



Fair and Sustainable Future of Transport and Buildings: Outlook for the Czech Presidency

On 24th May 2022, the [Centre for Transport and Energy](#) and [EUROPEUM Institute for European Policy](#) organized a closed roundtable discussion titled ***Fair and Sustainable Future of Transport and Buildings: Outlook for the Czech Presidency.*** The roundtable was held online and under the Chatham House Rule, with the participation of speakers from the Czech Ministry of the Environment and various European think-tanks with the expertise on carbon markets and green transformation of the automotive and building sectors. Czech private sector was also represented. The event was moderated by Jana Plaňanská, CEO of JP Mobility Solutions and attended by over 40 participants.

As part of the EU's efforts to reach 55% reductions of its emissions by 2030, the Commission presented a legislative proposal to review the EU Emissions Trading System (ETS). The negotiations about the final version of this proposal are ongoing and are expected to continue during the Czech Presidency of the Council of the EU, which starts on 1st July 2022. The extension of ETS to the sectors of road transport and buildings and new rules for the use of ETS' revenues will also bring changes to its social dimensions and pose new challenges for the Member States. These changes and their possible implications for the countries of Central Europe were the main topics of discussion during the roundtable.

The speakers expressed that **the ETS extension (ETS2) is needed** as the emissions from the newly covered sectors (transport and buildings) have been increasing and the EU's climate neutrality goal cannot be reached without employing a wide range of policies, including ones based on the 'polluter pays' principle. Currently, supporting more evidence-based research that will show the

benefits of such policies and minimize their possible negative implications is necessary as the ETS2 package will have different implications for the Member States which need to be fully understood and addressed. The idea of looking at the examples of good practice in countries with already existing carbon pricing systems and subsequent revenue recycling schemes was also encouraged (e.g. Germany, Switzerland or British Columbia).

While the general agreement on the need of the ETS2 was found, the questions of how to employ this system brought different responses. Some speakers argued that **the mechanism of the ETS2 needs to be more flexible** and that a too complicated system with many different tools can overwhelm the system. In addition, a more complex system often requires the cooperation of different agencies and ministries, which can cause more issues, especially in countries with an already low capacity of the civil service. On the other hand, 'an alignment between climate and social policy actors, localized impact assessment and deep sectoral understanding' is essential for a fair and successful ETS2. Such alignment requires **a carefully designed and detailed policy package**. Ensuring transparency on the Member State level, such as through reporting on their progress with the ETS2, can be beneficial for the improvement of the system.

Currently, the most disputed issue regarding the ETS2 is the use of the revenues that the system will generate. It was argued that the ETS2 will have more impact in more Member States than ETS1. Therefore, it is even more important to design the system in a socially just way. Generally, speakers agreed **that complementary policies have a key role in mitigating the social impacts of ETS systems** and

that recycling of the ETS revenues to compensate for the negative social impacts is needed. In order to address the impacts on all households, **ETS2 revenues must be fully recycled**, and carefully designed national approaches to the redistributing of these revenues are essential.

While designing the redistribution of the revenues, policymakers navigate between trade-offs of compensating the most vocal and most vulnerable groups. Moreover, the ETS will impact not only each Member State disproportionately but also the population within the Member States as the rural households are more impacted than urban. When asked about how to improve these regional discrepancies, the experts highlighted **the need for a more varied policy and tailored solutions**, such as the policy in Germany that redistributes more finances to people who live further away from the cities. Again, the need for flexibility was highlighted, as competing priorities and the needs of different social groups must be taken into account.

Diving deeper into the details of redistributing revenues, experts recommended that the precise balance is left up to the Member States. The Member States, however, need to decide on this balance in processes that involve the **participation of the citizens**. The Czech financial support programme *Nová zelená úsporám* was also highlighted as a good example of the use of revenues, that can be copied by the neighbouring countries. Regarding the transport sector, a similar package should be designed for supporting citizens to buy electric vehicles.

While the new extension of the Emissions Trading System poses many new challenges to all groups involved in the system, a well-thought and well-coordinated package is essential to reach the goal of climate neutrality. Now, the challenge remains on how to ensure that such a package will also be socially just. It is clear from the discussion that there is no one size fits all solution, and the Czech Presidency of the Council of the EU will need to take into account all different trade-offs while negotiating the final version of the ETS extension.



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