

*Ariadne @ Brussels*

# CLOSING THE SUPPORT GAP IN THE ETS2: HOW TO SUPPORT HOUSEHOLDS AND TARGET DIRECT TRANSFERS?

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with contributions from Johannes Brehm (RWI), Simon  
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# AGENDA

› Welcome and aim of the workshop (5 min)

› Inputs by **Ariadne researchers** (Henri Gruhl, 15 min), **guiding questions:**

1. **Should priority be given to direct income support rather than investment support?**
2. **Is a regionally adjusted climate rebate the right approach to balance targeting vulnerability and administrative complexity?**

› Reactions (5 min each)

- › **James Collis** (Citizen's Climate Lobby) → Why could a (regionally adjusted) climate rebate work? What is crucial for its success?
- › **Jacob Edenhofer** (Oxford University) → Does fairness matter for the political efficacy of compensation? "Is fair compensation politically ineffective?"
- › **Joanna Pandra** (Forum Energii, EUI) → Could a climate rebate help getting political and public support for the ETS2 in Poland?

› Open discussion under **Chatham House rules** (60 min)

# THIS SESSION

- › “The transition will be just, or it will not [happen] at all.”  
– Kurt Vandenberghe @ EUI Climate Week 2023
- › **Support gap:** Despite support for climate action, willingness to bear its costs is lacking
- › **Social Climate Fund** and **member state contributions** fund measures for fair and supported green transition
- › **This Session:**
  - › Should priority be given to direct income support rather than investment support to reduce the risk of “leaving someone behind” in the short run?
  - › Would direct income support on regions rather than households achieve a better balance between targeting vulnerability and administrative complexity?

