

The Consumer Voice in Europe

UNE FAUSSE BONNE IDÉE: WHY EXTENDING EMISSIONS TRADING (ETS) TO ROAD TRANSPORT AND BUILDINGS IS NOT RECOMMENDABLE



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Why it matters to consumers

To tackle the climate crisis, a rapid change in the way we move around, heat and cool our homes is needed. This comes not only from an environmental point of view but also from a consumer health and wellbeing and purchasing power perspective. As the EU is set to increase its climate ambition for 2030 and 2050, policymakers are contemplating different policy options to drive down CO2 emissions in the field of road transport and buildings. It is crucial policy makers ensure that consumers will have access to more energy efficient mobility and heating/cooling alternatives while not harming consumers financially and take the needs of lower-income households into account.

Summary

One of the regulatory options considered by EU policymakers to reach the new climate ambition is to apply the EU carbon market – known as the Emissions Trading System – to both road transport and buildings sectors. In this paper, we argue this decision is what French speakers call a *“fausse bonne idée”*, a good idea in principle which could be counterproductive in practice. Extending the EU carbon market could in effect harm consumers financially, especially those on lower-incomes, without providing sufficient access to more energy-efficient mobility and heating/cooling alternatives. Instead, EU and national policymakers should increase the ambition of existing sector-specific policies and fix existing carbon pricing schemes.

Sectoral actions are needed:

- In mobility policy:
 - Accelerate the electrification of passenger cars through ambitious CO2 emissions legislation;
 - Make it convenient to charge these electric cars by reviewing the EU’s Alternative Fuels Infrastructure Directive;
 - Invest in long-distance rail, public transport, cycling and walking.
- In energy policy:
 - Set a binding efficiency target in the Energy Efficiency Directive;
 - Push banks to proactively offer green mortgages and loans;
 - Improve energy performance certificates and energy audits, and introduce mandatory energy performance standards by revising the Energy Performance of Buildings Directive.
- In terms of horizontal climate policy:
 - Review the Energy Taxation Directive so that tax rates of energy products reflect their negative climate externalities, while also ensuring a fair distribution of costs in society;
 - Phase out fossil-fuel subsidies;

- Fix national carbon pricing measure schemes so that they become true drivers of decarbonisation.

1. Introduction

With the European Green Deal and the recently adopted Climate Law, the EU committed to reach carbon neutrality in 2050 and to significantly increase its 2030 CO₂ reduction target from 40 to 55%. While these figures might seem rather abstract on paper, achieving these goals will require profound and rapid changes in consumer habits and behaviour.

The challenge is particularly strong in the fields of buildings and mobility. Together, these sectors are responsible for close to half of the EU's greenhouse gas emissions. According to Eurostat, mobility and heating/cooling also represent the two biggest budget lines in European household budgets, with close to one third of their annual expenditure¹. This general statistic hides significant disparities depending mostly on how much people earn and where they live/work. For instance, nearly 34 million Europeans are unable to afford keeping their home adequately warm².

It is particularly challenging to decarbonise both sectors as consumers are often locked into existing infrastructures which are costly to change (buying a new more energy-efficient car or insulating your house are heavy investments). It means consumers often have little option to choose the sustainable alternative. Changing the way we move around and heat or cool our homes, is therefore not only crucial from the climate/environment perspective but also very important in terms of social justice.

Faced with these challenges, EU and national policymakers are currently contemplating different policy initiatives. With its "Fit for 55" package, which will be published in June 2021, the European Commission intends to launch a series of legislative initiatives which will translate its increased climate ambition into concrete laws and policies. While some legislative proposals are already in the pipeline (revision of car CO₂ emissions targets, revision of the Energy Efficiency and Energy Performance of Buildings directives, review of the Energy Taxation Directive), some important decisions are still to be made. This is particularly the case of carbon pricing measures. The European Commission is currently preparing for the revision of the ETS and is considering the extension of the EU carbon market to road transport and buildings and/or a separate ETS system for both sectors³.

