

Brussels, March 2025

## **Joint letter to establish an EU lending facility for ETS2 revenue for member states**

Dear Members of the European Parliament,  
Dear Officials of DG CLIMA,  
Dear Attachés of National Permanent Representatives,

In 2027, ETS2, the extension of EU-wide carbon pricing for emissions from buildings and road transport will begin. We kindly ask you to do everything in your power to ensure a socially just implementation of ETS2. As one of the core elements of the EU Green Deal, ETS2 was introduced due to insufficient progress in the decarbonisation of buildings and road transport sectors, with transport emissions increasing since 1990 and building emissions not reducing quickly enough. By decreasing the number of pollution permits for sale over time, the ETS2 aims to incentivise and support consumers to make clean technology choices and decarbonise buildings and road transport in a cost efficient manner. The ETS2 also provides an important source of financing for climate and social measures for Member States through the Social Climate Fund (SCF) and wider ETS2 revenue.

However, before the ETS2 starts, there's only a very small pot of investment budget available through the Social Climate Fund. In 2026, 50 million ETS1 allowances will be auctioned for the SCF, which could amount to a budget of around €4 bln if ETS1 prices remain at current levels. While making financing available before ETS2 begins is an excellent provision, increased funding and time would help to deliver more zero-emission alternatives to more people.

**To ensure sufficient measures are in place to mitigate ETS2 impacts from its very start, we - the undersigned organisations - call on the European Commission to set up a lending facility that extends loans, guaranteed by future ETS2 revenue and based on the SCF spending principles, directly to Member States for investment-related spending starting before 2026.**

- Member States could be allowed to borrow from this lending facility after approval of their planned investments by the Commission. For this, the Social Climate Plans

(SCPs), due by June 2025, can be used. Certain measures included in the plans could be pre-approved, for example when they implement [the best practice measures proposed by the Commission](#), with payments commencing already in the second half of 2025 or in 2026.

- The payments would not come from the SCF, but instead from this new EU lending facility supplied with “frontloaded” future ETS2 revenues. In that sense, pre-approval (before the entire SCP has been reviewed) and pre-payment (before a milestone has been hit) does not require any changes to the SCF legal text and will ensure that more support is given to those who experience a high fuel cost relative to their expenditure.
- Introducing extended loans to Member States from future ETS2 revenues can provide grants and direct investment in renewable heating and cooling systems and zero emission transport options for those in energy and transport poverty before the ETS2 impacts households. This enhanced preparedness could boost economic growth through increased investment while also increasing acceptance of the new emission trading system among citizens and the national governments in Member States, consolidating political support in the coming years. This will ensure a smoother and more effective implementation of ETS2 and the just transition as a whole.

**These loans would then be recouped from future guaranteed ETS2 revenues**, as we know that auctioning revenues are guaranteed to come in each year as of 2027.

The Commission could use the undersubscribed loan compartment of the Recovery and Resilience Facility (RRF) or Cohesion funds to provide these loans. An alternative option is to “frontload” the revenues using an intermediary like the European Investment Bank (EIB) or another public institution. The EIB could provide Member States with low-interest loans which would be repaid via resources from ETS2 revenues.

We think such a lending facility would ensure that clean investments in the transport and buildings sector that benefit lower and middle incomes take place well before the ETS2 starts, and ensure both Member States and citizens are better prepared for a socially just transition to ETS2.

Yours sincerely,

