

ETS2 – Why and how to be more ambitious

Question: What are the Member State options regarding ETS2? Why and how to be more ambitious?

Answer:

1. Follow the timeline for EU ETS2
2. or implement ETS2 early
3. or use a national carbon tax that is more ambitious till 2030.

The ETS2 extends carbon pricing coverage to buildings and road transport. It is a separate and parallel trading system to the ETS. It supports the EU emissions reduction goal of 55 % by 2030 and applies upstream, i.e., at the fuel distributors. Reporting will start in 2025 and allowances are required from 2027. The number of allowances will reduce till 2030 (and presumably the price will increase accordingly). There are mechanisms to limit price spikes which may or may not be effective. These mechanisms apply for example if the price rises above at € 45. There are discussions about aligning the pricing in the ETS and ETS2 in the longer term.

The ETS2 will generate revenue for the EU, for member states, and for the EU Social Climate Fund (SCF). Whilst the price of allowances in the ETS2 will fluctuate, the [potential revenue can be estimated applying a € 45 price per tonne CO₂eq](#)¹. This broadly suggests Germany would raise € 11,000M per year, France € 7,000M, Portugal € 700M and Slovenia €250M. Some countries already price emissions for buildings and road transport, the additional revenue would be less in that case. Some revenue is earmarked to fund the SCF. The SCF will provide € 65,000M to member states over the 7 years from 2026 till 2032. All auction revenue should be used for climate related purposes and compensation of indirect carbon costs (e.g. household rebates).

Member States have **several options in the light of ETS2:**

1. Member states can follow the ETS2 process, timeline, and development.
2. Member states can follow ETS2 with increased ambition by implementing early. (They can also increase ambition by adding a floor price or by extending coverage).
3. If they already have a national carbon price with similar coverage, member states can establish a price path above the ETS2 and delay implementation of ETS2 until 2030.

The more ambitious Options 2 and 3 have several advantages:

- They will reduce emissions further and faster because carbon pricing is proven as an effective policy. This will have direct consequential impacts on other legislative obligations every EU country faces, for example on the Effort Sharing Regulation (ESR), on the Energy Efficiency Directive (EED), and on the National Energy and Climate Plans (NECPs).
- Early implementation and pricing above the ETS2 will raise additional revenue. The price paths already committed to by some member states mean that over double the envisaged maximum ETS2 revenue could be raised nationally every year.
- Economic studies and other countries' experience demonstrate that provided enough revenue is rebated to households, the economy benefits in GDP and jobs:

¹ <https://ourworldindata.org/co2-and-greenhouse-gas-emissions>

“A unilateral carbon tax expands the local economy on impact” and “Once the municipality rebates the tax income to the local population, we show that income per capita in the municipality may actually grow as a result of the tax.”²,

“Without any revenue recycling, the parallel ETS has a negative impact on output measured through GDP and employment across Europe.”³

Options 2 & 3 includes some political risk and requires political bandwidth. Option 3 requires a member state to notify the Commission of its national carbon tax by 31 December 2023. (There are 10 member states with national carbon taxes in place as of March 2023.)

Further arguments for carbon pricing more ambitious and predictable than ETS2:

- Fixed and predictable carbon price paths provide more certain revenue than a fluctuating ETS. They are also more effective at reducing emissions because businesses and households can plan based on future certainty. Note that a floor price in or with an ETS is a way to enhance price certainty.
- Success and failure criteria for carbon pricing are quite well understood (see examples below). In particular, [Austria's Klimabonus](#)⁴ was specifically introduced to anticipate the ETS2 as a model policy for other member states.
- [Sweden has found](#)⁵ that a carbon tax is simpler and easier to implement.
- Carbon pricing with rebating revenue to households has the capacity to address the “cost of living” pressures, build public support and enable higher pricing, ultimately reducing emissions further. Whilst it might be counterintuitive to raise prices during a market price spike, the rebate can be progressive and reduce governments costs subsidising fossil fuels.
- It will accelerate the energy independence of Member States.

Environmental goals for 2030 are just the next step before further reductions are required to achieve the Paris commitments, citizens' concern around climate and the NetZero legal requirements still need to be addressed. Other EU initiatives such as reviewing the “Polluter Pays Principle” and moving to qualified majority voting instead of unanimity might influence the EU approach to carbon pricing before 2030.

Summary of examples of ETS2 and SCF-like policy in other countries:

Country	France	Germany	Austria	Switzerland	Canada
Start date	2014	2021	July 2022	2008	2019 Federal
Price in 2022	€44	€30	€35	€120	€37
Price path	Frozen	€45 (2025)	€55 (2025)	€190 failed	€125 (2030)
Households rebated	Poorest 20%	Tbd	100%	100%	100%
€ per year (% of revenue)	€76 - €277	Klimageld anticipated	€500 - €1500 (100%)	€343 (66%)	€550 - €900 (90%)
Public Support	gilet jaunes 2018	€9 travel card popular	new Klimabonus	Not well known / not transparent	Gov re-elected 66% vote 2021

² VoxEU column, CEPR, January 2023:

<https://cepr.org/voxeu/columns/carbon-taxes-may-be-boon-world-even-short-run>

³ WWF: SCF and ETS 2 impact studies, Evidence Review, November 2022:

https://wwfeu.awsassets.panda.org/downloads/ets2_and_scf_studies_review_final_1.pdf

⁴ <https://www.klimabonus.gv.at/en/>

⁵ <https://www.government.se/globalassets/government/bilder/finansdepartementet/carbon-taxes/220422-carbon-tax-sweden---general-info.pdf>

Key points:

- Options for member states to act on ETS2:
 1. implement from 2025-2027 as specified,
 2. implement early,
 3. use a national carbon tax till 2030.
- Options 1 & 2 have additional benefits:
 - Increased ambition support achieving environmental obligations.
 - In combination with revenue recycling good for economy.
- Growing body of real-world evidence showing how to make it successful & popular.

Key links:

- Text of trilogue agreement on EU ETS (2023):
<https://data.consilium.europa.eu/doc/document/ST-6210-2023-INIT/en/pdf>
- Text of trilogue agreement on Social Climate Fund (2023):
<https://data.consilium.europa.eu/doc/document/ST-6207-2023-INIT/en/pdf>
- Press release by Council of EU (2022):
<https://www.consilium.europa.eu/en/press/press-releases/2022/06/29/fit-for-55-council-reaches-general-approaches-relating-to-emissions-reductions-and-removals-and-their-social-impacts/>

Additional resources from Citizens' Climate Europe:

- Explainer on Klimabonus (Climate Income) in Austria:
https://citizensclimateeurope.org/wp-content/uploads/2023/04/CCE_Klimabonus_Austria_April2023.pdf
- Explainer on carbon pricing in the EU Green Deal / Fit for 55:
https://citizensclimateeurope.org/wp-content/uploads/2023/04/CCE_CarbonPricing_FF55_April2023.pdf