



EU Emissions Trading System 2 - UDPATED

*Fact Sheet
October 2026*

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UPDATED EU ETS2 FACTSHEET: October 2026

EU's ETS2 Directive (EU) 2023/959	
Link	➤ EUR-Lex - 02003L0087-20240301 - EN - EUR-Lex
Key Dates	➤ ETS2 was introduced through Directive (EU) 2023/959 amending the existing Directive 2003/87/EC. ➤ The monitoring and reporting requirements and the obligation to hold a permit commence on 1 January 2025. ➤ The ETS2 will become fully operational in 2028

Introduction

This factsheet provides a short overview of the operation of the original EU Emissions Trading System including recent changes and its interaction with the EU Cross Border Adjustment Mechanism. It then provides an outline of the operation and current status of the new Emissions Trading System 2 which has been introduced to deliver emissions reductions in the road transport and buildings sectors. This document, originally published on the Council's website in 2025, has been updated on 01/10/2026 to reflect latest developments to the ETS2.

The EU Emissions Trading System

Overview of EU ETS

The original EU Emissions Trading System (EU ETS) covers around 45% of the EU's greenhouse gas emissions, primarily from power generation and heavy industry along with aviation and maritime emissions¹. 20% of Ireland's gross greenhouse gas emissions in 2024 were covered by the ETS. In 2025, Irish power generation and industrial companies covered by the EU ETS reduced their emissions by 5.5%²³, with overall emissions reductions of approximately 51% since its establishment in 2005.

The EU ETS sets an overall limit, or cap, on allowed greenhouse gas emissions each year which decreases annually⁴. In the period from 2024-27, this cap is reducing by 4.3% per year (in line with the Linear Reduction Factor or LRF) and the total auctioning volume is determined annually in line with this under the ETS Directive. Companies which fall under the EU ETS are

¹ Activities listed under Annex 1 of the EU ETS Directive are included in scope.

² [Ireland's greenhouse gas emissions from power generation and industry down by 5.5 per cent in 2025 | Environmental Protection Agency](#)

³ This included a 8.9% reduction from electricity generation installations and a decrease in industrial emissions of 2.5%.

⁴ One emission allowance gives the holder the right to emit 1 ton of CO₂ equivalent. The rules in relation to monitoring, reporting and verification of emissions are set out under the Monitoring and Reporting Regulation and Accreditation and Verification Regulation.

required to acquire and surrender carbon allowances to account for their greenhouse gas emissions, which can be purchased through ETS auctions or through secondary trades on carbon markets. The European Energy Exchange (EEX) holds regular auctions of European Union Allowances (EUAs)⁵.

Where an entity's emissions exceed the number of allowances they hold, they must purchase additional allowances. If it reduces its emissions, it can sell any surplus allowances it holds or keep these surplus emissions for surrender in future years. The price is established through a market mechanism whereby companies will either purchase allowances (if reducing emissions is more expensive) or abate their emissions (if buying allowances is costlier). As caps tighten to meet targets, the cost of achieving deeper reductions increases and the ETS price is expected to rise⁶.

A review of the EU ETS is scheduled for 2026 in order to align the ETS with the 2040 climate target is currently ongoing. It is a key objective of the Irish Presidency of the Council of the European Union for the Council to reach an agreed negotiating position on this file during their term.⁷

Free allocation of allowances and recent changes

Some allowances are allocated to certain regulated entities for free however free allocations have decreased under Phase IV of the EU ETS from 2021-2030. Free allocation was intended to reduce the risk of 'carbon leakage', where companies based in the EU could move carbon-intensive production abroad, or EU products could be replaced by more carbon-intensive imports. From 2026, free allocation under the EU ETS to installations producing goods covered under the Carbon Border Adjustment Mechanism (CBAM) will be phased out, reducing to zero from 2034.

One of the primary ongoing changes to the ETS is the phase out of free allowances for aviation (EU Aviation Allowances or EUAAs), a sector that has been included in the ETS since 2012⁸. From 2026, aviation companies will have to buy 100% of allowances.

Maritime companies were also included in scope of the ETS from January 2024 and reported verified emissions under the EU ETS for the first time⁹. Obligations to surrender allowances will be phased in from 40% of emissions for 2024, 70% for 2025 and 100% for 2026.

