

ETS2 – early auctioning of allowances

Carbon Market Watch's feedback to the European Commission's draft delegated regulation on early auctioning of ETS2 allowances

Carbon Market Watch welcomes this Commission initiative and believes that **early auctioning of 450 million ETS2 allowances should be taken forward.**

The effectiveness of the ETS2 to deliver meaningful and timely greenhouse gas emission reductions is being undermined by various initiatives, such as the watering down of the system through weakening the MSR and the one-year delay decided during the EU Climate Law revision. However, the early auctioning of allowances one year in advance of the start of the system can help improve price predictability and general functioning of the ETS2, but more importantly, it will **generate crucial early revenues that must be used to support the Social Climate Fund (SCF) in 2027.** Due to the one-year delay there is currently a €6.8bn funding gap in the SCF that year.

Delaying the ETS2's start by one year is unnecessary and counterproductive, but at the very least this bad decision should not lead to any decrease in the size of the Social Climate Fund (SCF). Safeguarding the SCF throughout the various ETS2 reform strands is critical. **CMW calls upon the Commission and co-legislative institutions to use this reform to ringfence all early auctioned allowances to fund the SCF and enable member states to kickstart the implementation of their National Social Climate Plans.**

Furthermore, we also welcome the legal clarification in the Delegated Act that **only member states who have transposed the legislation can access ETS2 auctioning revenues.** The timely implementation of ETS2 by member states is necessary, but if some member states do not transpose ETS2, it should still start. Countries should have a clear incentive by linking the receiving of revenues to the proper implementation of ETS2.

The decision to delay ETS2 by one year and the MSR reform proposal run counter to this suggested delegated act (DA) as they delay climate action and undermine revenue

generation, while this DA enables early investments. **The EU's climate efforts and its citizens need that early investment in climate action.** ETS2 was created as a result of lagging emissions reductions in buildings and road transport – CO₂ emissions from building energy use have decreased by only 14.7% since 2015, while emissions reductions from road transport have stalled in the last decades.

The best way to protect vulnerable and poor households is to aid them through the transition and speed up emission reductions - through not just the ETS2 and its revenues, but strong complementary policies are also critical. The counterproductive watering down of the phase-out of internal combustion engines highlights the need for ETS2 to pick up the slack that has shortsightedly been caused. Attempting to slow down climate policy does not help anyone except fossil fuel producers, and also hampers the numerous co-benefits of climate action, such as improving air quality, energy independence and investment in EU jobs and industry.

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