

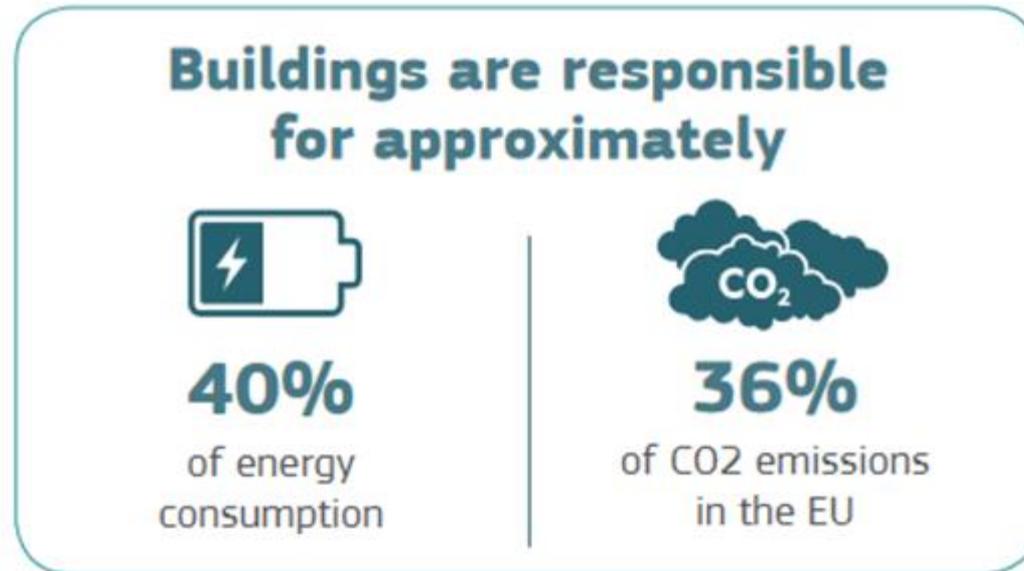
An EU carbon price on buildings' emissions (ETS2) and the Social Climate Fund

Za Zemiata Heating and Renovation Conference 20th June 2022



**Camille Defard,
Research Fellow EU Energy Policy**

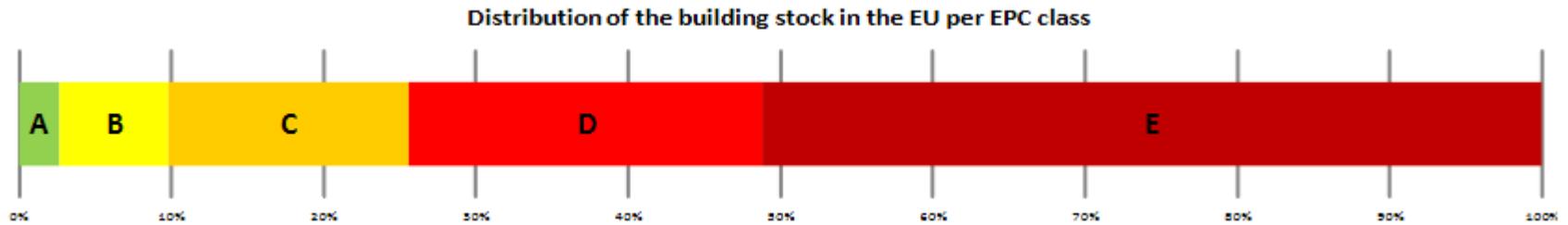
Buildings are the EU's largest energy consumer



