

## EU approves CO2 tax on heating and transport, softened by new social climate fund



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**EU legislators agreed early on Sunday (18 December) to introduce a carbon price on buildings and road transport fuels, with a new €87-billion social climate fund established in parallel to cushion the impact on households and help them invest in green solutions.**

The new carbon price will apply to petrol, diesel and heating fuels such as natural gas whose climate warming emissions have continued to rise over the years despite attempts to decarbonise.

This was arguably the most controversial issue in the negotiation to reform the EU's Emissions Trading Scheme (ETS), the biggest carbon market in the world and the bloc's flagship climate policy instrument.

"The biggest challenge was ETS2," said Peter Liese, a German lawmaker who represented the European Parliament in the two-day negotiation which started on Friday and concluded on Sunday morning (18 December).

Following marathon talks, negotiators agreed to start pricing the carbon emissions stemming from burning fossil fuels in road transport and heating in 2027, with a price ceiling of €45 per tonne of carbon emitted that will apply until 2030.

The deal is "even bigger than envisioned by the European Commission," Liese said, because it now includes "process heat" from industrial activities as well as office heating, which are included in the scope of the new scheme.

Agriculture and fisheries won't have to pay the extra carbon cost because they are "sensitive" sectors, Liese admitted. Trains running on diesel are also out of the scope of the system and won't see their carbon emissions taxed as a result.

The new scheme will entail higher prices at the pump: up to 10.5 cents for a litre of petrol and 12 cents for diesel, according to a study by the Potsdam Institute for Climate Research.

Heating fuels like gas, heating oil and coal will see their prices increase as well, to the detriment of poorer EU member states, which rely more heavily on dirty fossil heaters.

"Citizens in the EU must expect higher CO2 prices," explained Michael Bloss, a Green lawmaker who took part in the final negotiations on the ETS.

With the ongoing energy crisis, the new scheme could be delayed by a year, until 2028, if energy prices remain "exceptionally high", the Parliament said in a statement.

The provisional deal now needs to be confirmed by the EU member states and the European Parliament, which will hold a plenary vote in January or February.

## **€87 billion Social Climate Fund**

Negotiations on the Emissions Trading Scheme for buildings and road transport – so-called ETS2 – dragged on until Sunday because of the political sensitivity of introducing what many will perceive as a new tax.

Pascal Canfin, the chairman of the Parliament's environment committee had initially warned against the system, saying it was "politically suicidal" and risked triggering a Europe-wide movement similar to the Yellow Vests in France.

Aware of the risk, legislators agreed to introduce a new Social Climate Fund, designed to shield EU households from rising fuel costs.

Under the deal, the fund will amount to €87 billion and will be disbursed as of 2026, one year before the new carbon price starts applying. It will be financed by the revenues generated by the ETS2, with 25% of the funding coming from EU countries.

“The strict conditions that we have set ... and in particular the introduction of a price ceiling price of €45 until at least 2030, makes the measure politically acceptable in my view,” Canfin said.

“This is a balanced deal that achieves the ambition we need in making the climate transition fairer and more just,” said David Casa, a Maltese MEP who negotiated the deal on behalf of the Parliament’s centre-right European People’s Party (EPP).

EU countries will “have billions at their disposal” to benefit “vulnerable households and micro-enterprises,” Casa told EURACTIV.

The funds will be effectively ringfenced, with a provision stating that ETS2 revenues that don’t directly go towards the social climate fund “shall be prioritised” to cushion the impact on vulnerable groups.

“The Social Climate Fund will help vulnerable households in the energy transition, for instance with insulation vouchers or moving towards greener transport options,” explained the EPP’s Esther de Lange, who co-negotiated the fund alongside Casa.

Green politicians were more critical, though, saying the fund is “not sufficient to compensate for this burden,” according to Michael Bloss, a Green MEP.

“The EU’s climate protection has an anti-social slant,” Bloss said.

*[Edited by Frédéric Simon]*

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