

EU Emissions Trading System for buildings and road transport ("EU ETS 2")

General Information

ETS Description

In July 2021, the European Commission proposed the “Fit for 55” package of reforms to align EU climate and energy policy with the objectives of the “European Green Deal”, most importantly the ambitious 2030 climate target of reducing net emissions to at least 55% below 1990 levels. The package included important amendments to the EU ETS framework, including a proposal to extend emissions trading to new sectors.

A new, separate emissions trading system (EU ETS 2) will be established to cover emissions from fuels used for combustion in buildings, road transport and additional sectors (mainly small industrial emitters not covered by the existing EU ETS). The EU ETS 2 will complement other policies of the European Green Deal in the covered sectors, helping Member States achieve their emission reduction targets under the “Effort Sharing Regulation” (Regulation (EU) 2018/842).

The EU ETS 2 is based on the ‘cap-and-trade’ principle. It will cover emissions upstream, meaning the obligation to surrender allowances will fall on the fuel suppliers rather than end-consumers. The EU ETS 2 cap will be set to bring emissions down by 42% by 2030, compared to 2005 levels. Monitoring and reporting obligations for emissions from the covered sectors started in 2025.

The EU ETS 2 was originally due to become fully operational in 2027. Following a decision by the EU Council and the European Parliament in March 2026, the start date was postponed for one year, to 2028.

Allowances in the EU ETS 2 will be distributed exclusively via auctioning. In the first compliance year, additional auction volume will be front-loaded to ensure a smooth start of the system. The EU ETS 2 will also operate with a dedicated, rule-based market stability reserve (MSR) to mitigate insufficient or excessive supply of allowances to the market. The Commission proposed further changes to the MSR in November 2025 to support a smooth start of the EU ETS 2 and accelerate early investments into sectoral decarbonization (see ‘Market Stability Provisions’ section). Member States and the European Parliament will have to approve those changes before they come into force.

The EU ETS 2 also has an opt-in option, allowing Member States to unilaterally extend the system to sectors not covered by the Directive in their jurisdiction (such as fuel use in agriculture and forestry), with the Commission's approval. In 2024, the Commission adopted delegated acts to approve individual requests for extension.

A share of revenues from the EU ETS 2 will be used to support vulnerable households and micro-enterprises through a dedicated Social Climate Fund, created as part of the Fit for 55 package. Member States will be required to use the remaining EU ETS 2 revenues for climate action and social measures.

The full transposition of the provisions for the new system into EU Member States' law was required for mid-2024. As several countries have yet to finalize the transposition, the Commission is actively collaborating with Member States to support and ensure completion of this process.

ETS Status

under development

Jurisdictions

Austria
Belgium
Bulgaria
Croatia
Cyprus
Czech Republic
Denmark
Estonia
Finland
France
Germany
Greece
Hungary
Iceland
Ireland
Italy
Latvia
Liechtenstein
Lithuania
Luxembourg
Malta
Netherlands
Norway
Poland
Portugal
Romania
Slovakia
Slovenia
Spain
Sweden

Sectoral coverage

Transport
Buildings

Revenue usage

Climate mitigation
Assistance for individuals, households, and businesses

Emissions & Targets

Overall GHG Emissions excl. LULUCF (MtCO₂e)

3,105.6 MtCO₂e (2023)*

* National emissions for the EU-27 reported to the UNFCCC and to the EU in May 2025 under the “EU Governance Regulation”.

GHG reduction targets

By 2030: Reduce net emissions to at least 55% below 1990 levels (“European Climate Law”)

By 2040: Reduce net emissions to 90% below 1990 GHG levels (European Climate Law, amended)*

By 2050: Net zero (European Climate Law)

* Includes a contribution of high-quality international credits under Article 6 of the Paris Agreement. For more information, see Factsheet on the EU ETS 1.

Size & Phases

GHGs covered

CO₂

Sectors and thresholds

The EU ETS 2 covers the emissions from the consumption of fuels used for combustion in the road transport and buildings sectors, as well as in small industrial emitters. This essentially concerns the following fossil fuel sources: petrol, gasoil (diesel), heating oil, natural gas, liquefied gas, and coal.

Point of regulation

Upstream

Type of entities

Entities releasing fuels for consumption (e.g., fuel distributors)

Allowance Allocation & Revenue

Allowance allocation

Allowances in the EU ETS 2 will only be auctioned. A share of EU ETS 2 revenues will be allocated to the Social Climate Fund. All remaining EU ETS 2 allowances will be distributed among Member States to be auctioned, based on the average distribution of emissions in the covered sectors over 2016 to 2018.

