2 and to ensure that the system delivers on its climate objectives from day one.

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