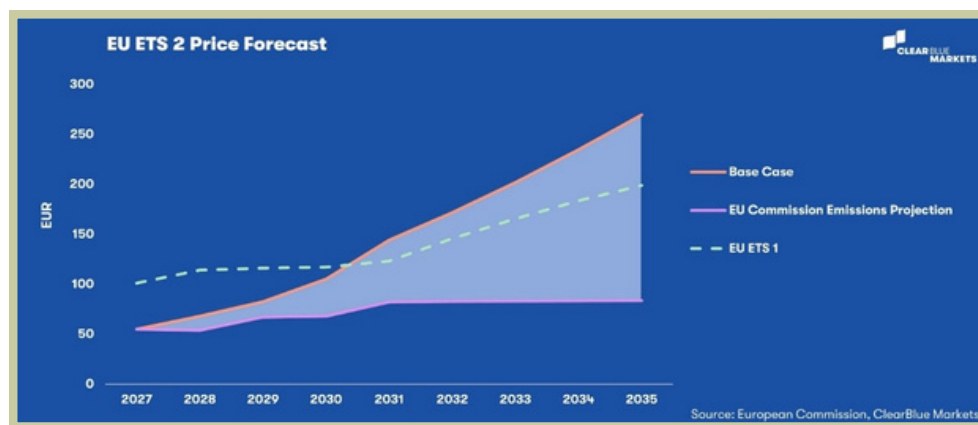


## EU EMISSIONS TRADING SYSTEM 2

### What is EU ETS 2?

- ◆ The EU Emissions Trading System 2 (EU ETS 2) is a carbon market created by the European Union to help reduce pollution from the sectors of buildings, road transport and small industries.
- ◆ Under the ETS2, fossil fuel suppliers will purchase allowances from auctions and surrender them at the end of each year, equivalent to the emissions from the fuel they sell. Emissions across these sectors will be capped and required to decrease annually.
- ◆ The cost of the allowances is predicted to be a pass on cost to the consumer which ultimately increase the prices of fossil fuels and consequently increase costs of heating and fuel, risking increasing energy and transport poverty across Europe.



### What could it mean for people?

The introduction of ETS2 will impact severely people across Europe, namely low-income households as they allocate a larger share of their income to energy expenses and possess limited means to adapt. ◆

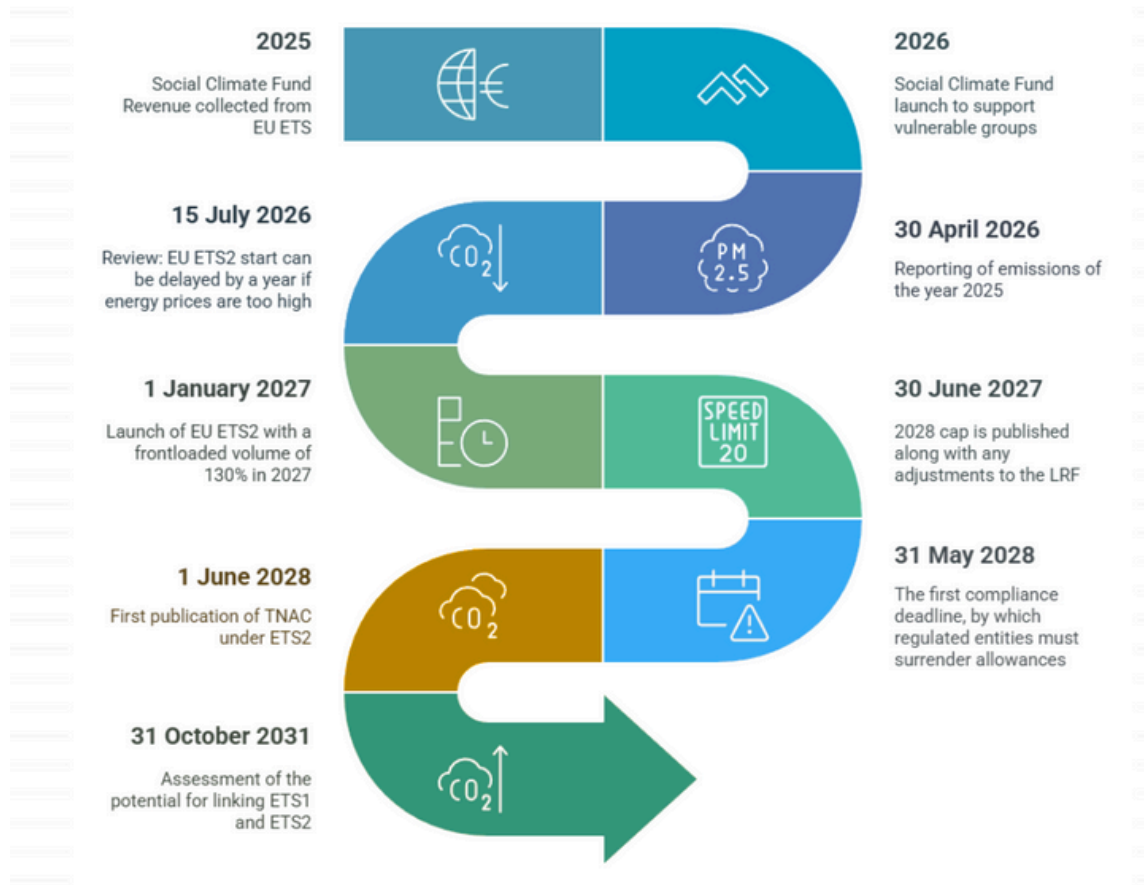
In Romania for instance, ClearBlue Markets forecasts that the price of ETS 2 allowances will reach EUR 105 by 2030, resulting in an increase of approximately €0.30 per litre in diesel prices, based on 2025 price levels. By 2035, the expected ETS price of €269 could raise diesel prices by around €0.72 per litre. ◆

