

Towards a just energy transition in the EU.

Is the Social Climate Fund enough to offset the ETS2 and ensure a just energy transition?

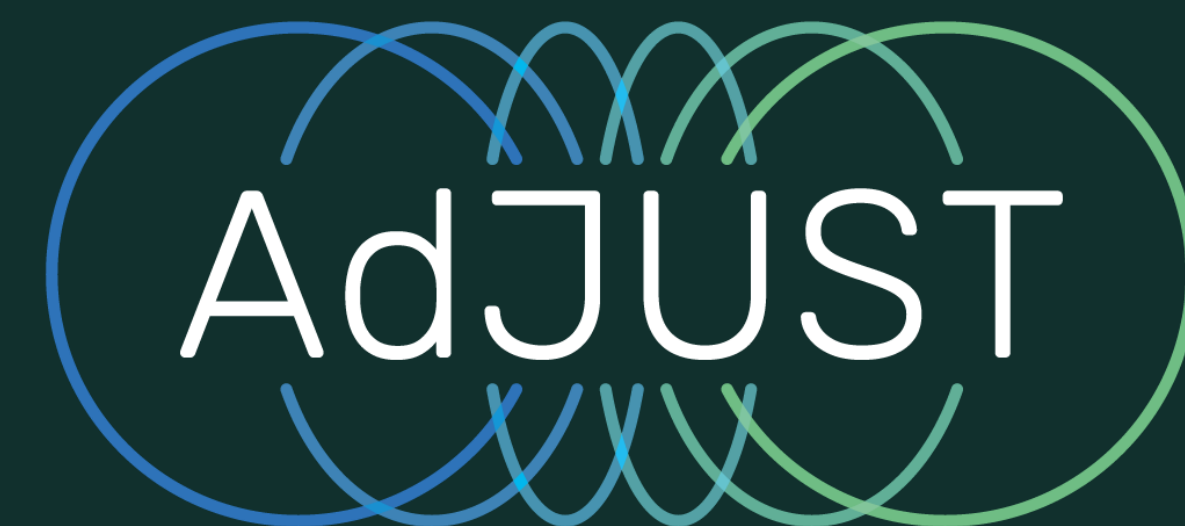


EPAH- BARCELONA

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Towards a just energy transition

The European Green Deal



Extension of ETS on Transport And Building and Social Climate Fund



ETS2: Extend the emissions trading scheme (ETS) for transport and buildings, seeking to reduce emissions from private transport and energy consumption in housing.

SCF: New Social Climate Fund will provide funding to Member States to support vulnerable European citizens. Mobilise €65 billion for the period 2025-2032



Extension of ETS on Transport And Building ETS2

- **The Emissions Trading Scheme (ETS)** is the EU's main tool for reducing greenhouse gas emissions.
- The ETS covers +/- 40% of EU emissions.
- **Sectors covered in ETS:** Electricity and heat generation, energy-intensive industrial sectors (refineries, iron and steel, cement, glass and paper production, etc.), commercial aviation (within the EEA).
- Since its implementation in 2005, emissions from the covered sectors have decreased by 41%.
- With the reform (ETS2):
 - ✓ More ambitious emission reduction targets are set.
 - ✓ The amount of emission allowances in the market is reduced (-117 million in 2 years).
 - ✓ New sectors to be covered: **maritime transport, road transport, buildings and fuels for additional sectors**
 - ✓ Free allowances to be phased out for certain sectors
- The reform will have an economic impact on vulnerable consumers and small businesses. Social Climate Fund to mitigate the negative effects it may cause.

