

Joint non-paper by Austria, Belgium, Bulgaria, Croatia, Czechia, Estonia, Germany, Italy, Latvia, Lithuania, the Netherlands, Poland, Romania, Slovakia, Slovenia, Spain (and others TBC)¹ on ETS2 price uncertainties and possible improvements

Emission trading has been a cornerstone of European climate architecture and the new ETS2 as a pricing system is set to become a component in a mix of instruments for achieving EU's and Member States' already agreed greenhouse-gas emission reduction targets. In this respect, the forthcoming EU ETS2 could deliver a credible carbon pricing signal and drive emission reductions in the building and transport sectors, in conjunction with other sectoral policies and supporting measures needed to decarbonize these sectors.

In recent months, several Member States and stakeholders have expressed concerns about significant uncertainties regarding future price levels and price volatility in the ETS2. These concerns include:

- **Uncertainty around the initial price level in 2027** limits the ability of national authorities', entities' and consumers' to anticipate the impacts of carbon pricing, creating political risk from potential energy price shocks at the date of implementation, complicating preparation of adequate support and compensation measures;
- **Risks of market price volatility, aggravated among others by the current design of the Market Stability Reserve (MSR)**, which may create a sharp threshold effect when triggered;
- **Safeguards against possible high price levels**, like the current soft price cap of 45 €₂₀₂₀/tCO₂ and other measures in the case of very rapid **price increases**, may be insufficient if prices are significantly higher than originally expected² and could result in substantial negative social impacts.

It has been emphasized that the most effective way to stabilize prices within ETS2 and achieve moderate price levels is to implement measures aimed at reducing emissions in the relevant sectors. ETS2 will generate substantial revenues that will feed the Social Climate Fund and the Member States' budgets and these revenues can be used to support vulnerable households in the transition, which will make them more resilient to rising CO₂ prices. **However, to address the legitimate concerns around price uncertainty and social impacts and to strengthen the public acceptance of the system, improvements should be considered already prior to the market's launch.** This non-paper outlines a range of possible options for such adjustments to sufficiently address concerns about price uncertainty and high price levels.³

The signatory Member States invite the Commission to swiftly assess all the following proposals. Proposal 1 can be pursued without any revision to the current legislative framework,

¹ THE LIST OF MEMBER STATES IS NOT CLOSED AND WILL BE UPDATED IN THE UPCOMING DAYS AFTER SOME MS FINALISE THEIR ONGOING INTERNAL PROCEDURES, **current version as of 25. 6. 20025, 10.00**

² The reference ETS2 price used in the [impact assessment](#) of the Fit-for-55 package was 48 €₂₀₁₅/tCO₂, as indicated in table 36 of part 2 of document SWD(2021) 601. This price served as the basis for calculating the financial envelope of the Social Climate Fund, which was intended to represent 25% of the projected ETS2 revenues. More recently in the Commission Guidance on the Social Climate Plans ([C\(2025\) 881 final](#)) on page 28, the common value for the ETS2 carbon prices estimate is between 30-60 €₂₀₂₃/tCO₂ for years 2027-2032.

³ Without prejudice to other positions of individual Member States.

while the proposals 2 and 3, 4 and 5 require a targeted revision of the auctioning regulation or the MSR decision respectively.

1. Publish regularly information to better inform price forecasts for ETS2

The publication of regular, official data would significantly support stakeholders in forming their price expectations. This should include key ETS2 market indicators such as electric vehicle sales, heat pump installations, building renovation rates, and other relevant sectoral data that directly impact allowance demand. Such information, possibly supplemented by structured market surveys, would provide all relevant stakeholders with a clearer understanding of expected demand for ETS2 allowances and enable analysts to establish more robust medium-term price trajectories. Regular meetings between stakeholders, analysts, and the Commission could facilitate this information exchange.

In addition, the publication of public forecasts would help national authorities to plan better their policies and support measures, help consumers to anticipate the profitability of low-carbon investments and broadly improve the predictability and effectiveness of the carbon pricing signal. The Commission could regularly update the Council at Working Party level on forecasting and projection work concerning ETS2.

2. Launch early auctions in 2026 to reduce price uncertainty for 2027

The possibility of initiating ETS2 auctions already in mid-2026 should be explored⁴. This would not require a revision of the emissions cap, but rather a redistribution of the 2027 auction calendar over 1.5 years with appropriate number of auction dates to ensure an adequate level of liquidity for each auction. Early auctions would offer market participants a clearer view of expected prices, enabling households, businesses, fuel distributors and national authorities to better prepare for the entry into force of the system in January 2027. It would also make the carbon price signal more transparent and predictable, enabling it to deliver emission reductions more effectively.

3. Smooth the MSR trigger mechanism to limit volatility, as in ETS1, and increase the released MSR volumes in tight market conditions

The current MSR design for ETS2 risks causing significant price swings in 2028 and 2029, as small deviations around the activation threshold could result in abrupt allowance injections — or none at all. A more gradual and responsive trigger rule — inspired by the approach taken for ETS1 in 2023 — should be considered. This adjustment would reduce market instability and reinforce more stable carbon pricing signal. Furthermore, this revision would help better control market prices in the first years, as it would trigger allowances for Total Number of Allowances in Circulation (TNAC) higher than the current 210 mil threshold.

As part of the revision, the Commission should also explore the possibility to slightly increase the volume of allowances released for instances of very tight market, so the MSR can provide stronger market control under such conditions⁵.

4. Extend the MSR lifetime beyond 2031

Unlike the ETS1 MSR, the ETS2 MSR is currently set to expire by 2031. This sunset clause could lead to a shortage of allowances precisely when the market is expected to be most constrained — from 2030 to 2033, once frontloading is fully absorbed. Removing the clause would help maintain price stability over time and increase market participants confidence. As

⁴ Mid 2026 as the earliest possible date, after the contract to the auction platform has been awarded.

⁵ Under current rules, the MSR can release only 100 mil. allowances if the TNAC falls below 210 mil, which can be inadequate to stabilize the market and prevent price spikes in case of very low TNAC.

a safeguard accompanying the extension of the MSR, it could be considered to cap the volume of allowances released during the new extension period.

5. Reinforce the price control mechanisms

To mitigate the risk of excessive price increases, the current 'soft price cap' of 45 €₂₀₂₀/tCO₂ provided by Article 30h (2) could be strengthened, by increasing either the volume of allowances released or the frequency of injections. This can be achieved through an MSR revision without reopening the ETS Directive, by introducing a specific top-up mechanism in the MSR when Article 30h(2) is triggered.

Moreover, to enhance market confidence that appropriate measures will follow in the event of high prices and provide clarity for stakeholders regarding the frequency of interventions, the Commission should issue an official statement acknowledging its commitment to propose the implementing act referred to in Article 30h(7), thereby confirming two possible interventions annually when market conditions warrant such action.

For the longer term, some Member States would like to ask the Commission to assess the feasibility of additional options to enhance price stability.