To: Mr. Wopke Hoekstra, European Commissioner for Climate, Net Zero & Clean Growth;

CC: Mr. Dan Jørgensen, European Commissioner for Energy and Housing

Subject: Non-paper on ETS2 price levels & volatility

Dear Commissioner,

We are writing to you following the recent Non-paper by a number of EU Member States who request you consider different measures to address “uncertainties regarding future price levels and price volatility in the ETS2”. We share the concerns about the social impacts and the need to ensure “public acceptance of the system”, but disagree with some of the proposed solutions.

We agree that better information on the demand for emissions (option 1 in the Non-paper) is crucial, as demand is the fundamental driver of high prices. We also agree that it can be helpful to begin the auctions for the first year of operation of ETS2 early (option 2). These are positive steps to increase credibility and encourage timely investments to move away from fossil fuels. This benefits people and climate.

By contrast, weakening the conditions under which MSR2-allowances are released and extending the lifetime of the MSR2 (options 3, 4 and 5) decrease ETS2 prices at the cost of more emissions. Under current rules, only a small proportion of allowances placed in the market stability reserve (MSR2) is expected to be used[1], so that loosening the rules regarding outflow of the MSR2 or removing the sunset clause will increase the total amount of emissions in the ETS2 sectors. This risks undermining the credibility of the ETS2 and EU climate policy more broadly. We need commitment to reassure households and investors that we are serious about our climate targets.[2]

Loosening the conditions or extending the lifetime of MSR2 without other climate policy measures will make it very difficult for EU countries to reach their commitments under the Effort Sharing Regulation. The Commission must again remind Member States that the EU's climate policy is a carefully balanced package: Any weakening of the MSR must be offset by strengthening another climate policy. Higher emissions in the ETS2 sectors would require greater efforts by Member States in other ESR sectors, something we see as very unlikely.

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[1] See section 2.5 of the recent report for the German Environment Agency by Graichen and Ludig (2024). They analyse the amount of MSR allowances used and find that under different assumptions about price evolution, only a very limited amount of MSR allowances are used. Under the current rules, they estimate that 467-600m allowances are invalidated in 2031 as the MSR2 ends.

[2] On the importance of credibility, see the recent study by Pahle et al. (2025) for the Konrad Adenauer Foundation (only available in German).

Rather than focusing on price control mechanisms, the demand for emissions allowances should be the focus: The price for ETS2 allowances will be high if demand for emissions is high. Reducing demand for emissions requires complementary policies that Member States are reluctant to adopt so far. Member States can adopt a number of measures to reduce demand for emissions outside of the ETS2, using regulations, subsidies for clean technologies, phasing out fossil fuel subsidies or setting national carbon floor prices.These policies could all help boost investments in clean technologies, driving down demand for allowances, and stabilising ETS2 prices.

There are more direct ways to address the social consequences of carbon pricing as well as foster public acceptance of this measure. A fair and transparent distribution of revenues in particular is essential. We welcome the Social Climate Fund in this regard, and have been engaged in efforts to help Member States propose socially and environmentally valuable projects.[3] However, the SCF is insufficient and Member States need to use their share of the ETS2 revenues well too. Beyond revenue distribution, other social climate measures can be part of the solution, regulating the distribution of ETS2 between renters and owners for example.

To avoid high prices in the ETS2, the signatories of the Non-paper attempt to modify key rules relating to ETS2. While options 1 and 2 can favour investment and thereby reduce prices without increasing emissions and are to be supported, options 3, 4 and 5 only reduce prices by increasing emissions, thereby undermining confidence in EU climate policy. Member States need to realise they have many instruments to promote decarbonisation in the ETS2 sectors. Social concerns and fears relating to public acceptance are warranted, but can be addressed without generating uncertainty about the EU's commitment to its climate policies.

Signed:

EEB European Environmental Bureau

CAN Climate Action Network Europe

LIFE Effect

[3] This is a key part of CAN Europe's position on ETS2. With the LIFE Effect consortium, the EEB has presented principles for revenue distribution, and National Social Climate Plans in particular, presented ten measures for NSCPs and is tracking the submissions of MS with REScoop.

EEB - please see our page on carbon pricing:
https://eeb.org/work-areas/climate-change/carbon-pricing/

CAN-E - please find our position paper here:
https://caneurope.org/position-paper-can-europe-views-on-ets2/

LIFE Effect consortium- https://life-effect.org/