Social Climate Fund

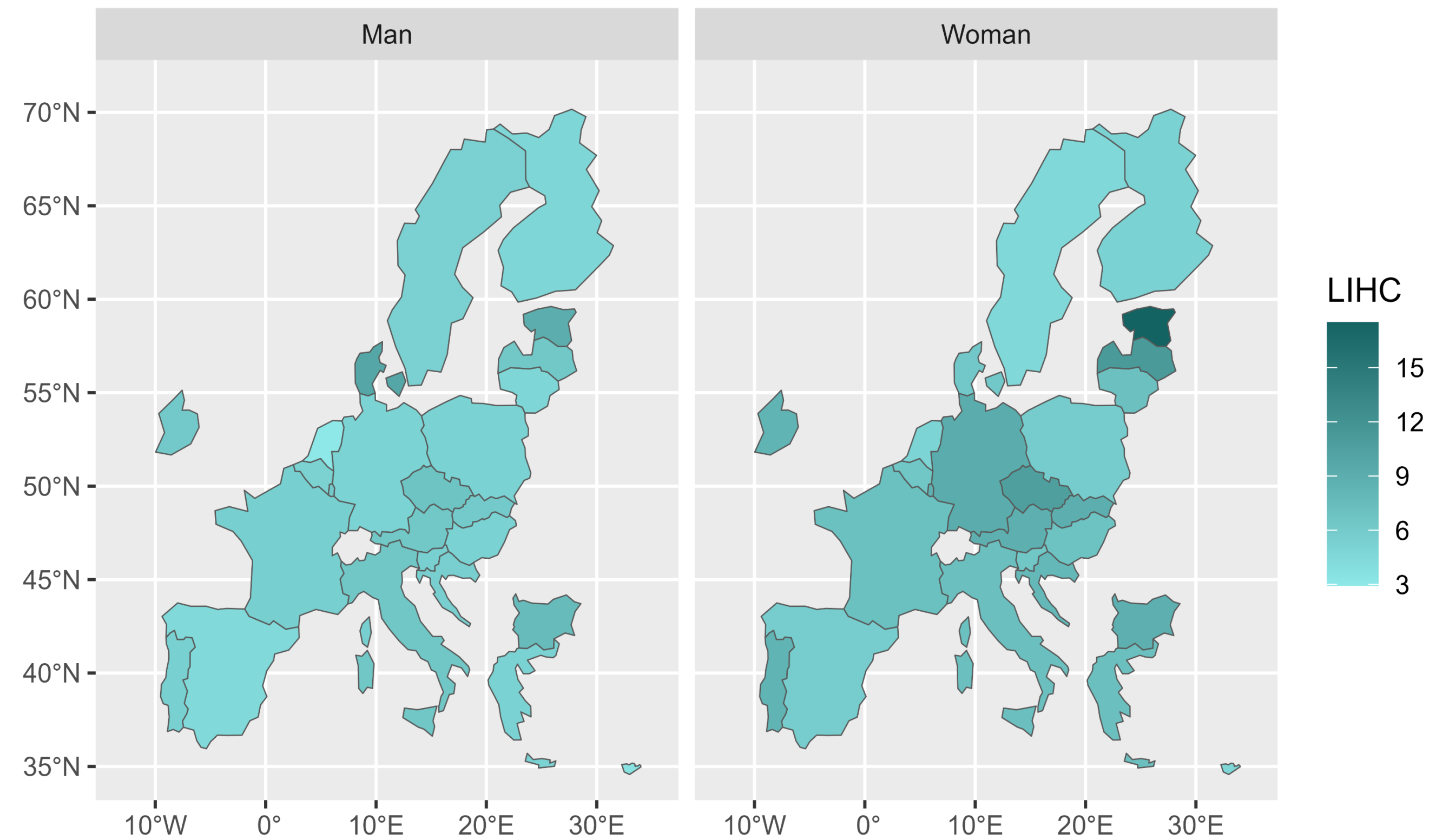
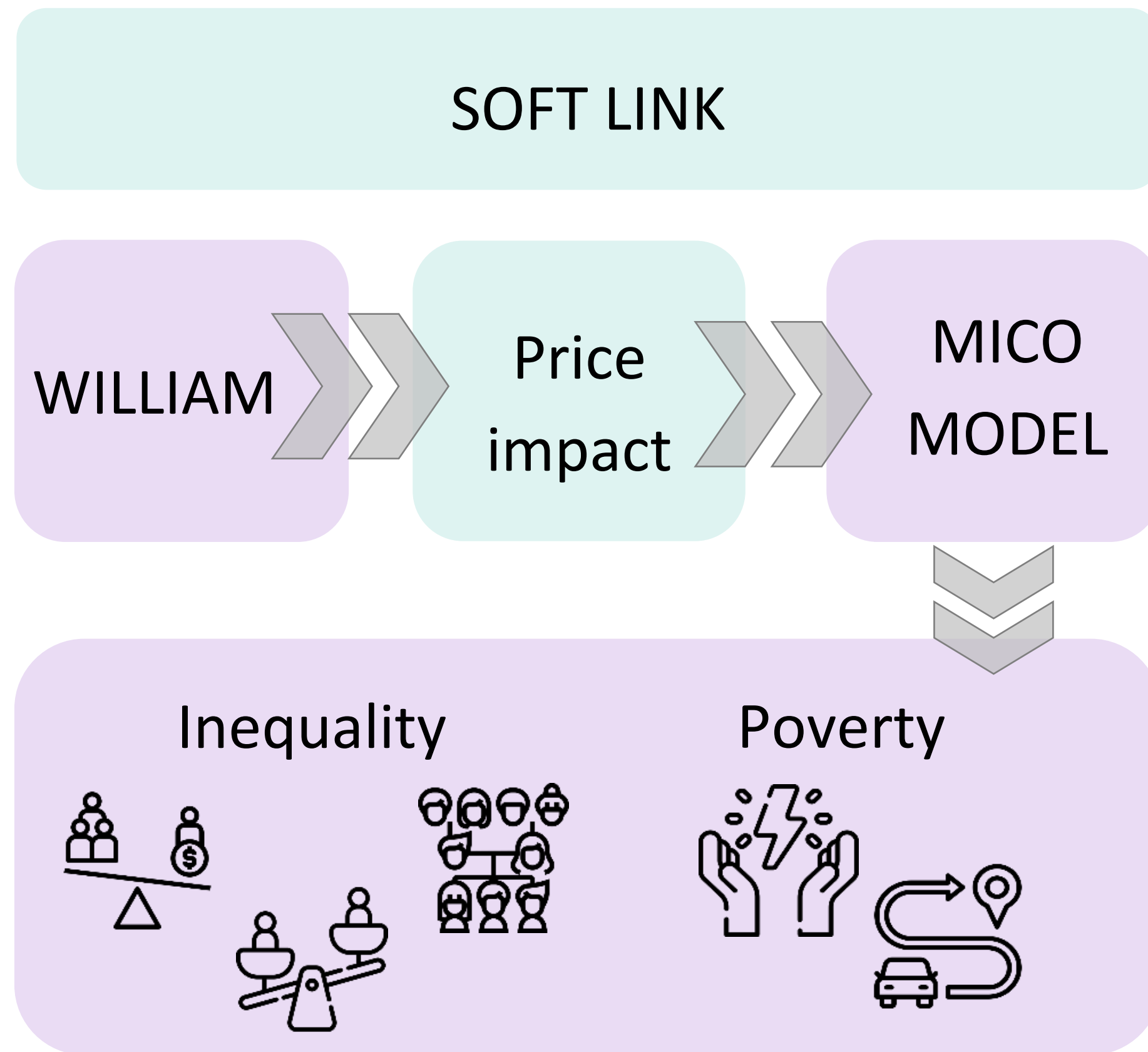
- The **proposed Social Climate Fund (SCF)** will provide support to vulnerable groups most affected by the ETS2
- Part of the revenues from the sale of emission allowances will be deposited in the FSC (25%).
- Member States will be able to use the revenues allocated to the FSC to help those most affected by the ETS:
 - ✓ **Measures and investments** to improve **building efficiency, renovate buildings, decarbonize** building heating and cooling, and **adopt zero- or low-emission mobility and transportation.**
 - ✓ Measures to provide **temporary and limited direct income support.**
- Beneficiaries
 - ✓ Vulnerable households
 - ✓ Vulnerable transport users
 - ✓ Vulnerable microenterprises
- Budget: 65 billion Euros (2026-2032) + minimum 25% national co-financing
 - ✓ Maximum financial allocation for Spain: 6,838 M€.
 - ✓ Minimum contribution from the Government of Spain: €2,279 M