Interaction of EU ETS with CBAM

The Carbon Border Adjustment Mechanism (CBAM) will gradually replace free allocation for certain goods, including iron, steel, aluminium, cement, fertilisers, electricity and hydrogen under the EU ETS. The CBAM system mirrors the EU ETS and is applied on the actual

⁵https://www.eex.com/fileadmin/EEX/Downloads/Markets/Environmentals/20240905_EU_ETTS_-_Participation_in_the_auctions_and_outlook_secondary_market.pdf

⁶<https://www.climatecouncil.ie/councilpublications/otherpublications/Ireland%E2%80%99s%20climate%20action%20and%20the%20potential%20costs%20of%20missing%20targets%20FINAL.pdf>

⁷ [Minister O'Brien presents Ireland's energy and environment priorities for the EU Presidency to EU Parliament Committees](#)

⁸ Emissions from aviation reported to Ireland come from aircraft carriers assigned to Ireland under the EU ETS and includes flights to and from Ireland and within the European Economic Area (EEA).

⁹ This initially applies to cargo and passenger ships above 5000 gross tonnage that call at European economic area ports.

embedded emissions of goods imported to the EU, determined in line with the reporting of emissions under the EU ETS for the production of the same goods in the EU.

From the start of the definitive period of CBAM in 2026, EU importers will buy CBAM certificates corresponding to the carbon price that would have been paid, had the goods been produced under the EU's carbon pricing rules¹⁰. The price of CBAM certificates will mirror the ETS allowance price. The European Commissions' recent Omnibus proposal looks to fully exempt small importers of goods covered by CBAM from compliance and reporting obligations.

Importation of electricity from other countries outside the EU will require a carbon price to be paid for imports in 2026 and onwards, under the EU's Carbon Border Adjustment Mechanism. This is expected to impact on electricity trading between Ireland and the Great Britain¹¹, however discussions have begun on linking of EU and UK ETS¹². A recent EU-UK summit included an early-stage agreement to link both emissions trading systems, including reciprocal exemptions from carbon border adjustment mechanisms once the linked markets become operational. An agreement between the parties could be signed later this year¹³.

The EU Emissions Trading System 2

Overview of the EU ETS2

To address emissions from the road transport and buildings sectors, the EU decided to create a separate but adjacent system to the ETS, the EU Emissions Trading System 2 (ETS2)¹⁴. This market will cover some of the activities also included under the Effort Sharing Regulation and aims to provide an incentive for investments in building renovations and low-emissions mobility¹⁵. The ETS2 aims to enable emissions reductions in these sectors by 42% by 2030 compared to 2005 levels. The Directive was transposed in Ireland by way of Statutory Instrument No 470 of 2024¹⁶. For comparison as of 2023 across the EU, emissions from buildings were 32% lower than in 2005 while transport emissions were 5% lower¹⁷.

The ETS2 operates as a carbon trading scheme in the same way as the EU ETS but the regulated entities are upstream fuel suppliers, generally those registered with Revenue for Mineral Oil Tax, Natural Gas Carbon Tax or Solid Fuel Carbon Tax. It covers a range of fuels including petrol, gas oil, kerosene, LPG, natural gas, heavy fuel oil, coal and coke used in buildings and transport. Certain fuels like peat, waste used as fuels, solid biomass, and

¹⁰ https://taxation-customs.ec.europa.eu/document/download/013fa763-5dce-4726-a204-69fec04d5ce2_en?filename=CBAM_Questions%20and%20Answers.pdf

¹¹ Imports of electricity from Northern Ireland are not subject to CBAM.

¹² <https://carbon-pulse.com/392711/>

¹³ [UK-EU summit "could be" held in November, says British PM](#) « Carbon Pulse

¹⁴ This has been designed to address emissions from fuel combustion in sectors including road transport, buildings, energy, manufacturing, and construction (which includes small industry sectors which are not covered under the EU ETS).

¹⁵ https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/ets2-buildings-road-transport-and-additional-sectors_en

¹⁶ <https://www.irishstatutebook.ie/eli/2024/si/470/made/en/pdf>

¹⁷ [Progress towards national greenhouse gas emissions targets in Europe | Indicators | European Environment Agency \(EEA\)](#)

charcoal from wood are excluded¹⁸. An overview of sectors included in ETS2 is shown in Table 1.

