IETA

IETA ETS2 - Position Statement
September 2025

Time to accelerate: Early action and early auctions for ETS2

POSITION STATEMENT

IETA CALLS FOR THE TIMELY LAUNCH OF THE EU EMISSIONS TRADING SYSTEM FOR BUILDINGS, ROAD TRANSPORT AND ADDITIONAL SECTORS (ETS2), RECOGNISING IT AS A CRUCIAL INSTRUMENT TO DRIVE COST-EFFECTIVE DECARBONISATION IN THESE SECTORS, COMPLEMENTARY TO EMISSION REDUCTION FACTORS PUT IN PLACE BY MEMBER STATES AT NATIONAL LEVEL.

For the past two decades, the EU ETS has effectively reduced emissions in covered sectors by harnessing the power of carbon pricing. Building on this success, ETS2 is a crucial step towards economy-wide decarbonisation, extending emissions trading to sectors that have been solely covered by the Effort Sharing Regulation (ESR) but require stronger, market-based incentives to meet future climate targets

IETA supports the ongoing constructive dialogue on options to strengthen the design of ETS2 and encourages further discussion, as echoed by several Member States and other stakeholders, to ensure the new system is implemented in a way that maintains environmental ambition while addressing concerns of fairness and public acceptance. For IETA members, clarity regarding the start date and full transparency in discussions about potential changes to ETS2 are essential elements to a successful launch in 2027.

In this context, we call on the Commission and Member States to take the following recommendations into consideration:

A timely launch and regulatory certainty

We support the launch of ETS2 on 1 January 2027 and urge Member States to ensure the timely transposition of ETS2 provisions into their national legislative frameworks. This refers to rules for setting up holding accounts in the Union Registry for ETS2 regulated entities, procedures for the verification of ETS2 activities, and requirements regarding the monitoring and reporting of emissions. According to internal IETA research, as of September 2025, over half of EU Member States have yet to transpose the new system into their national legislation. One third of Member States made very little progress, and four Member States are openly calling for a delay of the ETS2 launch date.

IETA is concerned about the slow transposition of ETS2 provisions, as effective mitigation efforts at Member State level are crucial to moderate the potential price impact on final consumers under ETS2.[1] The timely introduction of ETS2 would provide Member States with the necessary resources to invest in measures to ease the transition, such as advancing energy efficiency, promoting low-carbon transport, and expanding access to clean heating. This, in turn, would help address social concerns linked to the potential rise of transport and energy costs, particularly for lower-income households and SMEs. In this context, instruments like the Social Climate Fund (SCF) will play a vital role in ensuring that ETS2 delivers emission reductions in a fair and socially balanced way.

It is crucial that Member States' Social Climate Plans (SCPs) - strategies on the social dimension of carbon pricing - are sound, robust, prepared on time and well-implemented. The deadline for SCPs to be submitted by Member States passed on 30 June 2025, though it is unclear how many Member States met this deadline. IETA calls on Member States to put in place robust national policies encouraging effective mitigation action and transition technologies in ETS2 sectors by using ETS2 auctioning revenues distributed directly to Member States and through the SCF. In view of this, we call on the European Commission to continue providing active support to Member States throughout this process.

Furthermore, certainty on the timely start of ETS2 would allow regulated entities to implement the necessary internal processes and mitigation strategies in a timely manner and support price formation in existing hedging markets. For this planning clarity, it is critical that the EU ETS Directive does not become subject to revision before the currently communicated timeline. Any other line of action would bring uncertainty and volatility into this nascent market. Revising the Directive in relation to ETS2 before it has fully entered into force could undermine the system's credibility and effectiveness, cause further delay, and ultimately jeopardize the achievement of the 2030 climate target.

As such, we are against a revision of the EU ETS Directive, which governs carbon pricing system for buildings and road transport, before July 2026, and strongly recommend that next year's revision should focus solely on the functioning of the EU ETS (ETS1). In this context, we recommend that the proposed modifications to the MSR presented by 16 Member States,[2] including a more gradual and responsive MSR activation mechanism, the extension of the MSR beyond 2031, and a strengthened soft price cap mechanism, should be addressed, if deemed necessary, solely through a targeted review of the MSR Decision or as part of the ETS2 review planned in 2028.

