

Addendum to the Response to Public Consultation: 2030 Climate Target Plan

This Addendum Paper sets out the EuroACE interim position on the topics of section 5.3 of the Commission Public Consultation on the 2030 Climate Target Plan, i.e. questions related to the proposal to extend the EU ETS to the building sector.

The ETS was established to create a market mechanism to achieve high reductions in carbon emissions from energy intensive industries. It relies on a system of credits with a monetary value that are traded in an open carbon market among designated parties. For the market to be successful, strict surveillance is necessary and strict compliance with the rules of the ETS from all designated parties is essential. **The ETS has had the desired effect of reducing carbon emissions, but only after many years of difficulties and low prices.** When the European Commission started its new mandate in 2019, a proposal was made in the framework of the EU Green Deal, to extend the ETS to the buildings sector, without any detail on the exact proposal. The Commission published in March 2020 its proposal for a Climate Law to enshrine into legislation the objective of reaching climate neutrality by 2050. In that context, it also committed to assess the possibility of increasing the 2030 GHG emissions reduction target from 40% to at least 50% and possibly 55%. It is in that framework that the Commission now investigates whether an extension of the ETS to the building sector is a good idea.

First, **the characteristics of the building sector have very little to do with the characteristics of the energy intensive industries sector to which the ETS currently applies.** In particular, the number of parties affected (i.e. building owners) is numbered in millions throughout the EU and the market mechanism to allow trading under strict surveillance would be next to impossible to establish. In that framework, extending the ETS to the buildings sector is not the most cost-effective solution to reduce GHG emissions because there is a **high risk of introducing more administrative complexity, which will delay action** on building renovation and therefore delay energy savings and the reduction of GHG emissions in the buildings sector.

Looking at Member States, we see that Germany introduced, at the end of 2019, what it refers to as an extension of the ETS to buildings. However, when we look at **the actual German scheme**, we find that it is a carbon tax on the suppliers of fossil fuels for heating of buildings. This is **not an extension of the ETS approach but rather a new form of energy (heating) taxation (carbon pricing).** It means that heating bills (and more generally energy bills) will increase for building owners (and citizens) and thus it will constitute a **disincentive for wasteful and/or excessive use of (fossil) energy.** However, the elasticity of such carbon taxation is very low, and several studies indicate that the price per tonne in such a scheme needs to be in the order of €250 euro before a measurable effect on behaviour can be detected. **Putting a tax on heating fuels will not automatically make renovation of buildings financially more attractive.** As a result, this does not seem to be a good mechanism to lead to decarbonisation of energy sources for heating, and it has even less impact when it comes to energy renovation of our building stock. Moreover, we know from a [European Commission study](#) that **drivers for renovation** are lower energy bills but also other factors such as **increased comfort and improved well-being, on which an extended ETS to buildings would have no or little impact.**

If the objective is to reduce GHG emissions in the buildings sector, then reducing the energy demand first by renovating the building, makes more sense, and this must be **promoted via other types of regulatory instruments**. The impact of introducing carbon pricing for heating, or **including the buildings sector into the ETS, should be assessed** not only for its (uncertain) direct impact on energy renovation of buildings, but also **for its impact on other energy efficiency policies and instruments**, e.g. Article 7 of the Energy Efficiency Directive, or on the needed implementation of the Energy Efficiency First principle. To generate the needed acceleration of the renovation rate, EU policy measures need to be complementary (policies, regulation, financing). The **proposed ETS extension is very likely to disrupt such an ecosystem** by appearing to be a *silver bullet* solution to a challenge that requires joined up policies and actions.

Finally, if such a carbon tax is introduced and labelled as an extension of the ETS, then **it could be used by Member States as a reason to reduce their dedicated efforts on energy efficiency**, and to further neglect the creation and implementation of long-term renovation strategies for the building stock. If Member States are told that introducing a carbon tax will be an effective market mechanism that will encourage market actors to reduce their energy consumption, then they are likely to take their attention off tools and policies that are currently under development. The danger of this scenario is that the EU will end up making even weaker efforts towards achieving climate neutrality and will certainly not put energy renovation at the core of its plans.

When considering the concept of **extending the ETS to the building sector**, it seems that **its impact would be marginal at best (and even counterproductive) and EuroACE objects to any such move in the future**. Such a position is supported by initial findings from a [Cambridge Econometrics study](#) which will be published in July 2020. Instead, we call on the European Commission to further support an adequate regulatory framework for energy renovation and on Member States to remain accountable and to focus their work on rolling out their national long-term renovation strategies with strong policies and adequate financing. A highly energy efficient and decarbonised building stock by 2050 requires dedicated policies to remove existing barriers to energy renovation of buildings. In that context, please [find here](#) our Feedback to the Commission Roadmap on the Renovation Wave.

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For further information

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About EuroACE

EuroACE represents Europe's leading companies involved with the manufacture, distribution and installation of energy saving goods and services for buildings. EuroACE members employ around 200,000 people in these activities in Europe and have around 1,000 production facilities and office locations. The mission of EuroACE is to work together with the EU institutions to help Europe move towards a more efficient use of energy in buildings, thereby contributing to Europe's commitments on climate change, energy security and economic growth.

EuroACE Members (June 2020)