In a recently published "[consumer checklist](#)", BEUC acknowledged that environmental taxation and carbon pricing had a very important role to play in the transition. Today, price signals poorly reflect the impact of our activities on our environment and environment-friendly products and services are often more expensive for consumers than the less sustainable options. While this clearly needs to change, the application of the polluter-pays principle is also a sensitive policy measure that should be managed carefully. If ill-designed, it can create social hardship and strengthen inequalities, without contributing to the advancement of the environmental/climate agenda. This is particularly true for carbon pricing measures as the 'gilets jaunes' movement in France recently demonstrated.

¹ https://ec.europa.eu/eurostat/statistics-explained/index.php/Household_consumption_by_purpose

² Data from 2018. Eurostat, SILC [ilc_mdcs01]).

³ <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020DC0562&from=EN>

This is why the implementation of carbon pricing must be well managed and tailor-made so as to address the climate crisis without creating hardship for consumers.

In this context, ETS is very likely the wrong tool to accelerate decarbonisation in the road transport and buildings sectors. Instead, we propose alternatives in the form of sector-specific policies and carbon pricing measures.

2. Carbon markets for transport and buildings is a “high-risk, low-reward measure”

Extending the ETS⁴ to road transport and buildings would not be a wise policy answer to our decarbonisation challenge for three main reasons: it is (1) likely to have a regressive effect on consumers, especially those on lower incomes (2) without any guarantee that they would be provided with sustainable alternatives all the while (3) distracting policy-makers from raising the ambition of sector specific-policies (3).

- **It will have a negative financial impact on consumers, especially those on lower incomes**

Extending ETS to road transport and buildings would significantly increase the price of fuels and heating/cooling for consumers without necessarily reducing CO₂ emissions. For instance, if road transport and buildings would be covered by ETS and the price of CO₂ allowances would be set between 80 and 90 euros/ton in 2030 (compared to 25 euros today), it is estimated that the price of gasoline could go up by 20 cents/litre while natural gas prices could rise by 30% higher compared to today⁵.

Naturally, these price increases would be felt the hardest by consumers from lower-income groups who proportionally spend a higher share of their income on mobility and heating than more affluent households, and have a more limited ability to switch to more energy efficient alternatives. Extending ETS to transport and buildings will have a regressive impact and could in turn strengthen inequalities, increase energy poverty and create social hardships. This risk is acknowledged in the European Commission’s recent Impact Assessment: *“The estimated changes in relative prices generated by higher climate ambition would affect lower income earners significantly more than top income earners... Energy poverty could intensify if not adequately addressed.”*

⁴ The **EU Emissions Trading System (ETS)** is a Europe wide scheme which caps the total level of greenhouse gas emissions and allows those industries with lower emissions to sell their “emission allowances” to larger emitters. By creating a carbon market, the ETS establishes a price for the ton of CO₂ emissions. The aim is to progressively reduce the cap of total emissions so that the price increases and investments are shifted from fossil-fuel based to more energy-efficient or low-carbon technologies.

Currently, the European Emissions Trading System covers operators in power and heat generation, energy intensive industries, and intra-EU aviation. Other sectors such as road transport, agriculture, and buildings are subject to the **“Effort Sharing Regulation”** which defines EU-wide CO₂ reduction objectives (currently -30% in 2030 compared to 2005) and then sets binding CO₂ reduction objectives for each Member State with variations in ambition depending on their respective levels of wealth⁴. The Effort Sharing Regulation is one of the main drivers for individual countries to put in place climate policies designed to curb their emissions (for instance increasing the modal share of active mobilities and public transport against individual cars or accelerating the uptake of renewable energies). These national climate policies are completed by EU-wide regulations and measures, such as cars CO₂ reduction targets.

⁵ <https://europeanclimate.org/wp-content/uploads/2020/06/01-07-2020-decarbonising-european-transport-and-heating-fuels-full-report.pdf>

This is all the more unjust as lower-income households, who would have to shoulder an outsized share of the transition costs, emit proportionately less CO₂ than more affluent ones. For instance, Oxfam recently showed that the 10% wealthiest EU consumers were responsible for 27% of the EU's CO₂, the same amount as the 50% lowest-income citizens⁶.