 **9.117 M€**



Modelling

Energy and Transport Poverty



Distributional analysis of ETS2+SCF in the EU-27



Method:

- Household Budget Surveys from 2015 for all MS of the UE-27 (200.000 households)
- Direct/overnight impact, no reaction

Key assumptions:

- ETS2-Low: price of €30/tonne of CO2.
- ETS2-High: price of €45/tonne of CO2.
- SCF: Revenues are distributed lump-sum to households

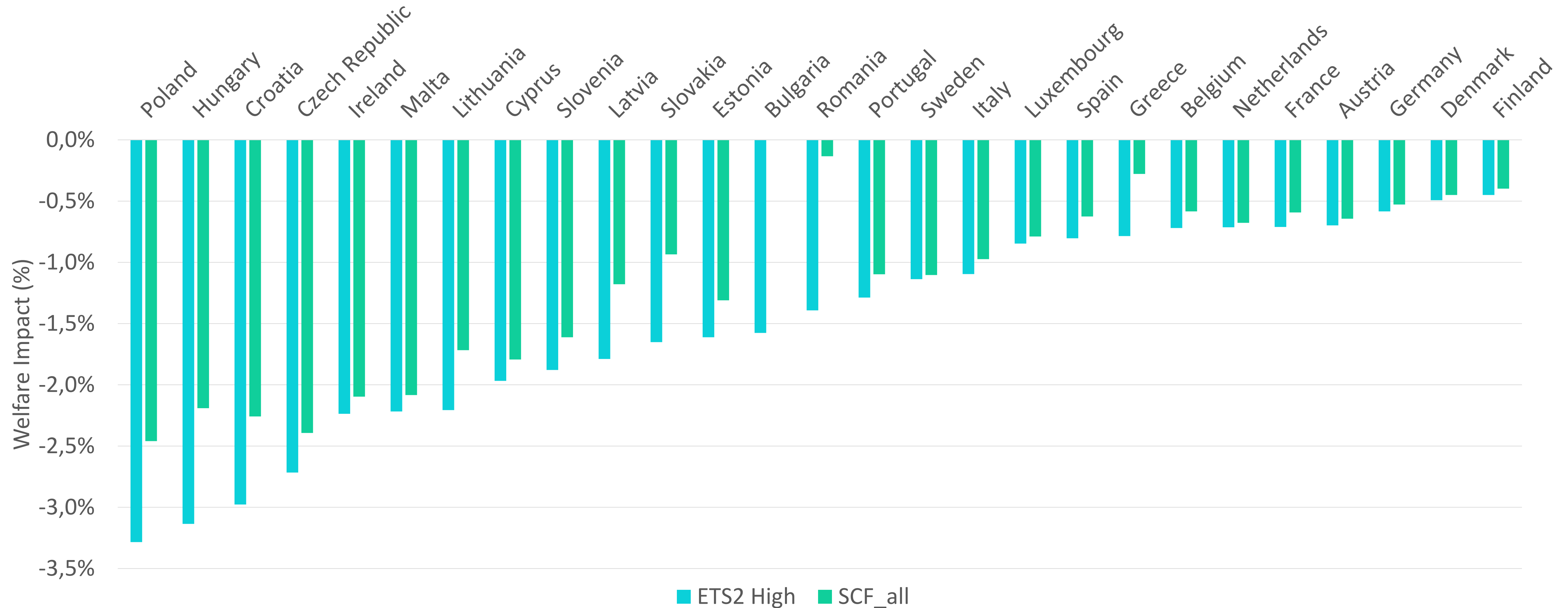
Results:

- Each MS
- EU-27 by income deciles
- EU-27 by other sociodemographic categories
- Spain by rural/urban area