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

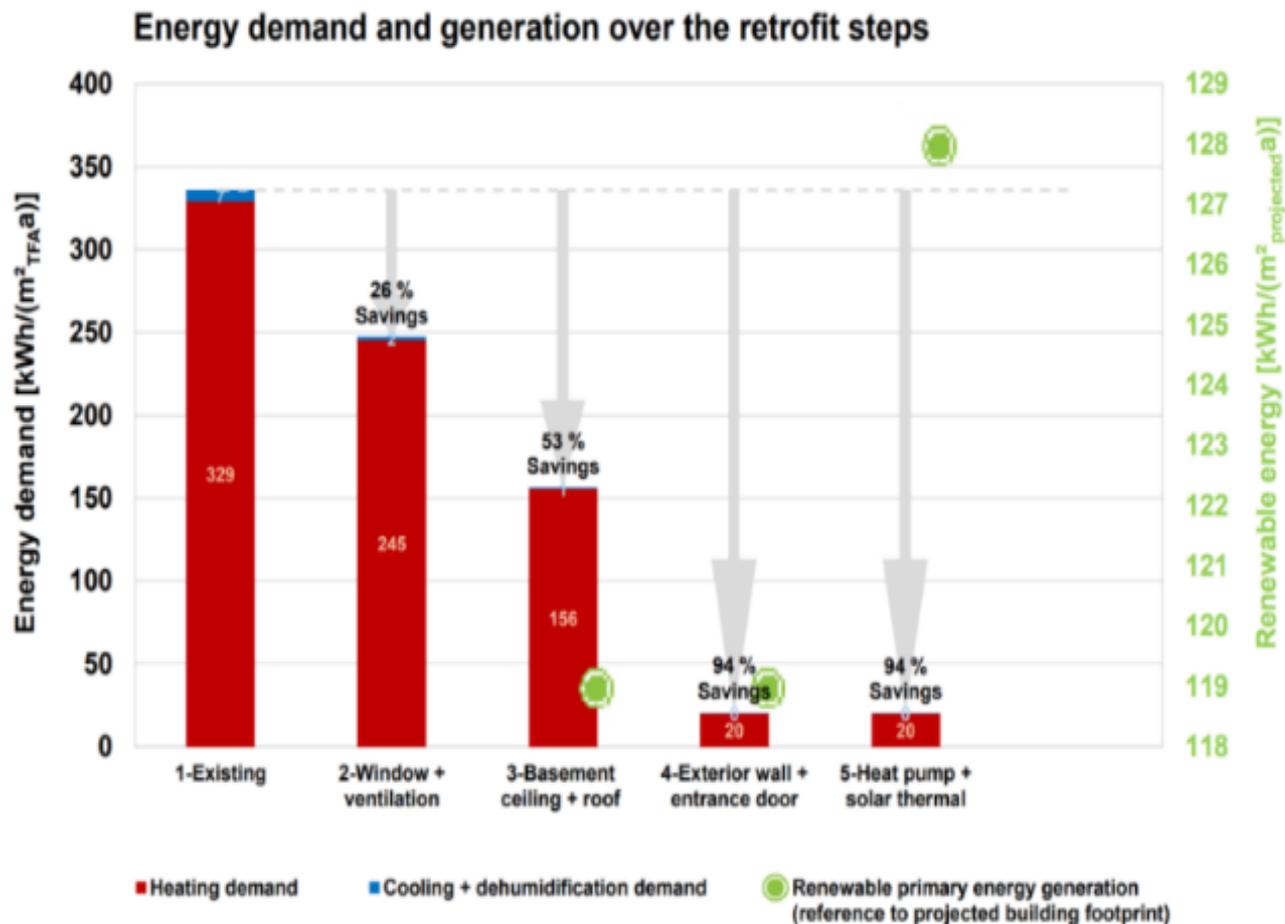
Sli.do #4061090

Buildings' envelopes are still very inefficient



Source: [BPIE 2017, EC 2019](#)

