30 June, 2025

THE INDUSTRY STANDS BY THE EU ETS 2 FOR THE DECARBONISATION OF BUILDINGS

JOINT STATEMENT

The EU stands at a critical moment toward a cleaner, more sustainable future, where competitiveness and security are prominent factors. **The EU Emissions Trading System for buildings and transport (ETS 2) is a vital instrument in this effort**: by putting a carbon price on the direct consumption of fossil fuels in households, it can strengthen the business case for cleaner heating technologies and energy-efficient products. The EU ETS 2 is therefore one of the key policy instruments towards EU's energy security, industry competitiveness, and protecting energy-users against energy price volatility.

While its existence should be preserved as part of the EU policy ecosystems for buildings, **we call for reinforcing the existing safeguards to shield consumers, especially the most vulnerable, from rising costs and inflationary pressures**, ensuring this transition benefits everyone. From that regard, implementing the Social Climate Fund alongside the ETS 2 is of utmost importance.

Our key asks:

- Apply the EU ETS 2 as foreseen from January 2027
- Avoid reopening the Directive and entering a lengthy legislative process, which might entail a delay of its applicability, and in the worst-case scenario, a withdrawal
- Ensure revenues from both the Social Climate Fund and the EU ETS 2 are properly earmarked *to measures intended to contribute to the decarbonisation of heating and cooling of buildings and to the reduction of the energy needs of buildings*, as provided under article 30d, so they can be used by Member States for supporting consumers in purchasing and installing more efficient and renewable-based heating appliances
- In addition to the frontloading already foreseen for the Social Climate Fund, the EU Commission should establish from 2026 a temporary lending facility from which Member States can borrow the necessary funding to anticipate building decarbonisation and renovation measures, supported by technical assistance, and mitigate downsides of ETS 2 for both low- and middle-income households
- Member States should use the remaining funding under the Recovery and Resilience Facility to fund building renovations and measures to phase out fossil fuels in buildings, which is the key lever to ensure lower ETS 2 prices once the system is phased in and reduce social impacts.
- Ensure that ETS 2 implementing authorities and the bodies responsible for National Building Renovation Plans in Member States work together to align timelines, share data and best practices, and coordinate outreach for the worst-performing buildings

Why is the EU ETS 2 important to our industries

We support the EU Emission Trading System for buildings and transport (EU ETS 2) as one of the key levers to increase the business case for clean heating and energy efficiency technologies and solutions, including heat pumps, renewable heat sources such as solar thermal and renewable fuels technologies. **Increasing consumer demand for these products and building renovation as a whole is essential, not only to secure health and climate objectives, but also to maintain the competitiveness of our industries, which produce, employ, and train people in Europe, and are therefore strategic to the European economy.**

This is more urgent than ever, as the EU is currently off track to meet its 2030 targets. Indeed, according to Eurostat, renewables provided 26,2% of the final energy consumption in the heating and cooling sector in 2023 while the revised Renewable Energy Directive (RED III) sets an indicative target of at least 49% renewables energy share in buildings by 2030. In addition, the Energy Efficiency Directive (EED) sets a target of reducing energy consumption by at least 11,7% for 2030. Renewable heating technologies and solutions play a major role in achieving these targets. When it comes to renovations, the EU's rate is below 1%, which presents an uphill challenge for reaching the Energy Performance of Buildings Directive (EPBD) targets.

By putting a carbon price on the fossil fuels delivered into our homes, the EU ETS 2 would lead to an increase of the price of fossil fuels used for heating, therefore reducing the price gap between natural gas, electricity and renewable fuels. Such a market-based, technology-neutral approach encourages cost-effective reductions in fossil fuel use in buildings and transport, while giving certainty to investors and consumers to adopt clean technologies. Furthermore, it ensures fairness, as electricity already pays a carbon price under ETS 1.

