

Germany adopts ETS 2 regulations

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On 31 January, the Bundestag passed an amendment to the Greenhouse Gas Emissions Trading Act (*Treibhausgas-Emissionshandelsgesetz*), incorporating new EU regulations on emissions trading systems into national law. A key element of the legislation is the implementation of the new EU ETS 2 mechanism in Germany. Under the current EU directive, ETS 2 is set to take effect in 2027 (or in 2028 under certain conditions) and will primarily cover the transport and building sectors.

The European Union's ETS 2 will replace Germany's national emissions trading system (*Nationales Emissionshandelssystem*, nEHS), which has covered these sectors since 2021. The initial CO₂ price in the nEHS was €25 per tonne, rising to €55 from January this year. By 2026, it is expected to reach between €55 and €65 per tonne. This charge has led to price increases of 13 cents per litre for petrol (+8% compared to the price without the levy), 15 cents per litre for diesel (+10%), 15 cents per litre for heating oil (+18%), and 1 cent per kWh for natural gas (+10%). The direct costs are borne by companies that place these fuels on the market, while all end consumers – including households and businesses – indirectly cover these costs. Revenue from emissions allowance sales under the nEHS, amounting to €13 billion in 2024, is allocated entirely to the state-run Climate and Transformation Fund, which finances initiatives related to the broader energy transition.

Germany is among the first EU countries to transpose the ETS 2 regulations into national law.

Commentary

- **The implementation of ETS 2 enjoys broad support from the main centrist political parties (CDU/CSU, SPD, the Greens, and FDP).** As early as 2019, when Germany adopted its national CO₂ pricing mechanism for the transport and building sectors, Berlin planned for it to be eventually replaced by the EU system, ideally by 2027. Germany was therefore one of the key advocates for introducing ETS 2 at the EU level as a crucial component of the 'Fit for 55' package. In contrast, the AfD, BSW, and the Left Party oppose CO₂ emission charges in these sectors.
- **The prevailing view in German public debate is that the emissions trading system is the most effective tool for driving greenhouse gas reductions.** This position is primarily advocated by leading economists and climate policy experts. Among political parties, the Christian Democrats and liberals see the mechanism as a model example of a market-based, technology-neutral, and proven EU-level solution. While the SPD and the Greens regard it as a complementary instrument within climate policy, placing greater emphasis

on regulatory measures such as the ban on registering combustion engine cars from 2035, the CDU/CSU and the FDP consider it the most important tool for accelerating decarbonisation.

- **Unlike in many other EU countries, the postponement of ETS 2 is not a major topic in Germany's public debate.** This remains the case despite rising energy prices and the country's challenging economic situation. However, leading media outlets and policy experts have expressed concern over discussions on this issue at the EU level. They portray a potential delay – advocated by some countries, including Poland, which is pushing for a postponement until 2028 or even 2030 – as a threat to the EU's climate policy. In Germany, the debate on ETS 2 primarily focuses on how to use the revenue from emissions allowance sales and how to mitigate the system's negative effects, particularly for the most vulnerable groups. There is broad consensus among the main political parties that the funds should be redistributed to citizens and businesses. The proposals include using them to lower electricity prices – such as through a drastic reduction in electricity taxes or funding grid expansion – or distributing them directly to residents in the form of a so-called climate dividend, either as a flat annual payment for all eligible individuals or as an adjusted payment based on income.
- **German climate policy experts, while supporting ETS 2, also warn of the risk of a sharp rise in emission allowance prices once the mechanism is implemented.** Forecasts vary significantly, with estimates ranging from €70 to €260 per tonne of CO₂ by 2030, depending on the scenario. They also highlight the risk of declining public support for climate policy, both in Germany and across the EU, particularly as the impact of ETS 2 will be felt far more acutely in countries with lower purchasing power than Germany. Experts are therefore urging policymakers to introduce effective protective measures for the most vulnerable groups in advance. Meanwhile, they call for intensified domestic efforts to reduce emissions, as Germany, the EU's largest greenhouse gas emitter, will have a significant indirect influence on emission allowance prices within the market-based ETS 2 system.