

The proposed new ETS Directive and its unwanted ETS 2 implications

Citizens' Climate Europe · October 1, 2026

Commission proposal

In July 2026 the Commission proposed changes to the ETS directive for the review of ETS1. Article 1(14)(c) of [COM\(2026\) 616](#) provides that [paragraph 3](#) “is replaced by the following” and replaces the [existing list](#) with a two-tier structure. A priority list of purposes covers the decarbonisation of ETS sectors, and at least 50% of ETS 1 auctioning revenues must go to it. A second list governs the remainder.

The change is one of structure as much as of content. The current point (a) is a general clause: Member States may use revenues “to reduce greenhouse gas emissions”. Any measure that reduces emissions qualifies today. The Commission proposal does not include this option anymore.

Effect on ETS 2

ETS 2 covers fuel combustion in buildings, road transport and small industry; its revenues are not raised from the industrial sectors whose decarbonisation the proposed priority list is designed to fund.

[Article 30d\(6\)](#), which governs the use of ETS 2 auctioning revenues, contains no complete list of its own. It provides that Member States shall use their revenues “for one or more of the purposes referred to in Article 10(3) of this Directive”, giving priority to activities addressing social aspects, or for four ETS 2-specific purposes: building decarbonisation, zero-emission vehicles and public transport, financing the national Social Climate Plan, and compensation where double counting could not be avoided.

Yet because that reference is dynamic, everything that happens to the Article 10(3) list carries across. Of the fourteen points in the current list, one disappears without any successor: point (hb), the national climate dividend. The words do not occur anywhere in the new provisions. Several others are carried over only in part – the general limb of point (a), revenues used “to reduce greenhouse gas emissions”, is the clearest example. The social heading survives as point (f) of the second list, but the reference to reducing distortive taxes and to targeted reductions of duties and charges for renewable electricity does not survive with it. The second list is visibly the current list re-lettered. The deletion of the climate dividend originates with the Commission and is not part of any impact assessment.

The tension with the stated scope

The explanatory memorandum to COM(2026) 616 states, at the end of section 1 (p. 8):

“ETS2 is excluded from the scope of this proposal as it will become fully operational in 2028, its application is due for review by 2029, and any assessment of the feasibility of integrating the sectors under ETS2 into the EU ETS is due by 2031.”

The impact assessment states the same for its own scope (SWD(2026) 616, Part 1, section 1, p. 4):

“As the ETS2 becomes fully operational in 2028, it is excluded from the scope of this impact assessment. Furthermore, the application of the ETS2 is due to be reviewed by 2028 and any assessment of the feasibility of integrating the sectors under ETS2 into the EU ETS is subject to a review clause due in 2031, as set out in Article 30i of Directive 2003/87/EC.”

Yet the revision does change what ETS 2 revenues may be spent on. Under the Commission's proposal, several purposes are added, one is removed, several are narrowed, and the general clause is gone. Substantively the ETS 2 revenue menu is rewritten by a proposal that states it does not cover ETS 2, and by an assessment that excludes ETS 2 from its scope.

Social and political impact

ETS 2 is where household costs directly arise, and it is there that the question of how people are compensated will be decided in the coming years, yet the list of ETS 2 revenue purposes has become much more focused on industry and the climate dividend is missing.

The solution for ETS 2

An option that leaves the ETS 2 provisions untouched is to separate the two regimes within Article 10: paragraph 3 remains as it stands and continues to serve as the reference point for Article 30d(6), while the new two-tier structure is inserted as a separate paragraph applying expressly to the ETS 1 revenues.

Sources: COM(2026) 616 final of 17 July 2026, explanatory memorandum p. 8 and Article 1(14)(c); SWD(2026) 616 final, Part 1, section 1, p. 4; Directive 2003/87/EC, Articles 10(3) and 30d(6) as in force.