Deep renovation can lead to up to 90% energy savings

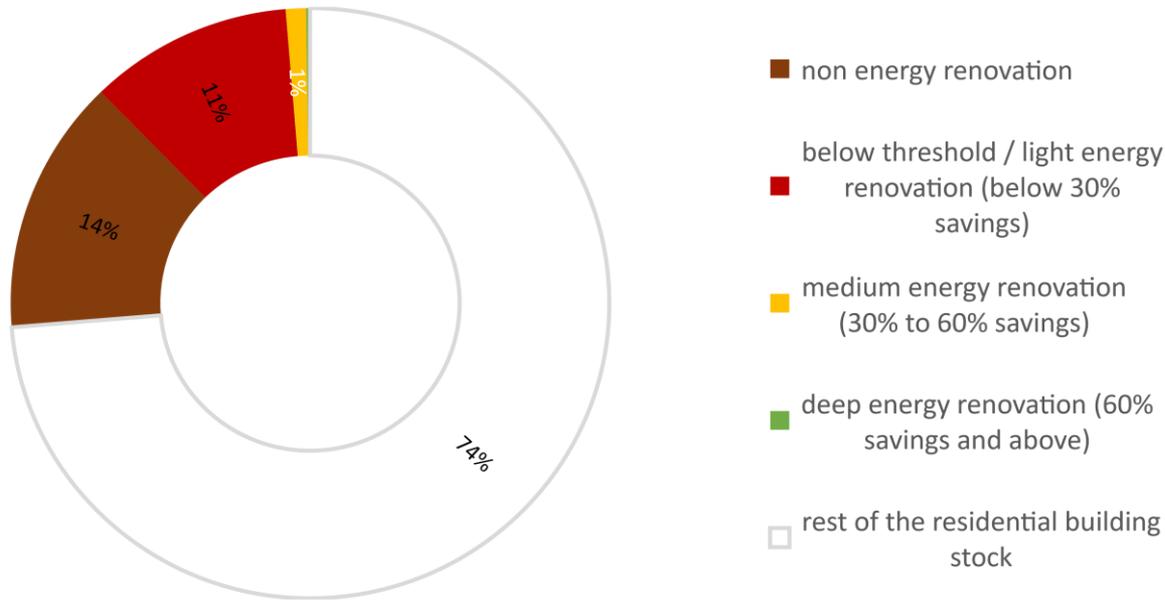


Source: Bastian (2016)

Source. JRC 2021. [One-stop shops for residential building energy renovation in the EU.](#)

Deep renovation rate must increase to 3% per year

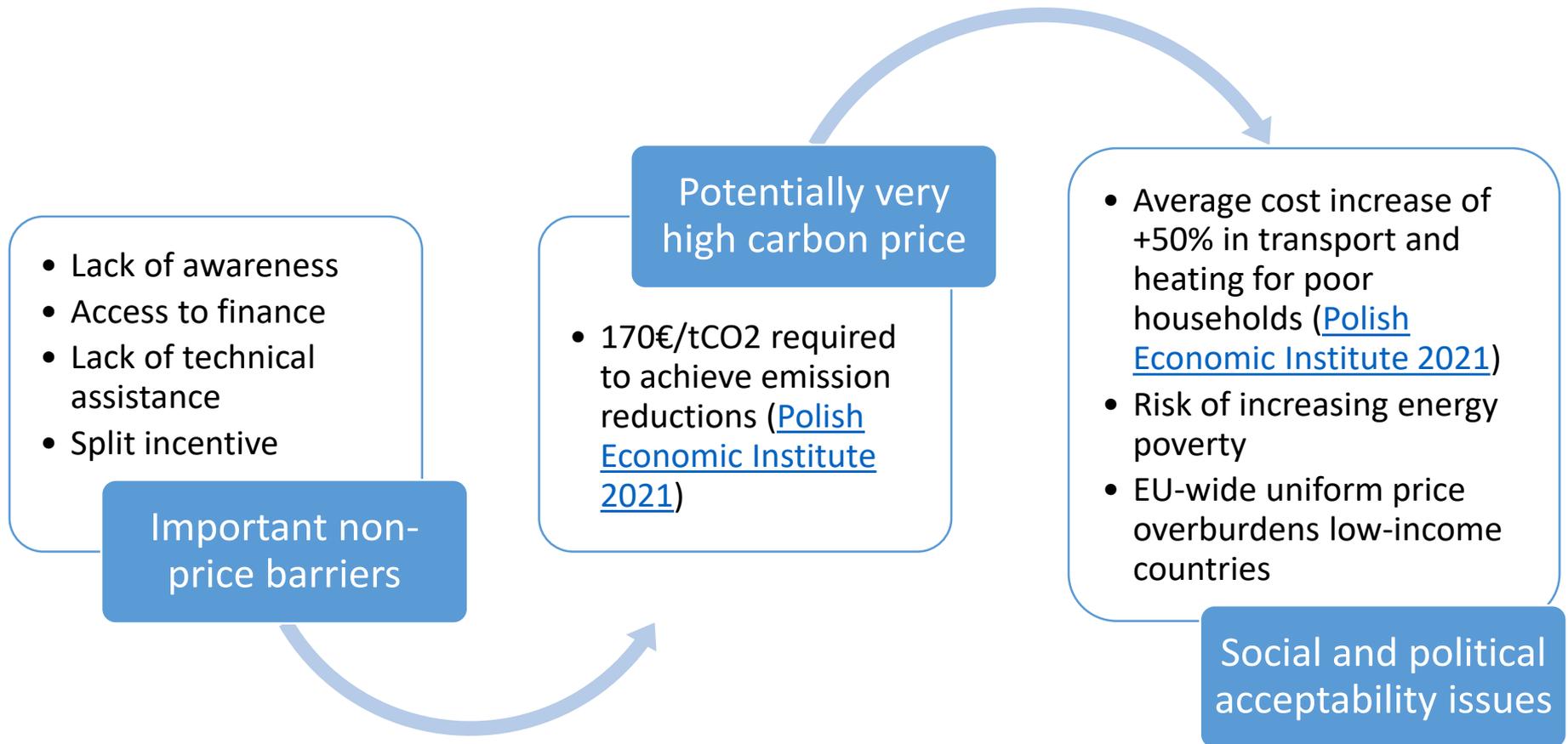
Current annual renovation share of residential buildings in the EU



