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IENE Comment

ETS Expansion Plans Sets Brussels on Collision Course with Voters



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*By Irina Slav**

About a year ago, the European Parliament voted on an expansion of the EU's emission trading system to cover buildings and transport. At the time, legislators claimed that the price hike in fuels that this expansion would result in would be no more than 45 euro per tonne of CO₂.

"Basically, everything is possible in terms of prices," a Potsdam Institute for Climate Impact Research "expert on carbon markets" told Euractiv in April 2023. He added that "It cannot be said that the additional price stability mechanism can actually guarantee that the price will not go beyond this level."

A year later, carbon market legislators are admitting the warning was correct and the extension of the ETS into transport and buildings would hurt people financially more than expected. This is the latest instance that few aspects of Europe's energy transition are going according to plans and hopes.

The expansion of the emission trading system has been fraught with problems from its very inception, only no one involved in that inception dared admit it at the time. Now, as Brussels prepares for the launch of the ETS extension fears are beginning to surface that it may lead to a disaster. That's because, once again, reality is failing to live up to Brussels' expectations.

The man leading the ETS charge in the European Parliament, a German lawmaker by the name of Peter Liese, recently told Euractiv he was "a little more pessimistic now" about the effect that the ETS2 would have on fuel prices from 2027 onwards, when the ETS2 will come into effect.

That was, said Liese, "because we are experiencing setbacks in terms of both mobility and buildings." By setbacks he means that buildings and vehicles in the EU are not switching from hydrocarbons to electricity anywhere near fast enough.

This means that many more buildings than expected will be heated with gas in 2027 and there will be many more internal combustion engine vehicles than expected on European roads. Because of their numbers, the owners of these buildings and vehicles will be forced to pay more than expected by Liese and his fellow MEPs for using the fuels they use. A lot more. In fact, the price of CO₂ in 2027 and after could reach 200 euro per tonne.

That's according to a climate think tank from Germany, which issued its warning last October. Now, that warning may sound familiar because there were similar warnings, or rather hopes, expressed by Brussels with regard to ETS1 carbon prices that would fill up the transition subsidy coffers. These hopes turned out to be too optimistic because the companies forced to partake in the ETS1 just worked less, produced less, and, as a result, bought fewer carbon permits.

But can this be replicated with buildings, cars and trucks? If the answer is positive, and I'm not certain it is, that would be a new, though not very creative, way of taking away choice from people by making the alternative many would prefer too expensive for most.

Yet the situation is quite tricky because electricity prices are not exactly going down with greater demand, so both electrification and its alternative are almost certainly set to end up being equally unaffordable. Fuels will be more expensive because of the carbon trading scheme and the electrification push will create a surge in demand that will pull prices higher – exactly as it is doing right now.

This means that the EU might have to enforce a price cap on its ETS2 carbon in direct opposition to the stated goal of the system: discouraging the use of hydrocarbons. What we have with the ETS extension, then, is yet another EU action that goes against its stated purpose of reducing the use of hydrocarbons while making energy more affordable. This action threatens further deindustrialisation along with a deepening cost of living crisis.

The obvious remedy is to once again water down policies, the way Germany's government did with its gas boiler legislation after people refused to shoulder the additional financial burden that the switch to electric heating would impose on them.

It is yet another reminder that the EU might need to reconsider the pace of transition it is stipulating in its plans – because the current pace is simply impossible to maintain without dire consequences for the bloc's economy and growth prospects. Either that, or promoters of degrowth would need to do a better job at selling the idea as positive for all Europeans.

It is doubtful they would succeed because selling degrowth essentially means selling a lower standard of living as desirable – to people from whom politicians expect to keep them in power. There has never been a politician in history who won hearts and votes by promising a worse life to their voters.

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