Distributional impacts of ETS2+SCF



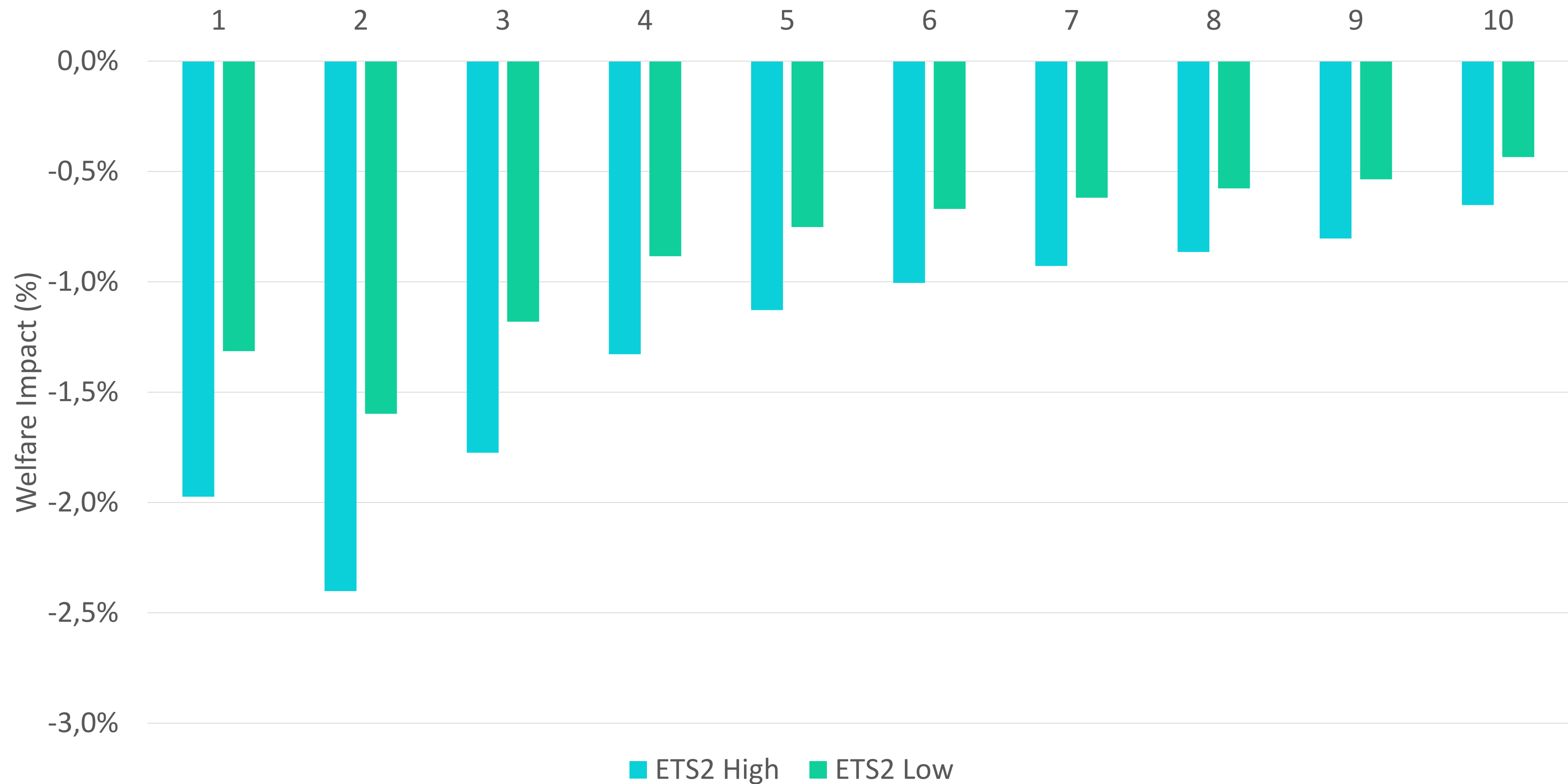
Welfare impact in each MS



- Differences between MS might justify transfers between MS.
- The SCF can alleviate some of the negative aspects in the most affected countries.

Distributional impacts of ETS2

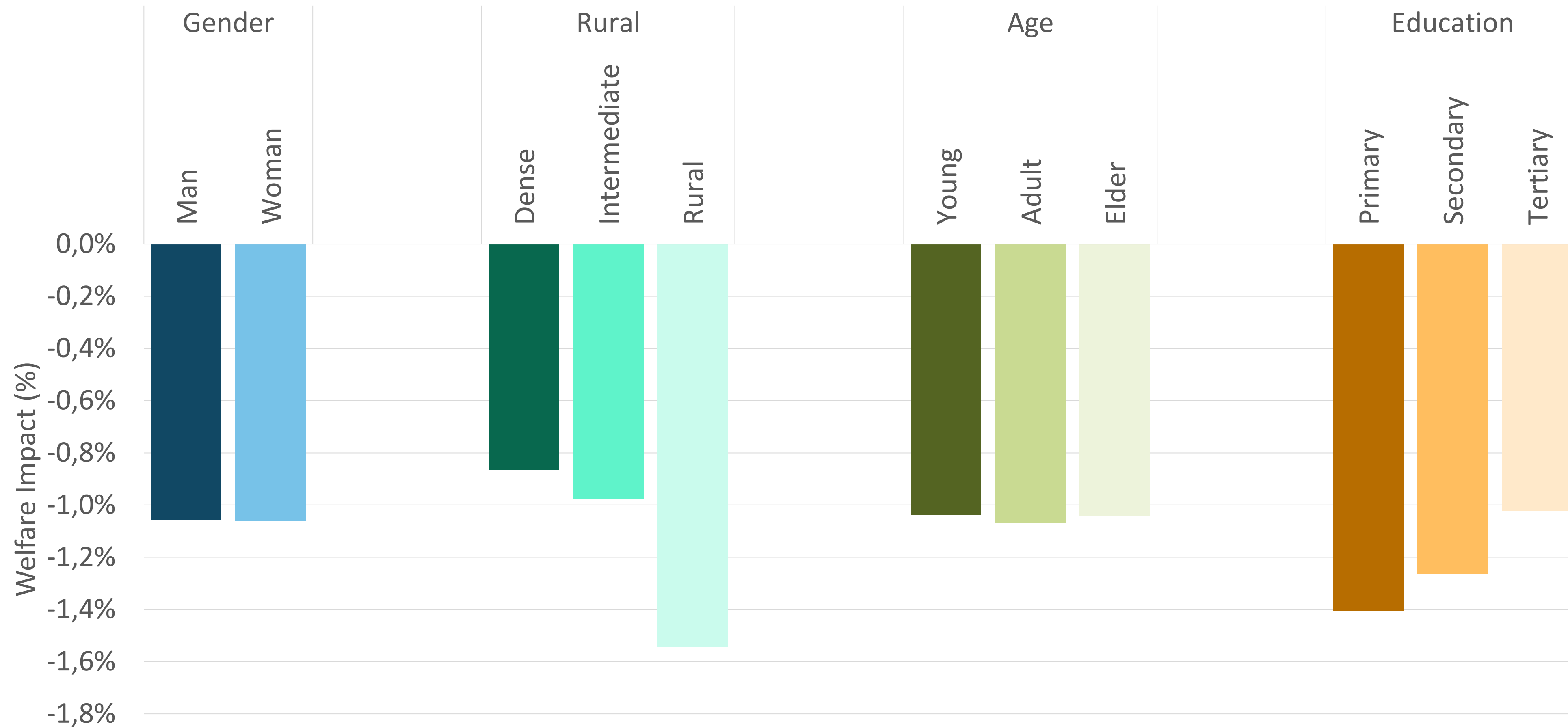
Welfare impact on households by income decile