In Poland, families using coal for heating might pay about €220 more in 2027 and €420 more by 2030 because of new carbon rules (ETS 2). Between 2027 and 2035, these families could spend around €2,200 extra if they don't switch to cleaner heating. ◆

### ...and for Social Service Providers?

- ◆ Rising heating and transport costs will make it harder for social service providers to help vulnerable people. Running these services will cost more, especially for organizations with older buildings and car fleets that still rely on fossil fuels.

## Key Milestones in the EU ETS2 Implementation



## SOCIAL CLIMATE FUND

### What is it?

- ◆ Recognising that rising fuel and heating costs (due to the ETS2 introduction) could disproportionately affect low-income households and vulnerable communities, the European Commission created the Social Climate Fund.
- ◆ To fulfil this objective, the Fund may be employed to finance structural measures and investments in energy efficiency, renovation of buildings, clean heating and cooling systems, and the integration of renewable energy sources, as well as low-emission mobility solutions. Furthermore, Member States will have the discretion to allocate a portion of the resources to temporary direct income support.
- ◆ All these measures and investments must be compiled into national Social Climate Plans, developed through public consultations due in June 2025.
- ◆ The Social Climate Fund will be funded by the auctioning of allowances under the ETS2, along with allowances from the existing EU ETS. However, the SCF provisions establish a maximum of 65 billion Euros and that Member-States will have to support 25% of the cost of their plans.

## KEY TAKEAWAYS

### on ETS2 and SCF



- ◆ **Price uncertainties:** Despite having different predictions, price uncertainty is there, as we have very different projections.



- ◆ **Low-income households will be the most affected by the introduction of the ETS2** and they need to be sufficiently supported to avoid increasing transport and energy poverty.



- ◆ **There is a need for more social measures:** The SCF is based on a very positive projection (from the EC) and might be insufficient to mitigate ETS2 impacts on the most vulnerable – possible source for those can be the remaining ETS2 revenues.



- ◆ **A Europe in two velocities:** Some countries, namely in CEE will be severely impacted by ETS2, while others, less reliant of fossil fuels will be less impacted by the carbon market. Moreover, impact is very dependent on the national support frameworks.



- ◆ **Limited understanding of indirect effects:** (focus on HP and EVs take up): rising gas prices can push poorer households to switch to firewood (lock-in effect, health, environmental consequences).



- ◆ **Infrastructure Bottlenecks:** Mass adoption of HP and EV requires significant upgrades (electricity grids, manufacturing capacity). Focusing only on technology uptake ignores whether the necessary infrastructure & supply chains are in place, and whether all regions have equal access to these upgrades.



- ◆ **Policy Uncertainty:** Changes in subsidies or regulations (such as cuts to heat pump incentives or delays in phasing out fossil fuel vehicles) can dramatically affect the affordability and uptake of these technologies, influencing who benefits from ETS 2 and who is left behind. (uncertain political context)



- ◆ **Building Efficiency:** Many homes in the EU, especially in CEE, are poorly insulated and cannot be quickly or affordably renovated. Immediate price increases from ETS 2 will hit these households hardest, while deep retrofits and technology adoption may take years to reach them.