- **It will not support the uptake of more energy-efficient initiatives and could lock people into unsustainable lifestyles**

Price increases in carbon-intensive mobility, heating and cooling would not be a problem if, at the same time, consumers had a wide access to more energy efficient alternatives. For instance, if the retail price of gasoline and diesel were to increase but consumers could easily replace their fossil-fueled vehicle with an electric car, the carbon pricing measure could positively contribute to modifying consumers' behaviour towards more sustainable options.

The problem is that consumers' demand for mobility and heating/cooling is relatively inelastic to price signals, meaning that an increase of the price does not necessarily lead to a change in consumption patterns. This is because the upfront costs of buying a new car, switching an old gas boiler with a heat pump, or better insulating a house are so high that they often are inaccessible to a large part of the population.

Sometimes, the main obstacle can be that the alternative is simply not available or that the decision to switch to cleaner or more energy-efficient options does not lie with the consumer. For instance, even if the situation is slowly changing, there is still a much too limited offer of second-hand electric cars, putting these vehicles out of reach for most people. In the residential sector, tenants renting a flat in a multi-unit building face a double-barrier: would they succeed in convincing their landlord to invest and implement energy efficiency improvement works, the landlord could still be faced with the complexities of retrofit project of a condominium and not be able to act promptly. This kind of obstacles are sometimes made even more difficult by the lack of predictability and visibility of public policies supposed to support investments in more energy-efficient technologies. Many consumers are therefore locked-in to unsustainable lifestyles and consumption patterns.

Increasing the price of unsustainable transport and heating, without providing consumers with sustainable alternatives, would therefore simply strengthen inequalities and create social hardship without contributing to the fight against the climate crisis.

- **It distracts policy-makers from taking more efficient measures**

The third major reason against the application of ETS in the field of road transport and buildings is that this measure would not only be risky and politically sensitive but also very uncertain in terms of its potential contribution to reducing CO₂ emissions.

Expanding ETS to road transport and buildings would naturally compete – in terms of decision-makers' time, resources and political capital – with sector-specific measures that have a proven track record in reducing CO₂ emissions. Although the Commission has made clear that the possible extension of ETS to both sectors would only be a complementary tool to sector-specific measures, it is very likely that these different policy initiatives would be played against each other during the legislative negotiation, at the expense of the overall ambition level.

⁶ https://www.oxfamfrance.org/wp-content/uploads/2020/12/Briefing-Oxfam_Combattre-inegalites-des-emissions-dans-lUE_FR.pdf

Moreover, ETS prices are volatile and difficult to forecast. The 2008-2012 period was characterised by an oversupply of emissions allowances and a very low allowance price, thus providing no incentive for businesses to reduce their emissions. The system was then reformed (i.e., with the creation of a 'market stability reserve' allowing the Commission to remove allowances from the market) and a firmer price signal was generated to around €30/tonne in 2018. However, prices plummeted again due to the COVID-19 pandemic in 2020. Although at the time of writing, prices have returned to €25/tonne, it is difficult to foresee what could happen in the future. Making ETS the central piece of our climate policy and extending it to the two highest emitting sectors in the EU would therefore be a risky bet as we now have only few years to accelerate the fight against the climate crisis.

3. A better avenue than ETS: stronger sector-specific regulations

The European Commission should focus on existing regulatory tools and policy measures that are known to deliver. With its 'Fit for 55' package, the Commission already plans a series of legislative initiatives which have the potential to significantly accelerate the transition to lower-carbon lifestyles to the benefit of consumers and the environment. The following sector-specific measures need to be prioritized.

- **Road transport: Accelerate the shift to electric vehicles and provide more alternatives to individual car ownership**

The upcoming revision of EU CO₂ emissions standards for cars must accelerate the electrification of the car industry

After years of dragging their feet, it seems the car industry is finally making more electric cars available to consumers, pushed by the entry into force of the EU's 95 g/km CO₂ emissions target for 2020. This obliged car manufacturers to sell more electric cars to reduce their average emissions. And it shows: Since the beginning of 2020, the market share of battery electric cars (BEVs) significantly increased in key European markets. Latest figures for 2020 show that BEVs represent an average 5% of the market in major European countries, which is a doubling compared to in 2019. In Germany and France, BEVs even represented 6,7% of sales in 2020, between two and three times more than in 2019. When considering plug-in hybrids (PHEVs), the market share of electric vehicles can reach up to between 10 and 15%.