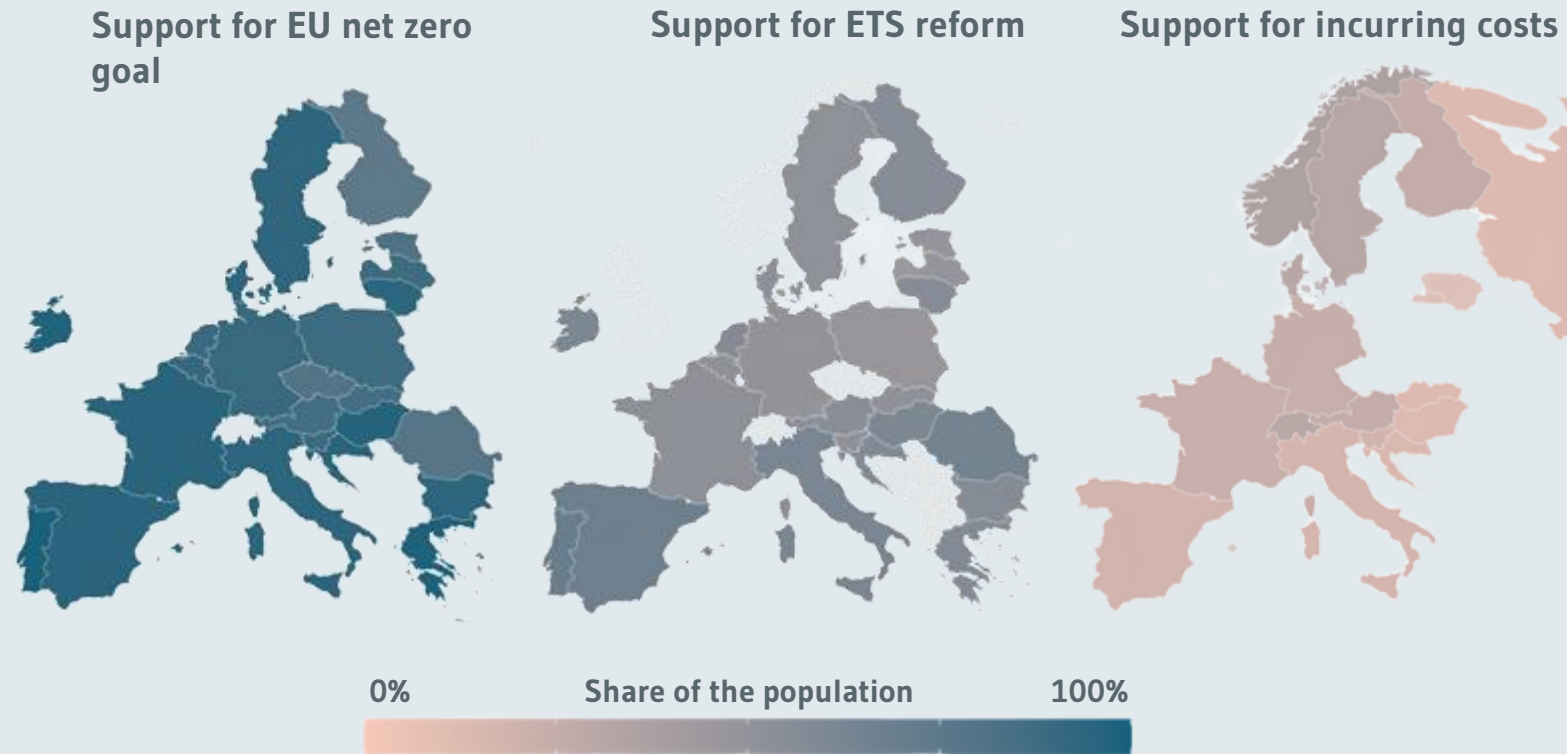


# SUPPORT GAP: PRO-CLIMATE PUBLIC OPINION IS BROAD, BUT SHALLOW

- › **Majority supports the EU's goal** for climate neutrality by 2050 (88%)
- › But: **much lower support for stringent measures**, such as the ETS reform
- › **Even lower support for incurring costs** associated with such reforms

→ **Support gap** between net zero

goal and specific measures



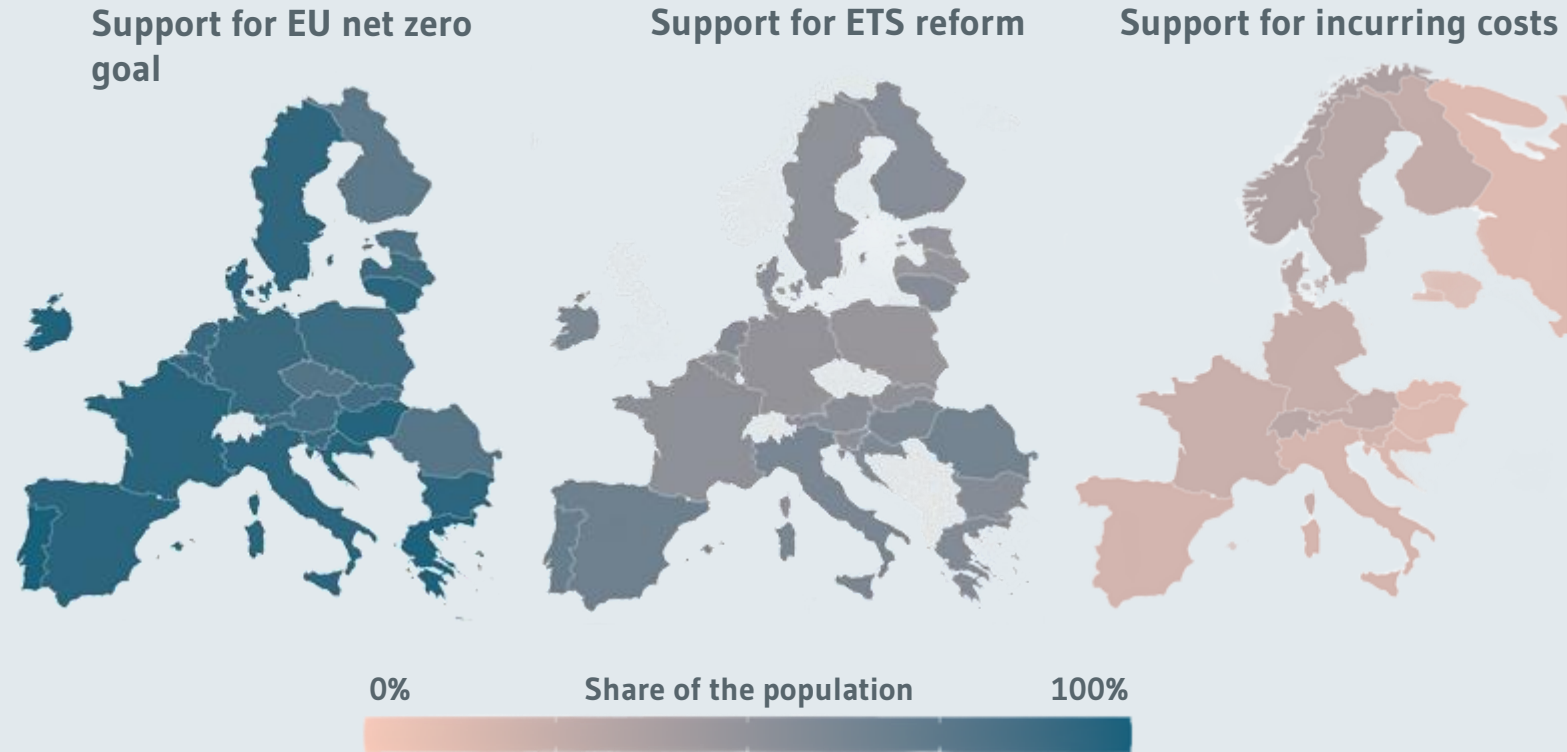
Based on Eurobarometer 538, Pahle et al. (2024), and Brehm & Gruhl (2024).