The EU ETS 2 has been receiving criticism for the potential increase in consumers' energy bills, and it has often served as the scapegoat of the scepticism towards European Green Deal's provisions. The existing legislation already puts in place several safeguards against excessive price increases for consumers.
These include:

- the possibility to postpone its entry into operation to 2028 in case of excessively high gas and oil prices;
- the use of the Market Stability Reserve to maintain a price ceiling of EUR 45 per tonne of CO2 in 2020 prices for 2027 and to avoid price spikes;
- the monitoring powers of the Commission to avoid improper practices with regard to the passing of carbon costs onto consumers. In addition,
- the Social Climate Fund was set precisely to support vulnerable consumers in the implementation of ETS 2. More importantly, Member States will raise billions in revenues from ETS 2 and already have access to additional funding sources, notably unspent allocations from the Recovery and Resilience Fund. These resources can be used to finance measures to support buildings' decarbonisation. Such interventions are the most effective way to drive down ETS 2 prices and protect vulnerable consumers from rising energy costs.

Protecting low- middle-income households from energy prices increase is crucial, but social acceptance can be strengthened without opening the Directive.

Delaying or watering down the ETS 2 Directive risks eliminating a demand driver for the deployment of clean heating technologies and energy efficiency solutions and increasing the uncertainty for the industry. In this case, the heating and energy efficiency sectors and the EU would not reap the benefits of the ETS 2 described above, resulting in a delay of the transition and unnecessary fossil fuel imports.

What would we support

In order to contain the ETS 2 price at the moment of the phase in, in 2027, and in addition to what is currently foreseen via the Market Stability Reserve and the frontloading of the Social Climate Fund, without need to re-open the Directive and delay its entry into force, we would welcome the following proposal[1]:

- setting up a temporary lending facility, from which Member States can borrow the necessary funding to start investing in buildings and transport decarbonisation, prioritizing the worst performing. This facility would be created by frontloading ETS 2 revenues expected for the period 2030–2035. Such investments before the phase in would contribute to keep the ETS price low at the moment of the entry into force, because those investment would have fed the deployment of clean technologies and energy efficiency improvements in buildings.

Such debt created under the facility could be recuperated in the future via the normal auctioning of the ETS allowances.

Most importantly, feeding these funds to the production capacity and to the manufacturing of the appliances should be avoided, as the roadblock is on the demand side and not on the supply side.

Finally, while it is a prerogative of Member States to decide how to use EU ETS revenues, the EU Commission should coordinate and ensure a certain level of consistency to guarantee the funding is targeted towards increasing the demand of efficient and clean heating appliances energy efficiency products that serve together building decarbonisation, which is the objective of the EU ETS 2.

[1] From "Investing in the Green Deal - How to increase the impact and ensure the continuity of EU climate funding" Agora Energiewende, https://www.agora-energiewende.org/fileadmin/Projekte/2023/2023-07_EU_MacroNext/A-EW_338_Investing-In-The-Green-Deal_WEB.pdf

THE SIGNATORIES

APPLiA is the association of European manufacturers of home appliances, representing 1 million jobs in the EU and contributing €79 billion to the EU GDP. Our companies are well known for consumer products such as refrigerators, washing machines, hoovers and heat pumps, to name only a few. European home appliances often set the global standard for sustainability and energy performance.

The European Heating Industry Association (EHI) brings together market leaders in the production of heating technologies representing up to 90% of European market for technologies ranging from heat pumps to boilers, from solar thermal systems to fuel cells, and radiators to underfloor heating, smart controls and home energy management systems. These technologies are tailored to the EU's diverse buildings and climates, playing a crucial role in decarbonising the EU's building stock. The European Heating Industry has invested in research, development and increasing production capacity of cleaner heating technologies to deliver on EU's building decarbonisation objectives, in particular heat pumps and renewable-fuels solutions.

The European Heat Pump Association (EHPA) represents the European heat pump sector. EHPA works to shape EU policy that allows heat pumps to become the number one heating and cooling choice by 2030 and a key part of a future decarbonised Europe. EHPA advocates and communicates to policymakers and to our members. EHPA organises high level events and is involved in multiple projects. EHPA coordinates the Heat Pump KEYMARK – a European certification scheme.

GCP Europe is the voice of the building services engineering sector, mechanical contractors, plumbers, and HVAC installers in Europe.

Solar Heat Europe aims to promote and facilitate the successful deployment of all solar thermal technologies as efficient, ready-to-deploy and reliable decarbonised energy sources for the provision of heating and cooling in buildings, district heating networks and across industry. Its network represents more than 225 organisations covering different parts of the value chain and manufacturing in Europe.