

Updating the EU emissions trading system (ETS)

EUROFUEL POSITION

We call for consideration on the following points:

- Consistency with other energy legislations
- Social impacts
- Effectiveness of an extension to buildings
- Need for a level playing field

Eurofuel is the European Heating Oil Association, which represents the national organisations that promote the use of liquid fuels for domestic heating in 10 European countries.

Our members are well aware of the huge challenge we are facing, as individuals and as a sector, to limit climate change. They are supplying liquid fuel for heating to off-grid households, which very often do not have affordable, sustainable, or practical alternatives to heat their homes. Our members are contributing to the well-being of millions of Europeans (17% of the population) by providing a reliable source of energy. Yet, they understand the necessity, and are fully engaged in the energy transition.

Eurofuel is therefore committed to help decarbonise the heating sector. On our side, we are promoting a three steps approach to do so: first, decrease the consumption of energy through efficiency (thanks to condensing boilers and improved building insulation); second, through hybrid systems with renewables (including renewables like solar energy and allowing the best use of each technology); and third, incorporate low-carbon liquid fuels progressively, with a 100% share of renewables by 2050. We are currently running multiple field tests to verify and to proof the compatibility of existing heating devices.

We welcome the opportunity to contribute to the numerous initiatives aiming at decarbonising heating, including the upcoming review of the Renewable Energy Directive (REDII), the Energy Efficiency Directive (EED), the Energy Taxation Directive (ETD) and other relevant legislation.

With regard to ETS, and in particular a potential extension of the scope of the ETS to buildings, we would like to bring to your attention the following considerations:

A coherent policy framework

The revision of key legislation to achieve higher emission reductions will require a considerable effort from stakeholders, who face multiple legislative requirements, with still a lot of uncertainties and unknown conditions as the revisions are in progress. While not knowing the modifications introduced by the revisions of REDII or ETD for example, it is very difficult to assess the relevance of an additional tool such as the ETS. A coherent policy framework is essential for both stakeholders to adapt and for the objectives to be met.

A potential ETS extension to buildings would require a careful design to ensure a coherent policy framework among all climate and energy policies (including ESR, ETD, REDII) as well as continuation of the current architecture where possible. It is thereby necessary that the different needs and specificities of sectors are taken into account, as well as the national circumstances (energy poverty; use of energy sources; existing grids; climate conditions and availability of renewable energy etc.).

If a heating of buildings would be included under the ETS, in parallel to the ESR, it is of crucial importance that this is accompanied by other levers and policies to overcome non-price barriers to renovation and the financing difficulties for the many small emitters and households whose individual spending will increase, if carbon price is driven by the wider ETS market. Furthermore, parallel systems could result in increased administrative burden, a potential for regulatory inconsistencies and complexity for operators to navigate the two systems.

The social impacts

A potential ETS extension to buildings without changes of other heating cost related regulations would lead to higher heating costs, putting an excessive burden on consumers if they were elected to be the obligated party. Especially people living in rural areas, in old and less efficient buildings, would be exposed to risk of energy poverty and increased individual spending. The social and distributional impact would need to be carefully calculated, taking also into account the economic impact of the COVID pandemic. The necessary incentives would need to be put in place to support renovation and clean heating solutions and to overcome both non-financial and financial barriers.

Effectiveness

Expanding ETS to buildings is also unlikely to bring benefits in terms of energy efficiency as the demand of heating fuels is generally inelastic, especially in the short term. The impact of energy consumption patterns might remain limited, while imposing a significant administrative burden on market operators and public authorities alike.

A level playing field between different technology options

While Eurofuel does not believe integrating buildings under the EU ETS is the right policy tool, if introduced, any emission trading system for buildings shall cover all energies and fuels used, i.e. liquid fuels, gaseous fuels, electricity, with renewable and carbon neutral energies counted with an emission factor of 0. The principle of technology neutrality should be respected, whereby a full life cycle assessment would allow a fair and consistent approach towards all energy sources, while promoting low-carbon solutions.

A fit for purpose technology neutral approach

In conclusion, while Eurofuel and its members are committed do mitigating climate change, expanding ETS to buildings is not fit for purpose as it presents more risks than real opportunities. Other solutions – rooted in the principle of technology neutrality – can lead to better results. Innovation is fostering the creation of new low-carbon liquid solutions that strike the right balance between emission reduction and consumer comfort. Enabling the contribution of each energy source can be a win-win opportunity, helping to deliver a balanced and just energy transition for European citizens as well as achieving the objectives set in the Green Deal, the Renovation Wave and the Recovery plans.

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About Eurofuel

The European Heating Oil Association (Eurofuel) represents organisations that promote the use of heating oil and liquid fuels for domestic heating in Europe. Our membership covers 10 European countries, including over 10,000 companies. Eurofuel is engaged in the promotion of existing and innovative techniques for liquid fuels for heating and equipment, in the domestic market. In this way, our members are committed to ensuring the competitiveness and efficiency of heating with oil and liquid fuels, while also reducing its environmental footprint.

Find out more at www.eurofuel.eu and follow us on Twitter ([@EUROFUELenergy](https://twitter.com/EUROFUELenergy)).