- ETS2 can involve regressive implications at EU level.
- However, at national level depend on the country analysed the implications can be less regressive and even turn on progressive

Distributional impacts of ETS2

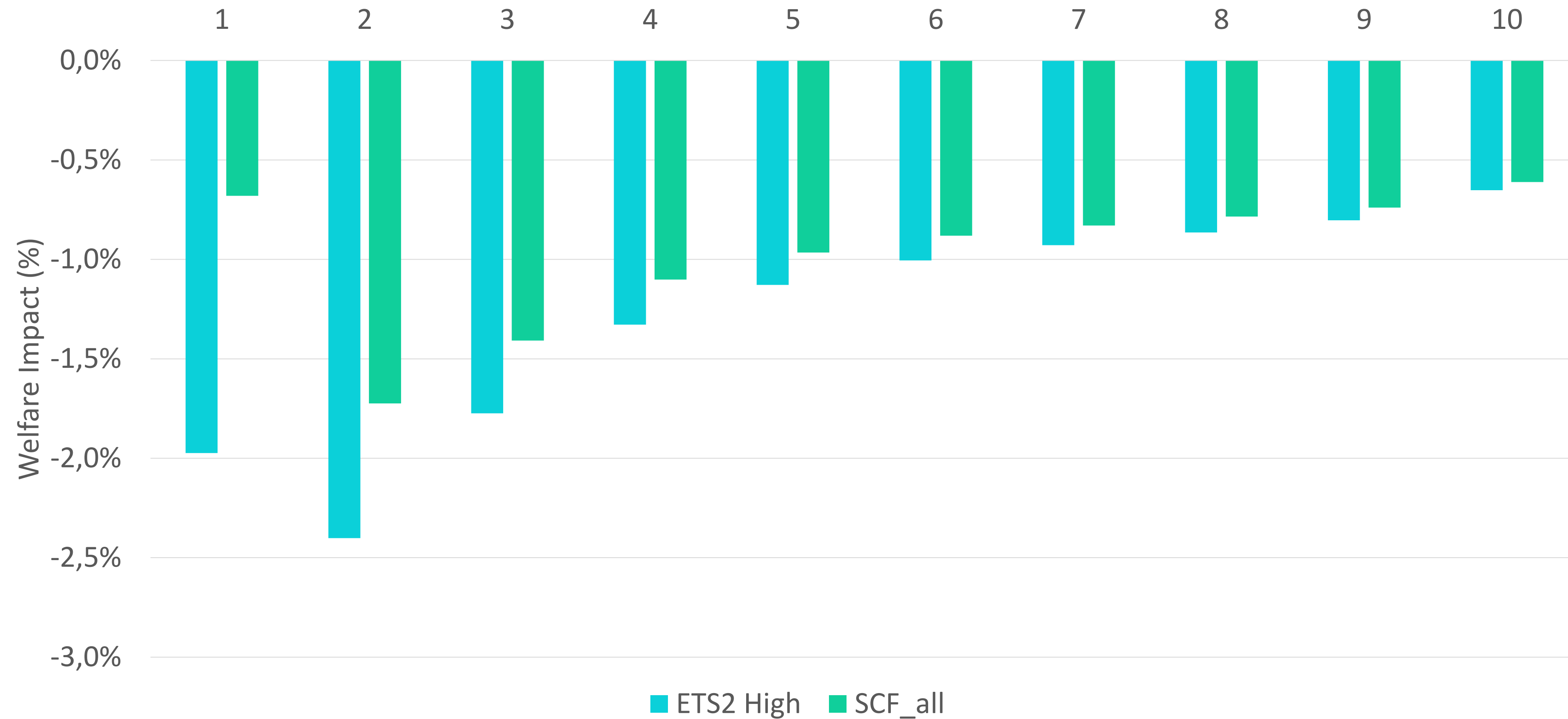
Welfare impact household types



- Impacts can be assessed horizontally by many factors, such as household types.
- Rural households have the most negative impact, as they are more dependent on private transportation.

