

Public Consultation – ETS Directive Revision (deadline: 5th February 2021)

C. An increasing role for emissions trading

An expansion of emissions trading could include emissions from fossil fuel combustion in road transport and buildings. Depending on the administrative systems chosen, the portion of industry currently not included in the ETS could also be brought in. The Commission will look, inter alia, at the option to cover all emissions of fossil fuel combustion under the ETS, while taking into account potential effects on existing EU legislation in this field.

In the context of the impact assessment work for the Communication on stepping up the EU's 2030 climate ambition, difficulties emerged as to regulating emitters themselves in a number of sectors being examined for possible ETS application in the same manner as in the current ETS sectors (downstream approach), because these emitters number in the millions and are often private persons. Instead, entities further up the supply chain such as the fuel distributors or tax warehouses could be regulated and be required to monitor and report emissions as well as surrender allowances (upstream approach).

The EU ETS has shown that the development of a new market requires setting up functioning monitoring, reporting and verification (MRV) and can benefit from transitional arrangements for market and price stability reasons, before being gradually integrated into the existing system. Transitional arrangements for an extension of ETS scope would allow for setting up gradually the required regulatory framework and administrative capacity.

7. Carbon pricing alone does not address all barriers to the deployment of low and zero emissions solutions. Which other policies should be deployed when extending the use of emissions trading to emissions from buildings, road transport or all fossil fuel combustion? Please rate from 1 (not important) to 5 (very important):

| | 1 | 2 | 3 | 4 | 5 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|----------------------------------|
| Polices addressing energy performance of buildings, the energy savings obligation, or other energy efficiency policies to be specified in the box below | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> |
| CO2-standards for cars and vans | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Transport policies | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Renewable energy policies | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Energy taxation | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> |
| Other, please specify in the box below | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input type="radio"/> | <input checked="" type="radio"/> |

Other (976/1,000 characters maximum): A strong regulatory framework is needed to address the main barriers to increasing the rate and depth of energy renovation in the EU and must include independent advice, technical and project development assistance. Putting a tax on heating fuels, will send a price signal, but will not automatically make energy renovation financially more attractive nor technically easier, and will have an adverse impact on the most vulnerable consumers. Extending the ETS to emissions from buildings entails the risk of diverting the attention of Member States from designing and

implementing a strong regulatory framework for the energy renovation of their buildings. So, if the ETS is extended to emissions from buildings, it should be done in parallel with a strengthening of the ambition and measures dedicated to building renovation, such as clear regulatory milestones for existing buildings (minimum energy performance requirements) facilitated with subsidies and fiscal measures.

8. Emissions trading for road transport and buildings or all fossil fuel use could be integrated into the existing EU ETS so that there would be one single system covering emissions from all these sectors. If the new sectors are integrated into the current EU ETS such integration would be (multiple answers are possible):

- Positive, because it would capture the emissions under the cap and facilitate more cost-effective abatement by increasing abatement options
- Positive, because including buildings into an extended EU ETS would provide a level playing field for all modes of heating and cooling
- Positive, because including fossil fuels used in road transport into an extended EU ETS would provide a level playing field for all modes of road and rail transport, including electric rail which is already subject to indirect carbon pricing
- Positive, because setting a separate ETS for road transport and/or buildings or all fossil fuel use would lead to higher administrative costs for administrations and regulated entities
- Positive, because including emissions from all fossil fuel use into an extended EU ETS would provide a uniform carbon price signal for all industries
- Negative, because there could be an insufficient price signal for the transport and building sector to decarbonise
- Negative, because the new sectors are too different from the current sectors and abatement effort will mainly materialise in the current ETS sectors
- Negative, as the integration of the new sectors in the current ETS might disrupt and undermine the stability of the current ETS
- Other (786/1,000 characters maximum): We see at least three other reasons why integrating emissions from the buildings sector into the current ETS could have negative effects: (1) it will increase the administrative complexity by adding sectors which are completely different, (2) beyond disrupting the functioning of the current ETS, there is also a risk of disrupting the energy efficiency policy ecosystem, based on the three pillars of regulation (for example EED Article 7), technical assistance, and adequate financing, and (3) integrating emissions from the buildings sectors into the current ETS may also be used by some Member States to simply reduce their dedicated efforts on energy efficiency and to further neglect the design and implementation of national long-term renovation strategies of the building stock.

9. A separate EU-wide emissions trading system for road transport and buildings or all fossil fuel use could be established as a parallel system to the current EU ETS. Flexibilities could be built in, e.g. to allow partial fungibility between the allowances of the separate systems. What is your preferred design option for the relationship between these two systems:

- Both systems should stay independent and no relationship between them should be established
- One-way flexibilities between the systems will increase cost-efficiency
- Two-way flexibilities between the systems will increase cost-efficiency



- Other (385/1,000 characters): At this stage, we are neither in favour of integrating emissions from the buildings sector into the current EU ETS nor into a separate EU system that would stand alone or be linked or integrated at a later stage. We believe that more analysis has to be carried out regarding how either of these options would be rolled out and specifically how they would interact with other measures.