It shows CO₂ standards deliver and accelerate the uptake of electric cars to the benefit of consumers. To make sure consumers have an increased access to electric cars, which are not only more sustainable but also cheaper to run and to own⁷, the EU should therefore focus on further harvesting the benefits of these CO₂ standards.

Their upcoming revision - with a Commission proposal is expected by June 2021 - is therefore a strong opportunity to go further and keep the pace of electrification we have seen in 2020. In the absence of more ambitious 2025 and 2030 CO₂ reduction objectives, there is indeed a risk that after rushing to put many electric vehicles on the market in order to meet their 2020 and 2021 CO₂ targets, car manufacturers will slow down their efforts in the years to come.

⁷ <https://www.beuc.eu/publications/beuc-x-2018-113-when-will-electric-cars-be-an-affordable-option-for-european-consumers-a5-format.pdf>

A more ambitious regulation would in particular benefit lower-income consumers. With more models on the market, it is expected that the purchase price of these cars will continue to drop and that BEVs will become increasingly available also on the second-hand market. With higher 2025 and 2030 objectives, the introduction of an intermediary target between 2025 and 2030 and the introduction of a phase-out date for the sale of conventional cars by 2035, consumers will enjoy better access to electric cars, both on the first and second hand markets.

A consumer-friendly recharging infrastructure to support the electric car uptake

While the CO2 standards regulation should help bring down the purchase price of BEVs, another EU law can help tackle another barrier for consumers against taking up BEVs: range anxiety. The availability of publicly accessible charging stations is an absolute necessity for EV drivers to be able to move around without hassle.

Yet the current situation poorly reflects the need for consumer-friendly charging infrastructure which logically represents a brake on consumers' willingness to buy an electric vehicle. The challenges are numerous: uneven roll-out of charging points, lack of maintenance, obligation to download an app or buy a specific card to access a recharging station, and a maze of tariffs.

The European Commission will propose to revise the Alternative Fuels Infrastructure Directive (AFID) in June 2021. The impact of such legislation could be a true game changer if it is designed to directly benefit consumers and address some of the very practical problems they face. Access to a charging station where needed, transparent tariffs and seamless payment methods (by debit or credit card) are among the most outstanding demands of consumers. For more details regarding our position on the revision of the Alternative Fuels Directive, please refer to our dedicated [position paper](#).

Other EU initiatives, such as the revision of the Energy Performance of Buildings Directive, can further improve convenience via easier access to *private* charging infrastructure. This can be done through more ambitious requirements for buildings undergoing important renovation works and simplified procedures for the installation of a charging point within buildings.

Broader shift to public transport, trains and active modes of transport

Electric cars alone will not decarbonise road transport. Measures are needed to provide consumers with affordable, accessible and sustainable alternatives to individual car ownership.

To make the necessary modal shift happen, investments in public transport must be increased. The COVID-19 pandemic also showed the need to restore trust as many consumers [avoid buses and trams](#) out of fear of the virus. Frequency and comfort, along with greater geographical coverage, must be improved.

Cycling and walking also became predominant transport modes in many cities during lockdowns. The temporary infrastructure created to facilitate so-called active transport modes has attracted many citizens. Developing safe and attractive cycling and walking lanes has proven to be a future-proof policy at local level, which the EU can further support through Sustainable Urban Mobility Plans.

Moreover, the recently agreed EU Recovery Fund can help Member States to invest in train journeys, by promoting cross-border connections as well as by fast as by night trains. Along with improved passenger rights, this would greatly improve consumer choice when travelling longer distances.

The EU also plans to promote multimodality at local and cross-border level. New data exchange initiatives already underway between operators and other mobility service providers could spur this trend. To fully boost the consumer interest here, the EU should improve multimodal and single ticketing. By ensuring new mobility services comply with sustainability criteria, the proposed framework would tackle consumer concerns and fit within the framework of the European Green Deal.

