Extension of EU ETS to buildings and road transport: impact on vulnerable consumers needs to be carefully assesed

Position paper on the revision of the Emissions Trading System

The European LPG industry is supportive of the European Union's ambitious goal to become climate neutral by 2050 and is fully committed to enable achieving it. LPG and bioLPG, as clean-burning, versatile, and resource-efficient gaseous fuels are perfectly placed to immediately help to reach this goal, especially in rural areas as well as in road transport. LPG is one of the cleanest fuels available in comparison with conventional, high-carbon fuels such as coal, heating oil, diesel and petrol when it comes to CO_2 emissions. LPG, bioLPG and renewable LPG have significant potential to reduce air pollution compared to other energy sources.

Liquid Gas Europe's position on the extension of ETS to buildings and road transport

Liquid Gas Europe believes that, with the right design and implementation, carbon pricing can support decarbonisation in certain sectors. However, we have concerns about the European Commission's proposal to revise the current EU Emissions Trading System and, specifically, with regards to the plan to create a new, separate ETS covering buildings and road transport. Liquid Gas Europe calls on Members of the European Parliament and the Member States to consider the following recommendations:

1. Carefully assess the impact of the proposal on vulnerable consumers and small businesses
2. Use a level of free allocation of allowances in the initial stages to limit the impact on consumers and businesses
3. Stimulate the production and uptake of renewable gases
4. Avoid double taxation

1. Carefully assess the impact on consumers and business energy costs

The European Commission's Impact Assessment shows that the introduction of emissions trading in road transport and buildings will have a considerable impact on the price of energy.[1] This is confirmed by other analyses. A report by the Polish Economic Institute, in collaboration with ERCST and Cambridge Econometrics, shows that on average in the EU27, additional spending on fuels and electricity used for transport is projected rise around 18-37 percent for the first quintile (the 20% households with the lowest income) in 2030. In the residential building sector, the increase in household spending on energy ranges between 18-39 percent.[2]

Beyond the averages the study demonstrates that there will be significant differences in impact between Member States. In Poland, for instance, household spending on heating fuels would increase between

[1] European Commission (2021), Commission Staff Working Document: Impact Assessment report accompanying the proposal 2021/0211 (COD), p. 124.
[2] Maj, M., Rabiega, W., Szpor, A., Cabras, S., Marcu, A., Fazekas, D. (2021), Impact on Households of the Inclusion of Transport and Residential Buildings in the EU ETS, Polish Economic Institute.

39-83%. Eastern European countries, like Poland, have a colder climate, use more heating and will therefore face higher emission costs.

Another recent study commissioned by the Flemish Government, starting from a carbon price projection ranging between €70/t to €100/t, found that the expansion of EU ETS to heating and transport in Flanders would increase household expenditures for heating and transport fuels between €322 (+19%) and €460 (+28%) per year in 2030[3]. It needs to be noted that the impact of carbon pricing comes on top of the tax – and price – increases following the revision of the Energy Taxation Directive.

Furthermore, it is important to understand that the proposal will not impact households equally. Especially in the case of heating fuels, the extension of emissions trading will have a stronger impact on lower income households, as they tend to spend greater portions of their income on heating. When it comes to road transport, it is the lower-middle to middle class that will be most affected. Next to households, also business will see their energy expenditures increase.

As our members have strong customer bases in rural areas in which around 22,5 percent of people in are at risk of poverty or social exclusion, Liquid Gas Europe deems it of critical importance that the extension of EU ETS does not exacerbate energy and mobility poverty. Furthermore, public support for climate neutrality will come under pressure when policy leads to an unjust energy transition in which certain vulnerable groups and areas are left behind.

Liquid Gas Europe would also like to call attention to the impact on the 'regulated entities', i.e. the fuel suppliers that will be covered by the new system. Compliance with the new obligations under the new EU ETS will come at a significant cost. Monitoring and reporting fuel quantities and managing carbon allowance needs will require investments in terms of human resources and IT infrastructure. Liquid Gas Europe is concerned that the proposed new ETS will result in a disproportionate economic burden for LPG distributing companies, as the fabric of the LPG sector is to an important extent made up of SMEs and family owned business. Therefore, we call on the European Parliament and the Member States, to carefully consider the impact of the proposal on vulnerable consumers and small businesses.

2. Free allocation should be used in the initial states to limit the impact on consumers and businesses

To reduce the costs to consumers and limit the shock to businesses that sell fuels in the heat and transport sectors, a level of free allocation in the initial stages is necessary. Including a level of free allocation would have no impact on the speed of decarbonisation, as the cap and linear reduction factor would remain unchanged but would reduce the costs of this policy.

3. Avoid double taxation

The proposal states that member states will have the power to decide the interaction between the ETS and national carbon taxes. While it seems unlikely that member states would want to apply a double carbon tax, some may increase the ETS price through national mechanisms.

[3] A Climact and Öko Institute (2021), Study on the inclusion of transport and buildings in an EU Emission trading system.

Double taxation should be avoided on the basis that it would result in high costs for consumers, particularly the fuel poor who may be least able to switch to lower carbon technologies. Furthermore, there are benefits of EU wide policy harmonisation such as reduced carbon leakage between member states (e.g. if neighbouring countries had significantly different effective carbon taxes, a lorry driver may choose to cross the border to avoid higher fuel prices). Finally, as found by Sweden when combining the EU ETS with national carbon taxes, there is significant risk of over-regulation and charging Swedish industry covered by the ETS a rate of 20% of the national carbon tax between 2005 and 2011 was found to be excessive and was subsequently removed[4].

4. Stimulate the production and uptake of renewable gases

Renewable gases have an important role to fulfil in Europe's energy system, particularly in reducing emissions in so-called hard-to-decarbonise sectors, including industrial processes, certain transport segments and rural heating. Therefore it is important that bioLPG receives an emission factors of zero. The revenues from the ETS should be spent to accelerate the energy transition by supporting production of renewable gases, including bioLPG and renewable LPG through the Innovation Fund.

About us:

Liquid Gas Europe is the voice for the European Liquified Petroleum Gas (LPG) industry, and is composed of national LPG associations, the main European LPG suppliers, distributors and equipment manufacturers. With the support of its Taskforces of industry experts, Liquid Gas Europe is actively involved in concrete initiatives and programmes to ensure the sustainable, safe and efficient development of LPG, bioLPG and renewable LPG in Europe.

Contact person:

Ewa Abramiuk Lete
General Manager Liquid Gas Europe
ewa.abramiuk@liquidgaseurope.eu
Rue de la Loi 38, Brussels
+32 2 893 11 22 I +32 495 80 88 88 I @LiquidGasEurope
www.liquidgaseurope.eu
Transparency Register: 63503202933-02

[4] Government Offices of Sweden (2018) Lessons Learned from 25 Years of Carbon Taxation in Sweden, https://www.government.se/48e9fb/contentassets/18ed243e60ca4b7fa05b36804ec64beb/lessons-learned-from-25-years-of-carbon-taxation-in-sweden.pdf