Distributional impacts of ETS2 +SCF

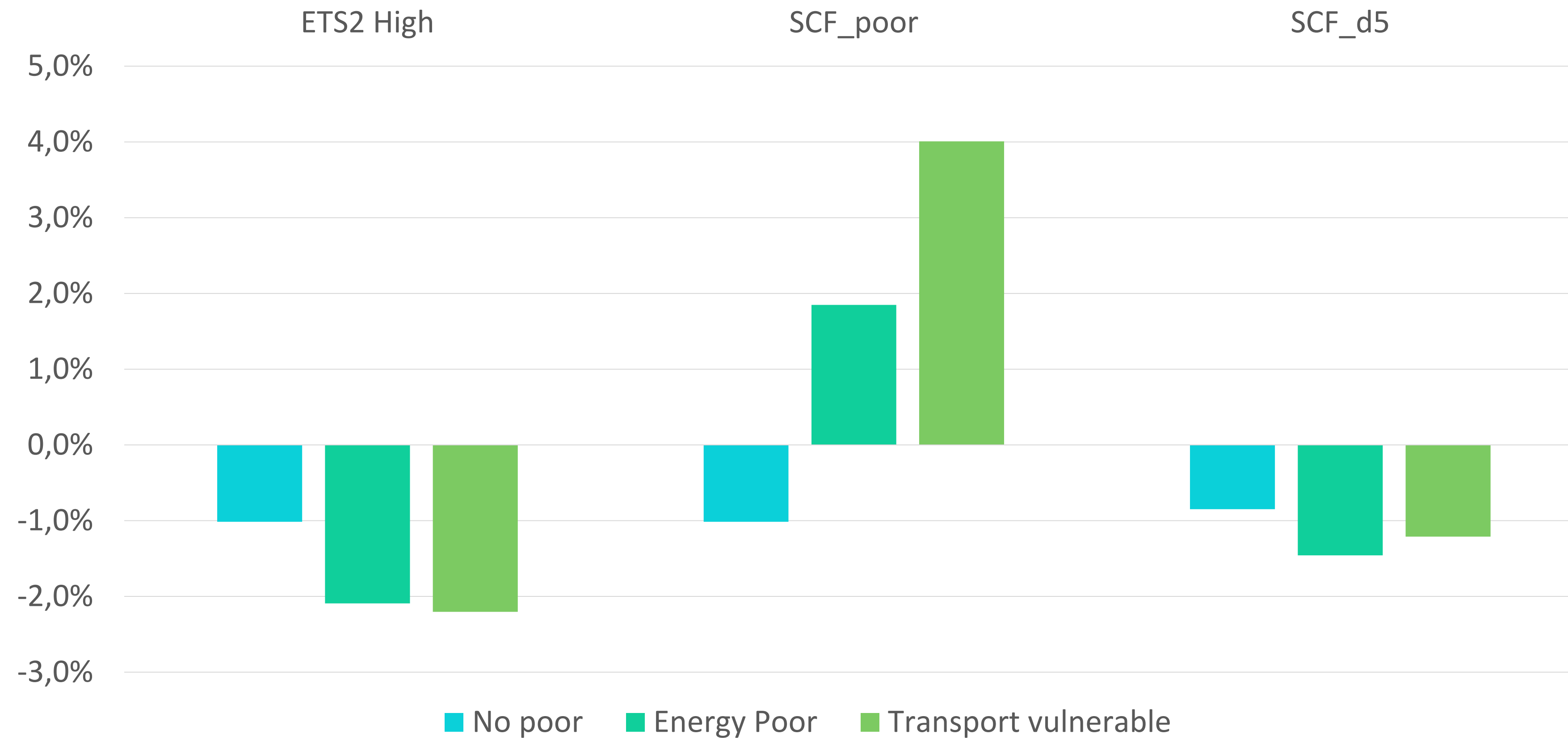
Welfare impact on households by income decile



- SCF can turn the policy into a progressive.
- It is needed that the policy is focused on low income and vulnerable households

Distributional impacts of ETS2 +SCF

Welfare Impact by Vulnerability



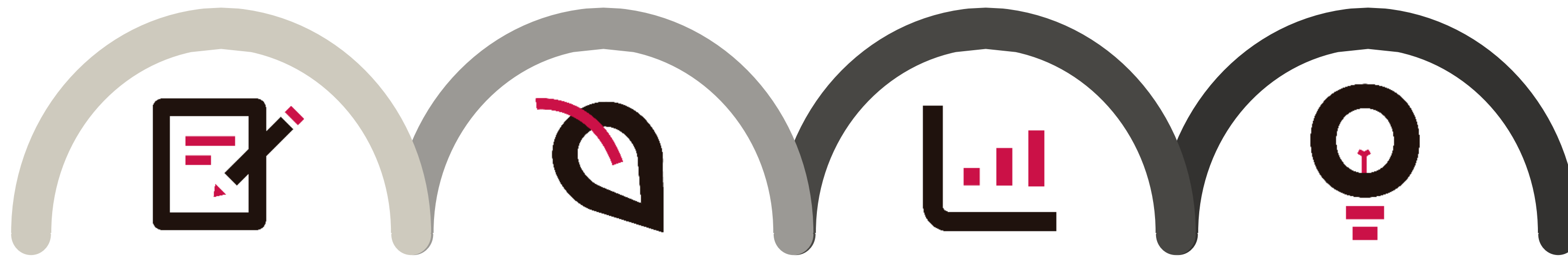
- If the SCF focuses on vulnerable groups, the policy can more than compensate for the welfare losses from the ETS2.
- However, if it attempts to cover more households or is not well designed, vulnerable groups will continue to lose more from ETS2.