- **Buildings: Renovate houses, switch to more efficient heating and cooling systems**

Carbon pricing is not efficient to nudge consumers into energy switch

As already explained in the previous sections, the introduction of a carbon price on heating fuels, without any accompanying measures, risks not to achieve the objective of decarbonising the heating mix and to harm low and middle-income households the most, as energy represents a higher share of their expenditure.⁸

Firstly, as demonstrated during the CLEAR 2.0 project,⁹ consumers are often unaware of the energy consumption of their appliances and of the benefits that they could achieve by switching to more efficient ones. There is a need for supporting measures that will push consumers into change. For instance, under this project, DECO Proteste provided some simple tips to consumers on how to save energy and money because consumers tend to underestimate how much energy is used by appliances in stand-by mode and generally do not pay attention to it.¹⁰ Moreover, our Spanish member organisation OCU advised consumers on behavioural measures as the potential to save was high while the awareness rather low. Therefore, a carbon price may only have a limited effectiveness in communicating to them about the sustainability of their energy choices.

Secondly, consumers' energy choices are constrained by the infrastructure that is available to them. Consumers will only be able to switch, for example, to sustainable district heating, if their homes are connected to the relevant infrastructure.

Thirdly, a carbon price will not by itself push consumers to renovate their homes to mitigate the impact of the price increase, because of the upfront cost of these improvements. Even consumers whose homes are connected to sustainable energy infrastructure face a significant barrier to switch. Doing so involves high upfront costs connected to the purchase of a sustainable heating appliance or improving the thermal insulation of a building that is often required to run heat pumps efficiently. This barrier is more difficult to overcome for low- and middle-income households, which have lower financial resources and more difficult access to credit. In addition, the improvement of a home's building envelope and the replacement of its heating system highly disrupt their occupants' lives during the execution of the works, which further increases consumers' inertia to switch. This barrier as well is more relevant for lower income consumers who, unlike those who are better off, very often cannot avoid this disruption by temporarily moving to a second residence, for example.

⁸ In 2015, energy represented 7.3% of the total expenditure of the bottom income quintile in the EU and that this figure decreases to 4.4% for the highest earning one. Eurostat, [Structure of consumption expenditure by income quintile and COICOP consumption purpose](#) [hbs_str_t223].

⁹ CLEAR2.0 project financed by EU's Horizon 2020, [What CLEAR 2.0 taught us: results and recommendations](#), February 2020

¹⁰Families that put in place this very simple measure achieved average savings of €160 per year.

For all these reasons, the introduction of a carbon price on heating fuels may have a regressive effect.¹¹ As with transport, regulatory measures – such as investments in infrastructure, subsidies, bans and efficiency requirements – would be a more effective tool to decarbonise the heating sector.

Roll out sustainable energy infrastructure - National heating and cooling decarbonisation plans under the Energy Efficiency Directive and Renewable Energy Directive

The updated Energy Efficiency and Renewable Energy Directives require Member States to deliver a comprehensive assessment of renewable and energy efficient heating/cooling. The provision only covers district heating/cooling and only requires Member States to “duly take into account” the result of the assessment.

This measure should be improved to require Member States to draw long term heating and cooling decarbonisation plans that also cover energy infrastructure for individual heating. These plans should give consumers sufficient clarity on what infrastructure will be available to them in the next decades so that they can react accordingly. For example, when a government announces a ban on heating oil appliances, consumers willing to replace it are still facing a high degree of uncertainty. Consumers may ask themselves for example whether a district heating and cooling network will reach their home in the coming years or whether they should install a heat pump. Therefore, Member States should prepare long term plans defining when fossil fuels will be phased out and what energy infrastructure will be available to consumers at the local level. These plans should be accompanied by communication and awareness raising activities, informing consumers of the change and of what it means for them, in terms of economic impact, health and comfort, and for the environment.

Need for a more ambitious EU energy efficiency legislation, better tools for consumers and new funding solutions

To steer consumers’ choices towards low-carbon solutions, it is important to put in place financial schemes that directly address both the envelope deep retrofit (for instance the insulation of roofs and outer walls) and the electrification of space and water heating [investments](#).