Decreasing energy demand

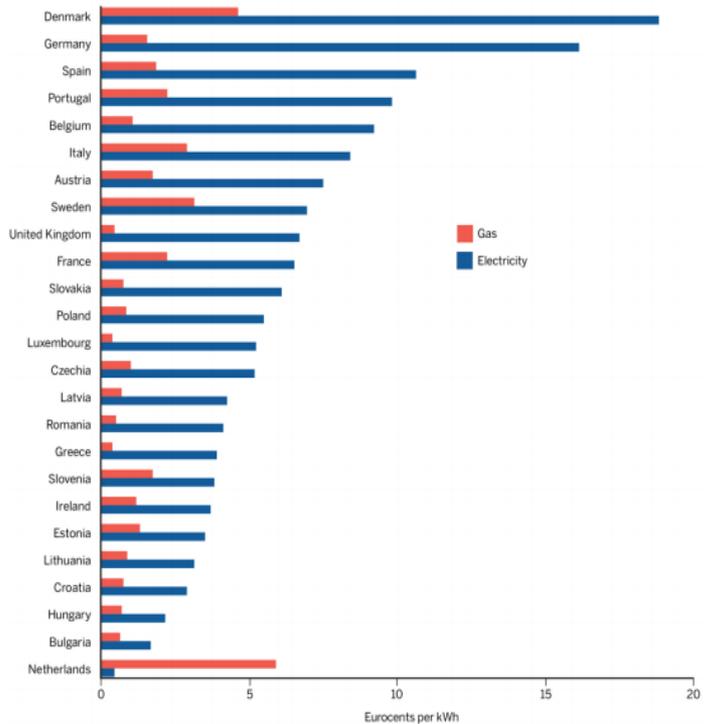
- Reach 3% average annual renovation rate
- The bulk of renovations should reach at least 60% savings

An Emission Trading System (ETS) on heating fuels in buildings : price implications



An Emission Trading System (ETS) on heating fuels in buildings : rebalancing fuel taxation ?

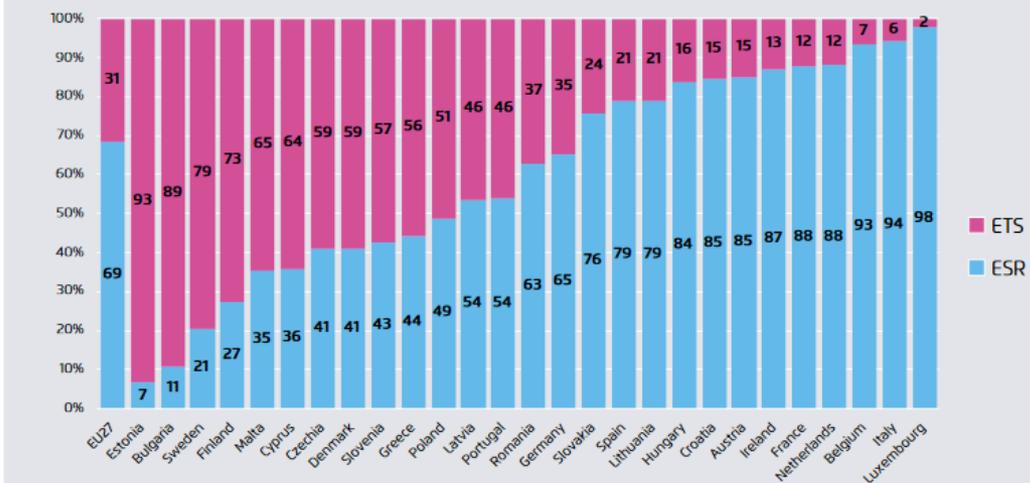
Figure 4. Levies and taxes (including VAT) on residential gas and electricity prices (euro cents per kWh), average in 2020