Some conclusions



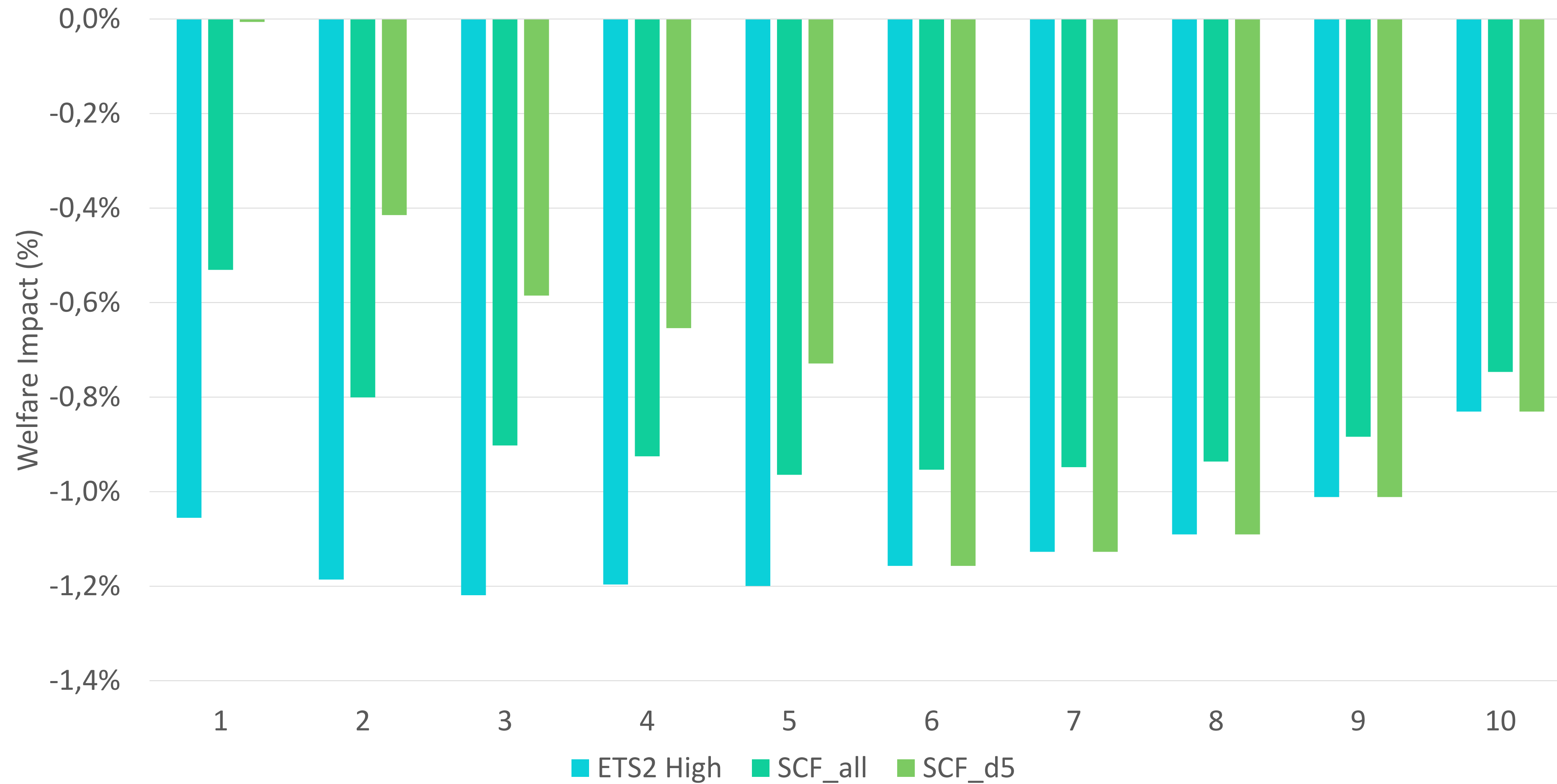
1. The **impact of ETS2** may have some **regressivity effect** and **hit more CEE MSs**
2. However, **the SCF can make the package clearly progressive** and transfer money from Western member states to Central and Eastern European member states.
3. For small net recipients/net contributors to SCF, **SCF revenues alone are not enough to compensate the poorest households.**
4. **It is need to use funds beyond the 25% earmarked to reduce regressivity** and the impacts on middle-income households.
5. The compensation mechanisms will also have **to take into account the different socioeconomic characteristics** and not only the income levels of households.

THANKS!
Eskerrik asko
Muchas gracias



Distributional impacts of ETS2+SCF

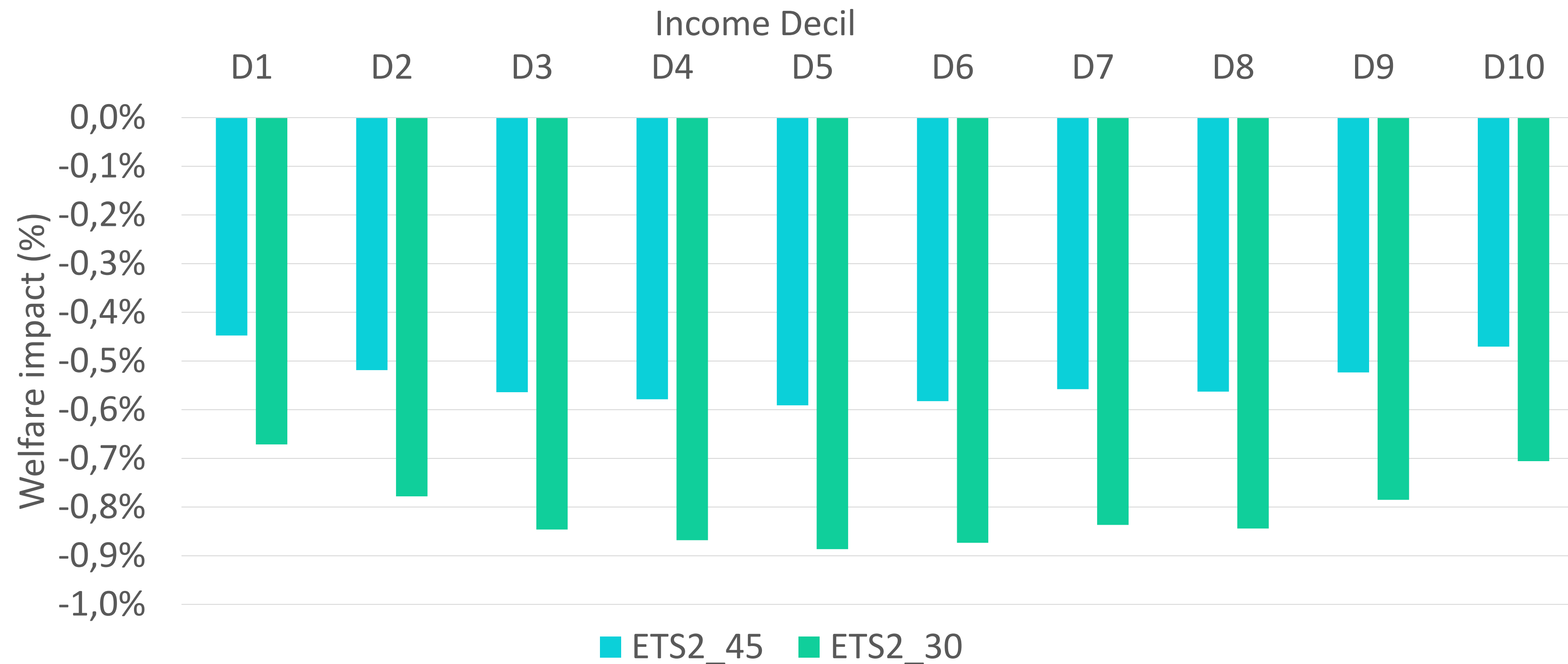
Welfare impact on households by income decile at national level