The amended Energy Efficiency Directive (EED)¹² sets a headline energy efficiency target for 2030 of at least 32.5%. However, a rapid uptake of consumer-friendly energy efficiency measures can only be achieved through a binding, more ambitious energy efficiency target, a policy without loopholes and with consumer outcomes clearly spelled out. A study¹³ by the Coalition for energy savings and Ecofys revealed significant potential to achieve higher energy efficiency targets. It shows that when applying a societal interest rate in assessing and comparing costs and benefits, lifetimes of energy efficiency measure of 30 years and the impacts on the 2031-2050 period, the benefits of a 40% energy efficiency target for 2030 exceed costs. Higher investments in energy efficiency should not disadvantage energy poor households and therefore, targeted initiatives addressing these consumers should be introduced.

¹¹See, for example, DG TAXUD, [Regressivity of environmental taxation: myth or reality?](#), 2012

¹²Directive (EU) 2018/2002

¹³Study by the Coalition for energy savings: Critical review of the European Commission assessment for the Clean Energy For All Europeans package. Towards a cost benefit analysis. <http://www.ecofys.com/files/files/ecofys-ces-2017-impact-assessment-eed.pdf>

Up to now, obligations included in the Article 7 of the EED have targeted energy providers. The scope of this article could be broadened and cover also the banking sector. The aim is to nudge the banks into proactive implementation of green mortgages and green loans offers. A possible reward for banks compliant with their annual obligation would be to access lower interest rate refinancing conditions from the European Central Bank.

Thirdly, the Energy Performance of Buildings Directive (EPBD), which will be revised in 2021, includes a number of tools that can be improved, particularly the existing Energy Performance Certificates (EPC) and Energy Audits. Another important measure to increase energy efficiency of people's homes is the introduction of Mandatory Energy Performance Standards (MEPS) which would require buildings to meet a predefined energy performance standard, set for example in terms of an energy rating and/or a list of technical requirements. The implementation of easy to deliver and market-ready financial tools and services is key to enable the uptake of MEPS, especially by tenants. Tailor-made financial tools for tenants will allow them to endorse a fair share of the retrofit's costs and investments.

Make full use of Ecodesign for heating/cooling devices

The use of heating and cooling devices, as well as common household electrical appliances (such as dishwashers, ovens, and fridges) contributes to the monthly budget that consumers dedicate to their energy bill. Thanks to Ecodesign and Energy labelling measures, these appliances are becoming more energy-efficient over time and generate savings and benefits for consumers. According to a survey BEUC commissioned in 2016 an average EU household can save up to €330 yearly thanks to Ecodesign. Consumers do not need to do anything to save up, it is just because products have become more energy-efficient over time.

The Ecodesign Directive and its implementing Regulations set minimum energy efficiency requirements for energy-related products. Such requirements are strengthened over time and in line with technological development, to ensure even more savings in terms of energy consumption and to address additional material efficiency aspects, such as the availability of spare parts and the possibility to open products with common tools.

For certain heating appliances more ambitious Ecodesign requirements are necessary and more attention should be given to material efficiency aspects. In fact, consumers are not only attracted to more energy efficient appliances, but also to more durable and easily repairable products. The European Commission should make sure to strengthen the existing durability and reparability requirements and to systematically extend them to all energy-related products.

4. What role for carbon pricing instruments?

Sector specific measures and regulations should be the main drivers to accelerate the decarbonisation of road transport and buildings. That does not mean however that carbon pricing measures do not have a role to play in accelerating the transition and steering consumers' decisions towards the most sustainable choices. ETS is just not the right tool for this.

While the discussion has clearly intensified in the past few years, carbon pricing is not a new concept. Different carbon taxation schemes already exist, both at EU and national level. Several Member States, such as France, Sweden or more recently Germany, already have carbon taxation schemes in place. At EU level, as highlighted above, the ETS already covers several energy intensive sectors and other pieces of regulation, such as the Energy

Taxation Directive, aims at setting common criteria regarding the taxation rate of carbon-emitting energy carriers and fuels.

The problem with these existing tools is that often, they are not applied effectively, nor in a fair manner from a consumer point of view. Rather than inventing new tools, policymakers should therefore focus their efforts on [fixing already existing carbon pricing mechanisms](#).

