

Warsaw, 14 July 2021

Polish Economic Institute: Accelerated decarbonisation needed, but protection for poorest households is necessary

Earlier today the European Commission has presented a plan of legislative proposals on new reduction targets along with a proposal to revise and extend the current EU ETS system to the building and transport sector. Including new sectors in the ETS seems to be necessary, but it will entail huge costs for households. According to Polish Economic Institute's estimates, in the high allowance price scenario, the poorest Polish households will be burdened by additional costs of EUR 1.117 per year (2015 prices), while the whole cost for European households in the years 2025-2040 might reach EUR 1.112 trillion.

The poorer EU countries with high energy consumption are the most vulnerable to the effects of the expansion of the ETS. For the poorest Polish households, we estimated a 50 per cent increase in the share of energy costs as a result of the introduction of emission charges in individual transport and as much as a 108 per cent increase in residential buildings. Two-times higher increase in Polish residential sector results from higher energy usage, emission intensity, and lower household income than EU average. In the high allowance price scenario, this means costs of EUR 1.117 per year (2015 prices). In Poland in 2020, the average share of energy costs in household expenses was approx. 10.5 per cent. In the case of the poorest 20 per cent of households (first income quintile), it was even higher and reached 11.7 per cent. Increases in energy bills will translate into widening the phenomenon of energy poverty - says Piotr Arak, director of the Polish Economic Institute.

Europe needs to extend EU ETS to reach climate goals, but it would cost a lot

If we want to achieve climate neutrality in 2050 and a 55 per cent reduction goal in 2030 there is a need to extend EU ETS. Around 27 per cent of CO₂ emissions in the EU comes from transportation and 36 per cent from buildings. 71 per cent of transport emissions come from road transportation and 70 per cent of emissions from buildings comes from the residential sector.

The [Polish Economic Institute, European Roundtable on Climate Change and Sustainable Transition and Cambridge Econometrics](#) report show that introducing an ETS system in transport and residential buildings would result in significant benefits in terms of reaching the emissions targets. There is however a big 'but'. To achieve the required 40 per cent reduction by 2030, the ETS certificates prices would have to reach 170 EUR/t CO₂ (in the current ETS it's at EUR 55). This would lead to an enormous cost for EU households – more than a trillion euro by 2040 – and decrease the competitiveness of European businesses.

This mechanism would hurt the poorest EU households the most. They use the cheapest sources of energy and the upfront costs of switching to low-carbon technologies or implementing energy efficiency are usually too high for them. In our paper we estimate that emission costs would impose an average yearly cost increase in European households' energy spending of 44 per cent (373 EUR) in transport and 50 per cent (429 EUR) in residential buildings for households in the first (poorest) income quintile.

Social assistance needed

To keep CO₂ prices and costs for consumers at politically and socially acceptable levels, a carbon pricing mechanism should be coupled with other complementary policies to tackle emissions in the road transport and building sectors. For residential buildings, this could be transfer payments, direct energy bill assistance or targeted energy efficiency programmes for the poorest households. It should be required that 100% of the revenues generated by solidarity allowances should be spent on energy and climate purposes. We also need to increase the Modernisation Fund and Innovation Fund to mitigate the impact of the ETS extension in those member states where the transition is more challenging – says Magdalena Maj, head of energy and climate team at the Polish Economic Institute.

Realism and compromise should stay intact as basic tools of EU policy

If European leaders do not think realistically about mechanisms that are going to help us mitigate the tax burden on the poor we may face a swing of the political pendulum in many EU countries towards populism and extremism. This is a very real risk that is omitted and that should be changed. Climate policy needs to be realistic in order to succeed.

The Polish Economic Institute is a public economic think-tank dating back to 1928. Its research spans trade, macroeconomics, energy and the digital economy, with strategic analysis on key areas of social and public life in Poland. The Institute provides analysis and expertise for the implementation of the Strategy for Responsible Development and helps popularise Polish economic and social research in the country and abroad.

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