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EPSU Position on the extension of the EU ETS to buildings and the creation of a new Social Climate Fund

The European Commission is proposing to extend the EU Emissions Trading System (EU ETS 2) to buildings and road transport. EPSU is opposed to this measure, and we ask affiliates to pressure their governments to vote against it.

EPSU represents 8 million public service workers across Europe. We support the ETUC's position on the creation of a second ETS on road transport and building and of a new Social Climate Fund, adopted on 8 December 2021.¹

Renovations are urgent to tackle energy poverty and constitute a key aspect of needed climate action

Improving the energy efficiency of buildings is undoubtedly a crucial aspect of the energy transition. Seven out of ten buildings are considered energy inefficient. The sector is not where it should be for Europe to meet the aims of the Paris Agreement. With heating accounting for two thirds of final energy consumption of households, action must be taken urgently and without delay.

Renovations have the potential to alleviate the burden for over 50 million Europeans who cannot sufficiently light, heat or cool their homes. Decrepit buildings also have numerous adverse health effects. EPSU has consistently advocated for large scale renovation programs that create quality jobs and lift energy poor out of poverty.

Energy poverty is a multidimensional concept that is not easily captured by a single indicator. It can be measured through income and expenditure-based indicators (high share of energy expenditure in income, low absolute energy expenditure) and through self-reported indicators (arrears on utility bills, inability to keep home adequately warm or adequately cool).

In addition to these primary indicators, a series of secondary indicators are relevant in this context: household electricity prices, household gas prices, poverty risk, excess winter mortality, presence of leak, damp, and rot, etc. Each one of these indicators reflects a different aspect of energy poverty, and they should all be considered in relation to each other to measure this phenomenon.

¹ <https://www.etuc.org/en/document/etuc-position-creation-second-ets-road-transport-and-building-and-new-social-climate-fund>

The extension of emission trading to buildings is incompatible with a just and equitable transition

However, the EU ETS 2 is a woefully inadequate tool to achieve this aim, for the following reasons:

- It is very likely that the costs of the EU ETS 2 will be passed on to users. This risks increasing energy poverty and hitting vulnerable households the hardest. The inability to afford renovations or more efficient heating devices will leave them with increasing energy bills, making it in turn more difficult to invest in energy efficient devices. The situation is even more difficult for tenants, who are not in a position to upgrade heating appliances or renovate their building.
- The EU ETS 2 is unlikely to contribute significantly to a reduction of emissions. A study by the European Climate Foundation and Cambridge Econometrics finds that improvements in emissions would likely only be minor, but lead to uneven distributional effects and financial constraints on the lowest-income households in particular.²
- Carbon inequality is a reality globally as well as within Europe. In the EU, between 1990 and 2015, carbon emissions savings were achieved by lower- and middle-income workers and citizens, while emissions for the richest 10% actually grew further.³ A policy with regressive effects such as the ETS 2 would further exacerbate this tendency and increase inequalities.
- The EU ETS 2 would also increase regional inequalities. The current high reliance on polluting fossil fuels such as coal in countries with lower incomes means that prices are apt to rise significantly. These are also often the countries with the highest rates of energy poverty. It is clear that these polluting fossil fuels need to be phased out to reach the Paris targets - but doing so must not increase the hardships of the energy poor.
- A market-based instrument such as the EU ETS 2 is by nature subject to unpredictable price swings. External shocks risk further exacerbation through market dynamics. Market fluctuation and speculation further limit the control over prices by governments and the possibilities to shield vulnerable users.
- It is unclear if the proposed Market Stability Reserve is suitable to soften the impact of external shocks, especially as it relies on an automatic mechanism and does not allow for market intervention. Similarly, it is not clear how other proposals made by e.g. the European Parliament to limit the passing on of prices by suppliers would work in practise. These measures cannot be relied on to balance the regressive effects of the measure.

The EU ETS 2 pits minor improvements in emissions against regressive effects of unforeseeable dimensions. For these reasons, EPSU calls on national governments and members of the European Parliament to oppose the EU ETS 2.

² <https://europeanclimate.org/wp-content/uploads/2020/06/01-07-2020-decarbonising-european-transport-and-heating-fuels-full-report.pdf>

³ <https://www.oxfam.org/en/research/confronting-carbon-inequality-european-union>

The Social Climate Fund is a good initiative – it should not be used as a bargaining chip

At the same time, the Commission proposes the establishment a Social Climate Fund (SCF) to support Member States to in turn support households with renovations, as well as increases in energy efficiency and decarbonisation of buildings. The SCF could also provide direct income support to households. Such a fund is good and needed.

As it stands, the creation of the SCF is tied to the creation of the EU ETS 2. The Commission proposes that it be funded by a share of revenue from the auctioning of emission allowances under the new system.

Together with the ETUC, the Right to Energy Coalition and other progressive actors, EPSU demands that this link be broken. The SCF is a good, necessary initiative and should not be used as a bargaining chip to adopt the rightly criticised EU ETS 2.

EPSU fully and actively supports the ETUC's position on a self-standing SCF to be funded by more progressive sources of revenue.⁴ Such sources should take seriously already existing carbon inequalities and seek to right them, rather than deepen them as the EU ETS 2 would. Examples are windfall taxes on extraordinary profits realised by energy companies, corporate taxes or wealth taxes.

The Social Climate Fund is a good and necessary initiative. EPSU calls on national governments and members of the European Parliament to break the link with the EU ETS 2 and adopt the SCF as a self-standing mechanism with progressive sources of funding.

Market-based solutions miss the mark – public control and funding is needed

It is clear that renovations, retrofitting and improved energy efficiency in buildings is necessary. When it comes to guaranteeing a just transition for energy poor households, the solution must lie in expanding the role of the public sector and guaranteeing a right to energy for all. Earlier this year, EPSU and the European Anti Poverty Network (EAPN) published a report on the necessary measures to realise this right.⁵

Some of the key recommendations are:

- Assert the right to affordable and clean energy for all Europeans, enhancing the structural protection of energy-poor and low-income households through a three-pillar approach based on adequate incomes, fair prices, and energy efficiency.
- Ban all disconnections and maintain regulated prices beyond 2025.
- Develop a fair green taxation in the context of a tax shift from labour to capital.
- Empower citizens and workers, highlighting their role in reconstructing an energy system under democratic governance and public control.
- Guarantee consistent public investments in targeted renovation, renewable, and energy efficiency programmes that benefit energy-poor and low-income households, while tackling any unfair and regressive effects of decarbonisation and avoiding carbon lock-ins.
- Harness the potential of the Renovation Wave Strategy for quality job creation with good working conditions and respecting the right to collective bargaining.

⁴ See ft. 1

⁵ <https://www.epsu.org/article/guaranteeing-right-affordable-clean-energy-all-europeans>

- Integrate an ex-ante and an ex-post distributional impact assessment of transition policies.
- Integrate a gender and an intersectional approach to energy inequalities across all policies.

EPSU believes that these recommendations provide a framework for climate action that will improve the lives of workers and users across Europe while making our societies more just and equitable. Market-based solutions do not offer such improvements. Rather, they risk deepening already existing carbon and income inequalities and turning public opinion against much needed climate action.