

Why including buildings in the EU ETS is not the right tool to deliver energy-efficient homes

The European Commission is assessing whether to extend the EU Emissions Trading System (EU ETS) to cover the emissions associated with the heating and cooling of buildings. This paper points out several reasons why this would not be the best approach to deliver a highly energy-efficient and decarbonised building stock by 2050.

Buildings are the EU's biggest CO₂ emitter

Our homes, offices and buildings are the EU's biggest CO₂ emitters, as well as its single largest energy user. Decreasing and decarbonising the energy consumption to heat, cool and use buildings is crucial for the transition to a climate-neutral Europe by 2050 at the latest. Since most of the buildings that we will occupy in 2050 are already built, **the main challenge is to renovate these 210 million existing buildings to make them less energy-hungry.**

At the current rate of renovation, it would take another century to achieve a decarbonised building stock, instead of the targeted 30 years. Further inaction risks the EU missing its climate objectives by up to 400 million tonnes of CO₂¹. Around 50 million people still live in energy poverty. Deep renovation of their homes would lower their energy bills and make their houses more comfortable and healthy. Well-insulated buildings moreover offer the flexibility to receive energy when it is available, thereby allowing the effective integration of renewables in the energy system during the entire year.

Integrating buildings in the EU ETS is complex and time-consuming

Urgent action on buildings is vital to overcome the climate and social crises facing Europe today. Integrating the building sector in the EU ETS is complex and likely to take at least several years. That is time we do not have, and which diverts attention from more effective short-term measures. The EU should instead prioritize a Green Deal for housing to unlock vast investments for building renovations, while creating local jobs and more energy-efficient and affordable housing.

What is the EU ETS?

The EU ETS sets a cap on the total amount of greenhouse gases that can be emitted by installations from the power, industry and aviation sectors. The cap is reduced over time so that emissions go down. Within the cap, companies receive or buy emission allowances which they can trade with each other, thereby creating a carbon price.

The building sector is already covered by a cap on how much greenhouse gases can be emitted as part of the Effort Sharing Regulation; the EU's other climate legislation targeting sectors not included in the EU ETS.

Carbon pricing does not deliver more affordable, energy-efficient homes

According to the International Energy Agency², most of the energy efficiency potential is available at a negative cost. This means that these efficiency measures already pay for themselves, even in the absence of a carbon price.

¹ Climate (2018), The key role of energy renovation in the net-zero GHG emission challenge (see [here](#))

² IEA (2011), Summing Up the Parts - Combining Policy Instruments for Least-Cost Climate Mitigation Strategies (see [here](#))

The reasons why these measures, such as energy renovation, are not taken are usually not economic in nature, but rather the result of market-barriers and -imperfections. In the case of the building sector, these barriers include split incentives between those making investments (i.e. home-owners) and those paying energy bills (i.e. tenants), the inability to come up with high upfront costs and a lack of information on renovation opportunities and financing options.

Including the building sector in the EU ETS would do nothing to overcome these barriers to make buildings more energy-efficient. Even worse, **the introduction of a carbon price for the heating and cooling of buildings could lead to higher energy bills** for tenants or homeowners who are not able to, or cannot afford to, renovate their homes.

Governments should remain responsible for the built environment

Extending the EU ETS to buildings would mean that governments are no longer accountable for introducing measures to decarbonise the building stock under the Effort Sharing legislation. Under the Effort Sharing Regulation, each Member State has annual climate targets that it needs to meet. By integrating buildings in the EU ETS, the sector would be taken out of the Effort Sharing Regulation, putting the responsibility of climate action instead on heating fuel suppliers.

The integration of the building sector in the EU ETS could lead to the dismantling or shying away from more effective EU and national energy efficiency legislation, under the pretext that this would undermine the functioning of the carbon market. This would be dangerous as the decarbonisation of the building stock requires dedicated policies beyond a carbon price.

It is up to governments to put in place programmes to accelerate renovation, to introduce minimum energy performance standards for buildings and to prioritize measures to alleviate energy poverty. **These actions will not happen through the EU ETS, but by policymakers taking ownership of the transition to a climate-neutral built environment.**

Green Deal for housing should be a key priority for Europe

Without urgent and accelerated action to renovate up to 97% of the European building stock by 2050, it will be impossible to meet the EU's climate objectives. Fortunately, buildings' operational emissions can be cut by 100%, mostly by using already commercially available solutions such as insulation.

Including the building sector in the EU ETS distracts from taking effective measures to overcome the main barriers hampering the renovation of the EU building stock and the alleviation of energy poverty. The EU instead needs to put in place an enabling framework to ensure that the worst energy performing buildings are phased out over time, to guarantee quality homes for people and clear a pathway to climate-neutrality.

The European Green Deal presents a perfect opportunity to deliver on comfortable, affordable and energy-efficient housing. This Green Deal can help unlock 130 billion euro per year to fill the investment gap for energy-efficient buildings³. Over 2 million jobs in Europe could be created through such investments in energy efficiency - in particular in the deep renovation of buildings⁴.

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³ EU high-level expert group on sustainable finance (2018), Financing a sustainable European economy (see [here](#))

⁴ JRC (2018), Competitive landscape of the EU's insulation materials industry for energy-efficient buildings (see [here](#))