Overarching sector	Included	Excluded
Buildings <i>CRF 1A4a & CRF 1A4b</i>	- Fuel combustion in residential/commercial/institutional buildings (space heating, water heating, cooking). This includes households fuel combustion - Also, off-road vehicles and machinery used in the buildings sector	- Any emissions from fuel combustion in agriculture, forestry, fishing and fishing industries (1A4c): - E.g. also <20 MW combustion units (incl. CHP) in agriculture sector - All ETS1 emissions: - Energy production and manufacture industries - Usually large >20MW combustion units (e.g. in large building complexes)
Road Transportation <i>CRF 1A3b</i>	- All combustion and evaporative CO₂ emissions arising from fuel use, such as from: - Cars - Motorcycles - Light-and heavy-duty vehicles - Busses - Trucks - Catalyst additives	- Other modes of transport: - Aviation (mostly covered by ETS1; 1A3a) - Off-road vehicles in agriculture (1A4c) - Railways (diesel trains) (1A3c) - Maritime transport (mostly covered by ETS1; 1A3d) - Military operations (1A5b)
Other sectors: Mainly (small-scale) industry <i>1A1, 1A2</i>	(Small-scale) industry, all energy industries (1A7) and manufacturing industries and construction (1A2) that are not in ETS1	- Majority (especially >20 MW installations) included in ETS1, and therefore excluded from ETS2 - Non-energetic purposes excluded (e.g. process emissions, chemical reactant, reducing agent)

Table 1, Fuel supplies covered under ETS2¹⁹

The Environmental Protection Agency (EPA) is the National Competent Authority for Ireland for the EU ETS and ETS2. Regulated entities will be required to purchase carbon allowances from 2028, while trading and surrender of allowances will be required by 2029²⁰. The start date of the scheme was changed as part of the agreement on the targets for 2040 agreed in late 2025²¹. A number of member states have recently pushed for reform or delay to the introduction of ETS2, with national concerns in relation to price volatility and impacts on households. The European Commission has stated that there is no review of the scheme planned before 2028²².

The European Commission is required to report to the European Parliament and to the Council by the end of 2027 on the implementation of the ETS2. It is also required to assess the feasibility of integrating the ETS I and ETS II systems by 31 October 2031²³.

Future Pricing under ETS2 and Market Stability Reserve

There is significant uncertainty around expected pricing under ETS2. In its impact assessment the European Commission expected prices in the scheme to fall between €45-€80 from 2027-30. The cap on allowances in 2027 has been set based on the average emissions from fuel

¹⁸ In the case of biomass, under Annex III of the EU ETS Directive, the release for consumption of fuels for which the emission factor is zero, is not considered in the scope of ETS2. The emission factor is zero only for biomass that complies with the sustainability and greenhouse gas emission-saving criteria established by RED II.

¹⁹ https://www.epa.ie/publications/licensing-permitting/climate-change/Workshop_ETS2_slidedeck_IE.pdf

²⁰ Monitoring and reporting requirements along with an obligation to hold a GHG permit commenced in January 2025.

²¹ [2040 climate target: Council agrees its position on a 90% emissions reduction - Consilium](https://www.consilium.europa.eu/en/press/press-releases/2025/11/2040-climate-target-council-agrees-its-position-on-a-90-emissions-reduction/)

²² <https://carbon-pulse.com/399314/>

²³ <https://www.gov.ie/en/department-of-the-environment-climate-and-communications/policy-information/eu-and-international-climate-action/#eu-emissions-trading-scheme>

combustion from 2016-2018²⁴. The Market Stability Reserve includes a number of mechanisms to address fluctuations in market prices by adjusting the supply of allowances. This includes three mechanisms under Article 30(h) of the Directive;

1. If ETS2 prices exceed €45/tonne of CO₂ over two months (in 2020 prices, adjusted for inflation), the mechanisms' Market Stability Reserve will release 20 million additional permits to the system.
2. If the average price of allowances is more than twice the average price compared to the six preceding months, 50 million allowances can be released (In 2027 and 2028 this condition can be triggered if the price is 1.5 times higher).
3. If the average price of allowances is more than three times the average price compared to the six preceding months, 150 million allowances can be released.

These additional permits may reduce the cost of allowances, but concerns have been raised on how effective the three price stability mechanisms included in the ETS Directive will be as they cannot be triggered simultaneously and can be activated only once every 12 months²⁵²⁶.

Recent research using the PRIMES energy system model assessed a number of scenarios with ETS2 prices varying between €71/tCO₂ to €261/tCO₂ in 2030²⁷, with lower prices associated with more stringent energy efficiency policies. For example, if energy demand for heating and cooling is decreased through significantly improved energy performance standards for buildings, the demand for ETS2 allowances would be reduced. Other estimates from Vertis Environmental Finance and Bloomberg have forecast prices of €111.7/tCO₂ to €259/tCO₂ and up to €149/tCO₂ by 2030. Energy and fuel suppliers are likely to pass on the cost of ETS2 allowances to final consumers.

