

Feedback: ETS Revision Roadmap

This Paper sets out the EuroACE view in the framework of the stakeholder feedback sought by the European Commission by 26th November 2020 on its inception impact assessment of the ETS Directive.

1. Should the buildings sector be covered by the EU ETS or a newly created specific ETS?

EuroACE strongly supports the Commission work in raising the 2030 climate target to at least 55% and the objective of reaching climate neutrality by 2050, which means indeed that “*all sectors need to contribute*”. In particular, **the buildings sector is key to deliver on the EU climate & energy targets**, as it represents 40% of the EU energy consumption and 36% of its GHG emissions.

While the aim to strengthen the ETS framework is laudable, **EuroACE *is not favourable* to an extension of the EU ETS or the creation of a separate ETS for buildings, at this time**. Carbon pricing is not an appropriate tool for the buildings sector, as most barriers which need to be overcome are non-economic barriers. We know from [a European Commission study](#) for example that drivers for renovation are lower energy bills but also other factors such as increased comfort and improved well-being, on which the impact of an extended ETS to buildings would be **marginal at best, and even counterproductive** (more details in section 2 below). Such a position is supported by findings from a [Cambridge Econometrics study](#) published in July 2020.

If the overall objective is to reduce GHG emissions in the buildings sector, then **reducing the energy demand first by renovating** the building, makes more sense. Building renovation needs to be boosted through other means than carbon pricing, i.e. regulatory instruments. EuroACE believes the focus should be on **improving the current regulatory framework** and strengthening the EPBD - Energy Performance of Buildings Directive (revision by end of 2021) and the EED - Energy Efficiency Directive (by June 2021).

2. Why would an extension of the ETS to the buildings sector not deliver emissions reduction?

2.1. Extending the ETS to buildings by introducing carbon pricing on heating entails risks and difficulties, with low promises of results

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. In those sectors, the ETS has had the desired effect of reducing carbon emissions, but only after many years of difficulties and low prices.

When it comes to the building sector, its characteristics have very little to do with the ones 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.

If the obligation is actually placed on the energy suppliers (selling energy for heating), it would probably lead them to transfer this additional cost to their customers (end users), possibly at the expense of working together to improve the energy performance of the building (which energy suppliers are currently incentivised to do through the Article 7 of the Energy Efficiency Directive – for more information on this, see below in section 2.2). Extending the ETS to the buildings sector also entails a **high risk of introducing overall 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 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 (i.e. carbon pricing). It means that heating bills (and more generally energy bills) will increase for building owners (and citizens) and thus it should act as a disincentive for wasteful use of (fossil) energy. However, the **elasticity of such carbon pricing is very low**, and several studies indicate that the price in such a scheme needs to be in the order of €250 per ton before a measurable effect on consumer behaviour can be detected.

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. **Putting a tax on heating fuels will not automatically make renovation of buildings financially more attractive.** A just transition depends on effective policies, not high energy prices. If pursued, energy price rebalancing to better reflect the carbon impact of different energy sources and technologies, in line with the Green Deal objectives, could be better achieved through the revision of the ETD – Energy Taxation Directive.

2.2. Extending the ETS to buildings or introducing carbon pricing on heating will disrupt the energy efficiency policy ecosystem which delivers results

EuroACE would disagree with the Commission that even *“expanding emissions trading in an appropriate policy context would provide for harmonised economic incentives to reduce emissions”*. As a matter of fact, one must also consider the impact of introducing carbon pricing for heating, or including the buildings sector into the ETS, on other energy efficiency policies and instruments, as well as the likely impacts on key actors delivering such measures (e.g. energy suppliers).



This includes for example **Article 7 of the Energy Efficiency Directive** (which applies to energy suppliers in the framework of Energy Efficiency Obligation Schemes), or the needed implementation of the Energy Efficiency First principle (for more information on the interaction between the EED Article 7 and carbon pricing, read [this report](#) from the Regulatory Assistance Project). To generate the needed acceleration of the renovation rate, EU policy measures need to be complementary (regulation, incentives, and financing). The **proposed ETS extension is very likely to disrupt such an energy efficiency policy ecosystem** by appearing to be a silver bullet solution to a challenge that requires joined up policies and actions.

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, or need to be improved to deliver a higher impact. 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. 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.

3. What should then be the focus of the ETS revision in relation to the buildings sector?

EuroACE strongly supports the European Parliament, which called “*the Commission to study the feasibility of **channelling ETS revenues into energy efficiency actions such as for building renovations, including safeguarding mechanisms against fluctuations, and the feasibility of earmarking a portion of the auctioning revenue at EU level**”* (§35 of the [Resolution](#) of 17th September 2020 - own initiative report by Ciaran CUFFE on ‘maximising the energy efficiency of the EU building stock’).

3.1. Carbon Revenue Recycling into building renovation programmes for energy savings

We believe that the ETS revision could actually be contributing to decreasing GHG emissions from the buildings sector, but this would be done indirectly, by using carbon revenues to **fund renovation programmes**. Research done by the Regulatory Assistance Project (see [here](#) and [here](#)) reveals that **dedicating carbon revenues to energy efficiency can deliver 7 to 9 times more emissions reduction than relying on the carbon price alone**, and can lower consumer energy bills in the process. Good examples can be found for example in Czechia or in France. The ETS revision is the opportunity to include mandatory provisions on revenue recycling and prioritise sectors such as energy renovation of buildings.



3.2. Carbon Revenue Recycling into building renovation programmes for a just transition

EuroACE welcomes the Commission’s intention to review funding mechanisms and solidarity aspects in the ETS revision. Directing carbon revenues to building renovation programmes can also help correcting or at least **compensating for distributional effects**. Often, it is the households suffering from energy poverty (paying a proportionally higher part of their income on energy bills) who live in the worst performing segment of our building stock. Boosting the energy performance of those buildings would **improve health and comfort of occupants**. We call on the Commission to include in its Impact Assessment a **modelling of the wider benefits** of carbon revenue recycling into energy renovation of buildings, especially those occupied by lower income households. **Besides GHG emissions reduction**, those wider benefits are lower energy bills, reduced healthcare system costs, lower fossil fuel imports, and number of jobs created.



For further information

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About EuroACE - Energy Efficient Buildings

EuroACE represents Europe's leading companies involved with the manufacture, distribution and installation of energy saving goods and services for buildings. EuroACE members employ more than 220,000 people in these activities in Europe and have over 1,100 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 (2020)