Early auctions by mid-2026

IETA members believe that early auctions could enhance market liquidity, reduce price uncertainty, and support long-term hedging. Early auctions can be launched without a revision of the EU ETS Directive through an amendment of the Regulation on the timing, administration, and other aspects of the auctioning of greenhouse gas emissions allowances (Auctioning Regulation), given the Commission's authority over the timing and start date of auctioning.

[1] *Possible extension of the EU Emissions Trading System (ETS) to cover emissions from the use of fossil fuels in particular in the road transport and the buildings sector, European Commission 2020*

[2] *Joint paper by 16 Member States on ETS2, 25 June 2025*

This would not be the first targeted review of the Auctioning Regulation to launch early auctions. In 2011, the EU legislated advanced auctions of 120 million allowances for stationary installations and aviation operators to take place in 2012, a year before of the start of the EU ETS Phase 3. The primary reason for the revision was to allow the power sector, usually selling electricity in advance, to purchase required emission allowances earlier to avoid the risk of price fluctuations and to test the auctioning infrastructure. At that time, the key challenge for legislators was to correctly determine the volume of early sales, among unknowns regarding hedging needs and Phase 2 market surplus.[3]

For ETS2, defining the quantity of allowances for advanced auctions may be more straightforward. These could be sourced from allowances already scheduled for auctioning in 2027, amounting to approximately 1.347 billion.[4] This number represents an increased total of allowances scheduled for auctioning in this year – it corresponds to 130% of 2027 auction volumes, legislated to ensure a smooth start to the new market. Instead of frontloading 30% in 2027, these additional allowances – approximately 310 million allowances – may be used for early auctioning, distributed evenly from mid-2026 to the end of the year. These could be deducted from auction volumes at a later stage (e.g. in the period from 2029 to 2031) as foreseen by the EU ETS Directive.

In our understanding, the launch of early auctions would not be feasible before mid-2026 due to administrative and legal reasons. For instance, provided that the review of the Auctioning Regulation requires public consultation, adoption by Member States, European Parliament scrutiny, and the establishment of the Auction Calendar, mid-2026 seems to be the earliest feasible target.

In addition, the European Commission launched the procurement process to re-appoint the Common Auction Platform on 2 July 2025, and this process has yet to be finalised. Overall, early experience with ETS2 auctions could strengthen market confidence and support a more predictable and effective carbon price formation.

Better access to market information

We support the proposal issued by 16 Member States calling for the more frequent publication of market updates (e.g. rate of heat pump installations, electric vehicle sales) to better inform stakeholders and price forecasts for ETS2. This transparency would work to build market confidence, support liquidity, and attract new actors into ETS2 sectors. For policymakers and national authorities, robust data and forecasting, taking into account sectoral policies at EU and domestic level, could improve the design, timing, or revision of complementary measures. For consumers, better access to market information may provide the predictability needed to make informed low-carbon choices. Furthermore, we recommend that the European Commission convenes more regular meetings of the Expert Group on climate change policy (CCEG) on ETS2 to keep stakeholders informed about the implementation progress and national transposition efforts.

IETA stands ready to support the successful implementation of ETS2 and remains committed to working with the European Commission, Member States, the European Parliament, and market stakeholders to ensure the system delivers on its environmental objectives while maintaining market confidence and public support. Clear signals, consistent policy design, and timely action are essential to uphold the integrity and effectiveness of the upcoming ETS2.

[3] *E.g. the amount of allowances held by industrial sectors, auctioning of remaining NER 300 allowances, volume of international credits to be used for compliance, etc.*
[4] *The published cap is subject to revision to account for ETS2 opt-ins and opt-outs. See The State of the EU ETS 2: Europe's New Carbon Market, Clear Blue Markets March 2025*

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