Allowance futures contracts for ETS2 launched in May 2025 from the ICE exchange. While volumes were low, initial futures prices for 2028 came in at €73.57/tCO₂²⁸. There has been very limited trade in these contracts since the launch. However, it is notable that this futures price is of the same order as the current carbon tax in Ireland.

Interaction of ETS2 with Ireland's Carbon Tax

EU ETS2 extends emissions trading to sectors currently covered by Ireland's domestic carbon tax, and will be effective from 2028. Under Article 30e of the ETS Directive²⁹, Member States with a carbon tax rate which is equivalent or higher than the average ETS II auction price may exempt regulated entities subject to a national carbon tax from the obligation to surrender allowances for the years 2028 to 2030. The Directive notes that regulated entities may be exempted for a given reference year where the national carbon tax paid by a regulated entity is higher than the average auction clearing price. If the carbon tax is lower than the average auction price, the regulated entities will need to comply with the Directive in full.

In either scenario Irish consumers will face a price on carbon at least equivalent to the average auction price from 2028 onwards irrespective of any decisions at a national level on carbon taxation. An additional benefit of the existing national carbon tax is the hypothecation of a

²⁴ See: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L_202402951

²⁵ <https://www.tandfonline.com/doi/full/10.1080/14693062.2025.2485196#summary-abstract>

²⁶ [https://www.europarl.europa.eu/RegData/etudes/BRIE/2025/772878/EPRS_BRI\(2025\)772878_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2025/772878/EPRS_BRI(2025)772878_EN.pdf)

²⁷ <https://www.tandfonline.com/doi/full/10.1080/14693062.2025.2485196#abstract>

²⁸ <https://carbon-pulse.com/394515/>

²⁹ <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:02003L0087-20230605>

significant part of the associated revenues for climate action, amounting to over €1bn in Budget 2026 including €558m on retrofitting programmes, €350m in social welfare transfers and €173m on agricultural measures³⁰.

Ireland notified the Commission in 2023, in support of its application for a derogation under this provision of the Directive that the the national carbon tax is on a steady trajectory to increase annually up to €100 per tonne of CO₂ by 2030. Commitment to this trajectory was reiterated in the Programme for Government, 2025. All other obligations of the directive such as monitoring and reporting of emissions will apply to Ireland, and compliance with those obligations is also necessary to obtain the derogation.

Social Climate Fund (SCF)

The majority of revenue generated through the EU ETS2 will go directly to Member States to be spent on climate and energy related measures, while €65 billion will be allocated to the Social Climate Fund. The EU adopted Regulation 2023/955 on the Social Climate Fund along with the revision to the EU ETS Directive. This will be funded through 50 million allowances from the EU ETS, revenues from ETS2 and a mandatory 25% contribution by Member States to their Social Climate Plans³¹. It is expected to mobilise €86.7 billion in public funding between 2026-2032.

Member States will be required to use any remaining ETS2 revenues for climate action and social measures and report on how this money is spent. In order to access funding under the Social Climate Fund, Member States are required to draft Social Climate Plans setting out measures to support vulnerable transport users and households in consultation with local and regional authorities, civil society and other stakeholders. Member States were required to submit these plans to the European Commission by June 2025 for assessment and payments will only be made to Member States if milestones and targets set out in the plan are achieved. Ireland's maximum financial allocation under the Fund is set out in Annex II of the Regulation³² at 1.02% of the total or approximately €663,390,868. The risk of a number of Member States failing to provide their plans on time has been highlighted in a recent Briefing to the European Parliament³³. As of September 2026, Ireland has still not submitted a Social Climate Plan for approval to the Commission³⁴.

³⁰ [UPDATE – Ireland weighs slower carbon tax path as fuel cost pressures mount, EU ETS2 looms « Carbon Pulse](#)

³¹ https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/social-climate-fund_en

³² <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32023R0955>

³³ [https://www.europarl.europa.eu/RegData/etudes/BRIE/2025/772878/EPRS_BRI\(2025\)772878_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2025/772878/EPRS_BRI(2025)772878_EN.pdf)

³⁴ [Social Climate Fund national plans - Employment, Social Affairs and Inclusion](#)