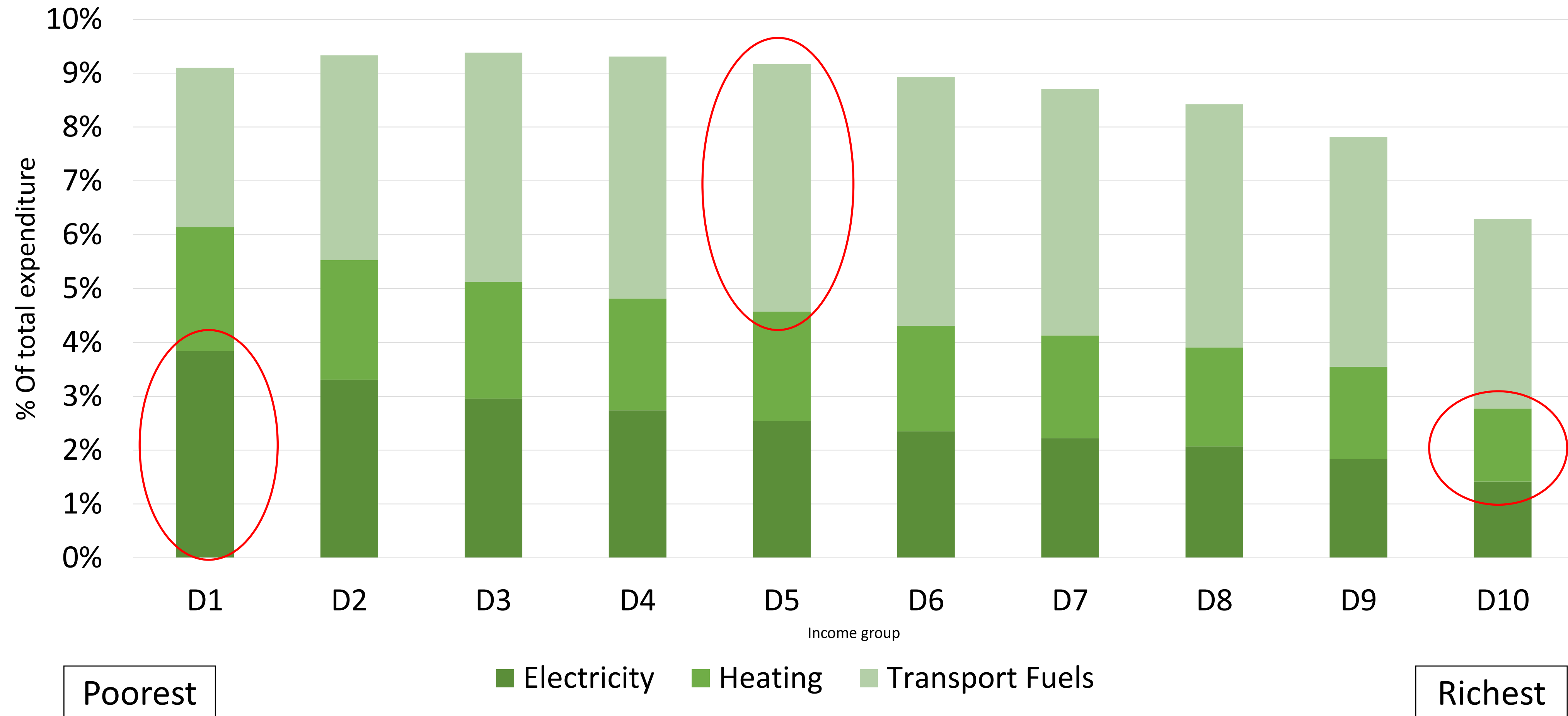
Distributional impacts of ETS2

Welfare impact on households Spanish households by income decile



- Impacts can be assessed horizontally by many factors, such as household types.
- Household types: single parent and single elderly households – women are over-represented in both – are least impacted across EU.
- In Spain (as in many other MS), rural households have the most negative impact, as they are more dependent on private transportation.

Key driving force behind results 1: Structure of energy consumption by income deciles



- **Heating fuels and – in particular – electricity are regressive** (represent a bigger share of expenditure of poorer households)
- **Transport fuels** make up the biggest expenditure share of **middle income groups**.