Use of Revenues

The Social Climate Fund was created alongside the EU ETS 2 to help EU Member States in financing structural measures and investments in energy efficiency and renovation of buildings, clean heating and cooling and integration of renewable energy, as well as in zero- and low-emission mobility solutions. Member States will also have the option of spending part of the resources on temporary direct income support.

All measures and investments will be compiled in national Social Climate Plans. The Fund will pool resources from the auctioning of allowances in the EU ETS 2 as well as of 50 million allowances from the EU ETS 1. Together with a mandatory 25% contribution of the Member States to their Social Climate Plans, the Fund should mobilize at least EUR 86.7 billion (USD 98.0 billion) between 2026 and 2032.

Member States will be required to use their remaining EU ETS 2 revenues for climate and social purposes.

Flexibility & Linking

Other carbon pricing instruments in the jurisdiction

ETS: EU ETS 1

Fuel ETS (national): in Austria and Germany, to be replaced by the EU ETS 2 from 2028.

Carbon tax (national): in Denmark, Estonia, Finland, France, Hungary, Latvia, Netherlands, Norway, Poland, Slovenia, Spain, and Sweden.

Compliance

Compliance mechanism

Covered entities must surrender one compliance unit (allowance) per tonne of CO₂ emitted for all their verified emissions in a compliance period.

Compliance Period

One year. Deadline for surrendering allowances is end of May in the year following the compliance period.

Monitoring, Reporting, Verification (MRV)

FRAMEWORK: A harmonized framework of MRV and accreditation requirements underpins the EU ETS 2 functioning. Key documents are:

- “Monitoring and Reporting Regulation (2018/2066)”
- “Accreditation and Verification Regulation (2018/2067)”

Monitoring and reporting obligations for covered entities started in 2025.

MONITORING: The monitoring approach is to use scope factors to distinguish final consumption sectors* and emission factors for fuel types. Covered entities must have approved monitoring plans in place as part of their GHG permits.

REPORTING: By the end of April 2025, covered entities submitted their first emission reports for their 2024 covered emissions. From 2026, covered entities will report verified emissions.

VERIFICATION: Verification of emission reports by an independent accredited verifier is required from 2026 (for 2025 emissions). Verifiers must be accredited by national accreditation bodies of Member States in accordance with the Accreditation and Verification Regulation (EU) 2018/2067, which is based on the ISO/IEC 17029 and ISO 14065 international standards for GHG validation and verification bodies.

* To exclude activities that do not fall under the scope of the system, such as agricultural use of fuel.

Penalties and enforcement

Covered entities must pay an excess emissions penalty of EUR 100 (USD 113), adjusted for inflation with 2013 as the base year, for each tCO₂ emitted for which no allowance has been surrendered, in addition to buying and surrendering the equivalent number of allowances. The name of the non-compliant entity is also made public. Member States may enforce different penalties for other forms of non-compliance.

Market Regulation

Market Stability Provisions

ETS 2 MARKET STABILITY RESERVE (MSR)

Instrument type: Quantity-based instrument

Over the course of the first compliance year, a 30% higher volume of allowances will be auctioned to provide market liquidity. The EU ETS 2 was originally set to operate with a dedicated, rule-based MSR until 2030 to mitigate insufficient or excessive supply of allowances to the market, and with measures in the event of an excessive price increase.

Functioning: The reserve will be initially endowed with 600 million allowances. During the first three years of the EU ETS 2's operation, additional allowances may be released from the MSR if the price of allowances exceeds EUR 45 (USD 50.8) (in 2020 prices, i.e., adjusted for inflation), in order to address excessive price increases. Allowances may also be released from this reserve if the price increases too

rapidly, according to specific rules and conditions. The changes to the instrument proposed by the EU Commission in November 2025* include doubling the number of allowances to be injected if the carbon price exceeds EUR 45, while also extending the instrument's validity beyond 2030.

* The changes pending the final decision by the European Parliament and the Council.

Other Information

Institutions involved

European Commission:

Responsible for implementing and administering the EU ETS 2, including centralized elements such as the EU registry. The overall regulatory framework is adopted by the European Parliament and the Council, whose legislative decisions guide and constrain the Commission's role.

Competent authorities of all EU Member States as well as Iceland, Liechtenstein, and Norway: implementation, e.g., verifying compliance with MRV and surrender obligations.

Regulatory Framework

[Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a system for greenhouse gas emission allowance trading within the Union](#)

[Regulation \(EU\) 2023/955 of the European Parliament and of the Council establishing a Social Climate Fund and amending Regulation \(EU\) 2021/1060](#)

[Decision \(EU\) 2015/1814 of the European Parliament and of the Council of 6 October 2015 establishment and operation of MSR for EU's GHG ETS](#)

All other legislation and documentation can be found [here](#).

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