11. Emissions trading for road transport and buildings or all fossil fuels could be gradually integrated into the existing EU ETS. Should the ETS revision already determine when and how such integration will take place?

- Yes, the market needs certainty and legislation should determine that integration will happen at a specific time within , e.g., 5 years from its entry into force
- Yes, the legislation should foresee a review to determine whether and when integration is desirable
- No, in view of the risks associated the legislation should not foresee such integration
- Other (426/1,000 characters maximum): On the basis of current information, we are not in favour of including emissions from the buildings sector in any ETS system, whether stand-alone or under the current system. Already determining now how to possibly integrate those two systems in the future seems premature and could only be considered if the appropriate, strong regulatory and policy framework to increased rates and depth of energy renovations are in place.

F. Revenues

Emissions trading raises revenues for public authorities that can be re-invested in the economy, leading to better overall economic outcomes. A small percentage of revenues is allocated to the EU Modernisation and Innovation Funds to support low-carbon investments. However, the largest share of the revenues are for the Member States. The majority of these revenues are currently reported as being used for climate-related purposes. The review will address the current rules in place, also taking into account that as new sectors are possibly added to the ETS, revenues may increase and at the same time there is a need for ETS revenue to contribute as an own resource of the EU budget.

22. In your opinion, how should the ETS revenue be used? (Multiple answers are possible)

- Facilitating just transition and the social impacts of the climate transformation
- Addressing social and distributional impacts related to the review of ETS
- Energy efficiency, in particular the renovation of buildings
- Low-carbon and zero-emissions mobility
- Support for clean investments in ETS sectors
- Providing financial incentives for consumers to buy more climate friendly goods and services, including more fuel efficient vehicles/ vehicles not using fossil fuels
- More support to innovation
- Lowering taxes such as labour taxation and increasing transfers to EU citizens, in particular low-income households



23. Are stricter rules necessary to ensure Member States spend their ETS auction revenues in line with climate objectives?

- Yes, the ETS Directive should require Member States to spend more revenues on climate-related purposes
- Yes, the ETS Directive should require that Member States spend ETS revenues in a way compatible with the climate neutrality objective ('do no harm')
- No, Member States should be free to determine how they want to spend the revenues, taking into account that 50% should be used for climate-related purposes.

G. Low-carbon support mechanisms

The Modernisation Fund is a dedicated funding programme to support 10 lower-income EU Member States in their transition to climate neutrality by helping to modernise their energy systems and improve energy efficiency. Currently, the Modernisation Fund is funded by 2% of the total cap, e.g. around 285 million allowances. Beneficiary Member States had the opportunity to transfer their solidarity allowances and the allowances available to them under Article 10c of the ETS Directive to the Modernisation Fund. The total size of the Modernisation Fund after such transfers is around 645 million allowances. The monetisation of these allowances is expected to generate around EUR 14 billion until 2030 depending on the carbon price.

27. What should be the size of the Modernisation Fund?

- The size of the Modernisation Fund should remain at 2% of the cap
- The size of the Modernisation Fund should remain unchanged as an absolute amount
- The size of the Modernisation Fund should increase
- Other (978/1,000 characters): we would more broadly call for ETS revenues to be spent on projects which deliver most emissions reductions and societal benefits, i.e. energy savings projects notably in buildings. Research done by RAP (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. Good examples exist 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. It 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.

The ETS Directive has complex rules on the types of investments to be financed under the Modernisation Fund. There is a general provision that investments have to be consistent with the 2030 climate and energy framework and the Paris Agreement. No support from the Modernisation Fund shall be provided to energy generation facilities that use solid fossil fuels, but there are exceptions. There are two types of investments that can be funded by the Modernisation Fund (priority and non-priority), subject to different approval processes (simple and straightforward for priority projects and more complex for non-priority ones). Investments in gas are allowed as non-priority ones, both for power generation and infrastructure.



Investments for certain just transition purposes are allowed and there are overlaps with the Just Transition Fund.

28. Should the types of investments that can be financed by the Modernisation Fund be streamlined and the coherence with the Green Deal be enhanced? (Multiple answers are possible)

- No, the investments that can be supported by the Modernisation Fund should remain unchanged.
- Yes, the exception for financing coal-fired district heating in certain Member States should be removed
- Yes, the Modernisation Fund should be allowed to finance only non-fossil fuel based heating and cooling systems
- Yes, the Modernisation Fund should be allowed to finance only priority projects to simplify the administration
- Other

H. Concluding questions

29. Are there other key aspects which you did not find reflected in the questions and you would like to comment upon (873/1,000 characters maximum)?

Another point we would like to underline is the possible price/cost impact for consumers, if the obligation is placed on the energy suppliers (selling energy for heating), as it would probably lead suppliers 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). Putting a tax on heating fuels will not automatically make renovation of buildings financially more attractive. A just transition depends more on effective policies than on high energy prices. If pursued, energy price rebalancing to better reflect the carbon impact of different energy sources and technologies could be better achieved through the revision of the Energy Taxation Directive.

If appropriate, please upload any additional materials such as concise position papers or policy briefs that express the position or views of yourself or your organisation:

The EuroACE Position Paper on the ETS extension to buildings is [available here](#).



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 (2021)

