An EU carbon price on buildings’ emissions (ETS2) and the Social Climate Fund

Za Zemiata Heating and Renovation Conference 20th June 2022
Buildings are the EU’s largest energy consumer

- What is the share of energy efficient buildings in the EU?

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Buildings’ envelopes are still very inefficient

Source: BPIE 2017, EC 2019
Deep renovation can lead to up to 90% energy savings

Source: JRC 2021. One-stop shops for residential building energy renovation in the EU.
Deep renovation rate must increase to 3% per year

Current annual renovation share of residential buildings in the EU

- non energy renovation
- below threshold / light energy renovation (below 30% savings)
- medium energy renovation (30% to 60% savings)
- deep energy renovation (60% savings and above)
- rest of the residential building stock

Decreasing energy demand

- Reach 3% average annual renovation rate
- The bulk of renovations should reach at least 60% savings

Source: BPIE 2017, EC 2019
An Emission Trading System (ETS) on heating fuels in buildings: price implications

Important non-price barriers

- Lack of awareness
- Access to finance
- Lack of technical assistance
- Split incentive

Potentially very high carbon price

- 170€/tCO2 required to achieve emission reductions (Polish Economic Institute 2021)

Social and political acceptability issues

- Average cost increase of +50% in transport and heating for poor households (Polish Economic Institute 2021)
- Risk of increasing energy poverty
- EU-wide uniform price overburdens low-income countries

Social and political acceptability issues
An Emission Trading System (ETS) on heating fuels in buildings: rebalancing fuel taxation?

- Electricity is far more taxed than gas in the EU. Nowhere in the EU is electricity cheaper than gas for the end-user.
- 30% of EU buildings already covered by the EU ETS
- Long term perspective: towards a uniform price on carbon across sectors?

Source: RAP, 2021; Agora EnergieWende, 2020
Rebalancing fuel taxation: alternatives to an ETS

- A reform of the energy taxation directive (ETD) at the EU level could play a similar role than an ETS on buildings with a price control mechanism
  - Advantage of an EU carbon tax: price trajectory predictability that ensure that the price signal is better understood by economic actors, especially households and SMEs
  - Problem of unanimity

- National carbon prices would be the most appropriate to take into account income and renovation markets differences.

- Removing fossil fuels subsidies: social justice and consistency should guide fuel taxation rebalancing at the EU and national level: 50€b subsidies for fossil fuels in the EU in 2018, but
  - Only 2b€ (4%) benefited directly to households
  - 36% of fossil fuels subsidies for the energy industry, 22% for the industry, the same share for transports
A high risk / low reward instrument for the EU?

- **Low reward** – **putting the cart before the horse**?
  - will not address key investment barriers.
  - diverting scarce political time and administrative resources.

- **High risk**: Success will eventually rest on national policies’ fairness and effective implementation of ambitious renovation policies that are currently lacking > major political risk for the EU
A Social Climate Fund to counterbalance the social impacts of ETS2?
How to turn a socially regressive policy into a progressive instrument?

- **Social and political acceptability issues**
- **Revenue recycling (100%)**
  - Social compensation (income support)
  - Financing renovation
- **Energy savings in buildings**

Temporary social cushioning as long as vulnerable households are exposed to the carbon price

Subject to extensive public debate and inclusive decision-making: would increase effectiveness, legitimacy and policy coherence. See JDI’s policy brief on inclusive governance for the SCF.
## The Social Climate Fund – as proposed by the EC

| Eligible measures | • social compensation (temporary income support)  
|                  | • green investment in buildings and mobility  
<p>|                  | Both targeted at the most vulnerable citizens and microenterprises. |
| ETS2             | Conditioned to ETS2 implementation |
| Funding          | A fixed budget of 10b€/year based on 25% of ETS2 expected revenues |
| Governance       | Centralized around the EC and MS: measures and investments to be detailed in national <strong>Social Climate Plans approved by the EC</strong> (similar to EU Recovery Plans) |</p>
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<tr>
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<th>EC proposal</th>
<th>EP</th>
<th>Council</th>
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<tbody>
<tr>
<td><strong>ETS2</strong></td>
<td>ETS2 implementation from 2026</td>
<td>ETS2 implementation limited to businesses in 2026, households excluded until at least 2029</td>
<td>ETS2 fully implemented (households + businesses) from 2027 onwards</td>
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<tr>
<td><strong>EST2 price cap</strong></td>
<td>no</td>
<td>50€/tCO2</td>
<td>no</td>
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<tr>
<td><strong>SCF starts</strong></td>
<td>2025</td>
<td>2024 (entry into force of ETS2)</td>
<td>2027</td>
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<td><strong>SCF funding</strong></td>
<td>72b€ over 2025 – 2032 (10b€/y) based on 25% of ETS2 expected revenues (fixed budget)</td>
<td>16b€ over 2024 – 2027 (5b€/y) because ETS2 reduced scope to 30% of initial scope (budget varying with ETS2 price)</td>
<td>59 b€ over 2027 – 2032 (11,8b€) (budget reduced if ETS2 price is lower than expected, but not increased if greater)</td>
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<tr>
<td><strong>SCF Governance</strong></td>
<td>Centralized around the EC and MS</td>
<td>Stronger provisions on involvement of stakeholders</td>
<td>Centralized</td>
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Beyond EST2/SCF, the need for a socially-fair policy framework

- **socially-fair price signals** (e.g. remove exemptions for businesses, industry or aviation),
- **more ambitious regulations** ([high Minimum Energy Performance Standards](#) for existing buildings and CO2 standards for cars),
- **adequate financing and technical assistance** ([sufficiently funded](#) and frontloaded Social Climate Fund),
- **a more inclusive governance** (mandate and support involvement of all stakeholders in the energy transition decision-making, include [strong multi-level governance in the Social Climate Fund](#)).
Thank you for your attention !
Addressing obstacles to deep renovation

1. Create awareness with a clear regulatory framework
   - Clear policy roadmaps
   - Mandatory Energy Performance Standards for existing buildings
   - Reliable Energy Performance Certificates
   - Definition of worst-performing buildings and deep renovation

2. Support compliance through technical assistance and funding
   - Capacity building programmes
   - Dense networks of one-stop-shops
   - Energy efficiency funding targeted for each market segment, grants for low-income households

3. Eliminating distortions
   - Removal of fossil fuel subsidies
   - CO2 taxation