December 3, 2024

EU Sets ETS2 Emissions Cap for 2027 to Advance Climate Targets

Key policies: *European Green Deal, EU Emissions Trading System (EU ETS), Effort Sharing Regulation (ESR), European Climate Law, Fit for 55 Package, Social Climate Fund, European Hydrogen Bank, InvestEU Programme*

The European Commission has adopted a Decision establishing the **EU-wide cap on emissions allowances under the EU Emissions Trading System for buildings, road transport, and small industry (ETS2)** for the year 2027. The cap has been set at **1,036,288,784 allowances**, marking a pivotal point in the EU's strategy to cut greenhouse gas emissions and reach its **2030 climate targets**.

The 2027 cap under ETS2 is the result of a detailed calculation grounded in historical data. It is based on the **average CO2 emissions from fuel combustion in the ETS2 sectors from 2016 to 2018**. This historical average was then adjusted downwards through two distinct reduction phases:

- **Phase 1 (up to 2024):** A linear reduction trajectory based on the scope of the **Effort Sharing Regulation**.
- **Phase 2 (2025–2027):** An **annual linear reduction factor of 5.1%**, as stipulated in **Article 30c(1) of the revised ETS Directive**.

These reductions reflect the EU's ambition to deliver effective decarbonisation across all sectors of the economy.

Inclusion of EEA-EFTA States

Importantly, the 2027 cap **also includes the EEA-EFTA States**, further reinforcing regional alignment on climate action. This integration ensures that the emissions trading system supports a level playing field across the internal market and strengthens cooperation across the wider European Economic Area.

Looking Ahead: ETS2 Cap for 2028

The Commission noted that the **2028 cap will be determined later**, based on the **average emissions data reported by regulated entities in the ETS2 sectors from 2024 to 2026**. This approach reflects a commitment to data-driven policymaking and provides the flexibility to adjust future caps based on actual emission trends and market performance.

Legal and Climate Significance

The adopted Decision fulfills the Commission's **legal obligation under the ETS Directive** to publish the Union-wide quantity of allowances for 2027 by **1 January 2025**. This step also sends a strong signal to regulated sectors, national governments, and market stakeholders, offering the predictability needed to plan low-carbon investments.

Supporting the European Green Deal

This project is supported by the Interreg Danube Region Programme co-funded by the European Union.

By setting a binding emissions cap for the newly included ETS2 sectors, the Commission is reinforcing its commitment to the **European Green Deal** and the **EU Climate Law**, both of which aim for a 55% reduction in net greenhouse gas emissions by 2030 and climate neutrality by 2050.

This Decision not only operationalizes the EU's climate goals but also lays the foundation for a carbon pricing mechanism that incentivizes energy efficiency, clean technology, and sustainable growth in the building and transport sectors.

Source: https://climate.ec.europa.eu/news-your-voice/news/emissions-trading-system-buildings-road-transport-and-small-industry-ets2-cap-adopted-2027-2024-12-03_en

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