- **Align the EU Energy Taxation Directive with our renewed climate ambition**

As part of the European Green Deal, the European Commission has announced the revision of the Energy Taxation Directive (ETD) in June 2021. This legislation establishes framework conditions for the taxation of electricity, motor and aviation fuels and most heating fuels and sets minimum tax rates for all Member States. The directive has not been revised since its introduction in 2003 and is clearly not in line with increased climate ambition. The European Commission pointed out itself that its “existing gaps and inconsistencies significantly hamper the EU’s energy, climate and transport objectives” and that the text “contains a range of incentives for fossil fuels”¹⁴. As a result, the Commission committed in its Sustainable and Smart Mobility Strategy that the revision will aim at “aligning taxation of energy products and electricity with EU energy and climate policies”¹⁵.

BEUC agrees with the European Commission’s assessment that the ETD should be aligned with our decarbonisation objectives. Tax rates of energy products should be set according to their negative climate externalities, such as the level of greenhouse gases emissions. This way, energy products and fuels with high carbon content would become more expensive compared to more climate-friendly alternatives.

Send a clear signal: phase out fossil fuel subsidies

To make it politically acceptable and efficient from the climate perspective, it is essential that the revision of the ETD ensures a fair distribution of the costs within society. For this, fossil-fuel subsidies to energy-intensive industries should be phased out.¹⁶ Indeed, carbon pricing measures will not be accepted if people feel they are paying the full price for environmental/climate protection while companies escape their responsibilities. The fair distribution of the costs between consumers and companies according to the polluter pays principle is therefore a key criterion for the social acceptability of carbon pricing among consumers.

Earmarking of carbon pricing revenues for sustainable investments/retrocession

Finally, the revision of the ETD should be an opportunity to decide on how to use the additional revenue generated from the carbon-adjusted energy taxation. We recommend that revenues stemming from higher carbon taxes/prices should 1) fund sustainable public investments and/or 2) be retroceded to consumers.

¹⁴https://ec.europa.eu/energy/topics/markets-and-consumers/energy-taxation_en

¹⁵https://eur-lex.europa.eu/resource.html?uri=cellar:5e601657-3b06-11eb-b27b-01aa75ed71a1.0001.02/DOC_1&format=PDF

¹⁶For example, Article 15(1)(d) of the ETD includes a mandatory exemption from excise duty for fuels used in industrial cogeneration, regardless of the energy efficiency of the installation. In addition, Article 17 of the ETD allows Member States to grant optional reductions from excise duties to energy-intensive industries. When they implemented this measure, some Member States granted energy tax reductions of up to 90% the nominal rate.

The revenues of higher carbon prices could for instance fund investments in public transport, buildings insulation or the roll-out of renewable energy infrastructure. This will provide consumers with convenient and affordable solutions towards more sustainable lifestyles. A complementary option could be to retrocede the money to consumers to mitigate the negative impacts of those measures. This can take the form of a lump sum payment which amount, and beneficiaries could be determined based on a distributional impact assessment of the effects of carbon pricing measures on different consumer groups. This analysis could also help policymakers determine what kind of investments should be funded in priority so as to mitigate the impact of carbon pricing measures and provide people with alternatives to fossil-fueled mobility modes and/or inefficient heating systems.

Another option would be to introduce tax deductions, encourage green investments or make sustainable products cheaper (by reducing taxation rates on a series of green products, for instance).

- **Fixing national carbon pricing measures**

The need to align taxation measures with our climate objectives also apply to Member States' level. There are many examples of national taxation schemes giving an unfair advantage to industry over individual consumers. In France, commercial road transport is partially exempted from fuel taxes which apply to individual drivers. In the German energy market, we have seen that certain actors have been exempted from some of the costs of the energy transition. More generally, the gap between the carbon price set by the EU ETS (which is around 25 euros/tonne without even accounting for the free emissions allowances allocated each year) and some of the existing carbon taxes (for instance the French one which is currently at 45 euros/tonne) mean that large industries pay a much cheaper price for their emissions than individual consumers. This discrepancy between individual citizens and large companies and industries means that households pay proportionally much more for the costs of the transition. This situation undermines the consent to taxation and generates frustration that climate policy is something punitive as opposed to an opportunity.



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