European Commission. (2020). *Energy prices and costs in Europe*

Share of buildings emissions in the ETS vs ESR in (%), EU-27

Figure 2



Calculations by Agora Energiewende based on EEA (2020a), EEA (2020b) and Eurostat (2021)

- 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 ?

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



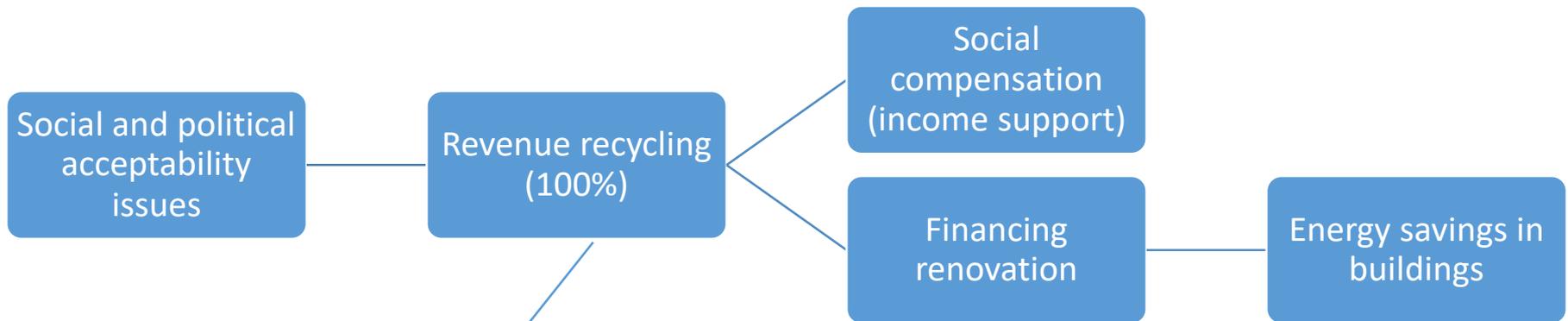
**PUTTING THE CART BEFORE THE HORSE?
PERSPECTIVES ON A POTENTIAL ETS ON...**

13/07/2021 | Camille Defard |

A Social Climate Fund to counterbalance the social impacts of ETS2 ?

How to turn a socially regressive policy into a progressive instrument ?

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

Long-term investment to structurally shield vulnerable, low income and energy poor households from carbon price

The Social Climate Fund – as proposed by the EC

Eligible measures	<ul style="list-style-type: none">• social compensation (temporary income support)• green investment in buildings and mobility 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 <u>expected</u> revenues
Governance	Centralized around the EC and MS : measures and investments to be detailed in national Social Climate Plans approved by the EC (similar to EU Recovery Plans)

State of SCF/ETS2 negotiations in EP and Council

	<u>EC proposal</u>	<u>EP</u>	<u>Council</u>
ETS2	ETS2 implementation from 2026	ETS2 implementation limited to businesses in 2026, households excluded until at least 2029	ETS2 fully implemented (households + businesses) from 2027 onwards
ETS2 price cap	no	50€/tCO2	no
SCF starts	2025	2024 (entry into force of ETS2)	2027
SCF funding	72b€ over 2025 – 2032 (10b€/y) based on 25% of ETS2 <u>expected</u> revenues (fixed budget)	16b€ over 2024 – 2027 (5b€/y) because ETS2 reduced scope to 30% of initial scope (budget varying with ETS2 price)	59 b€ over 2027 – 2032 (11,8b€) (budget reduced if ETS2 price is lower than expected, but not increased if greater)
SCF Governance	Centralized around the EC and MS	Stronger provisions on involvement of stakeholders	Centralized

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](#)).



ENERGY AND CLIMATE

THE NEED FOR A SOCIALLY-JUST EUROPEAN GREEN DEAL

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