# SUPPORT GAP

## › Gap varies between countries

- › Most pronounced in Southern and Eastern Europe (largest in Hungary: 84 pp)
- › Smaller in the Nordics (smallest in Finland: 50 pp)

## › Support for new climate policies (EU ETS 2) and increased stringency for existing ones (EU ETS 1) may not be forthcoming



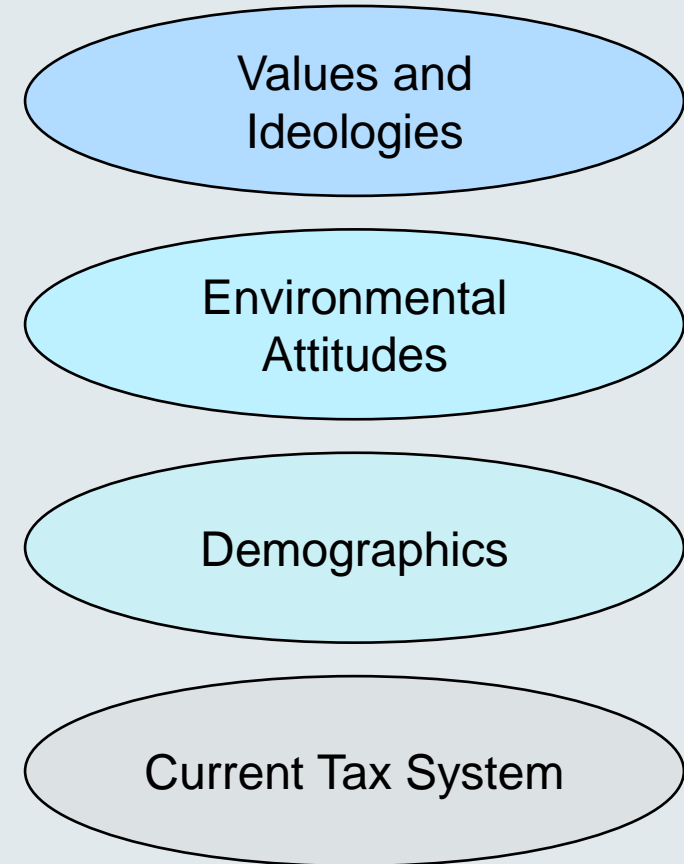
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# WHAT FACTORS PREDICT OPPOSITION AGAINST COSTLY CLIMATE POLICIES THAT “BITE”?

- › Survey of >70,000 individuals across 28 countries: are they willing to pay more due to climate policy (Brehm & Gruhl, 2024)
- › **Important individual factors** predicting the support gap:
  - › Concerns about rising prices / climate change
  - › Lack of trust in institutions
- › Relevant factors in some countries, but not all:
  - › Living in a rural area
  - › Time spend in motorized vehicle

→ **How to design compensatory policy that addresses individual concerns while enabling a just transition?**



# CAN THE SOCIAL CLIMATE FUND HELP TO CLOSE THE SUPPORT GAP?

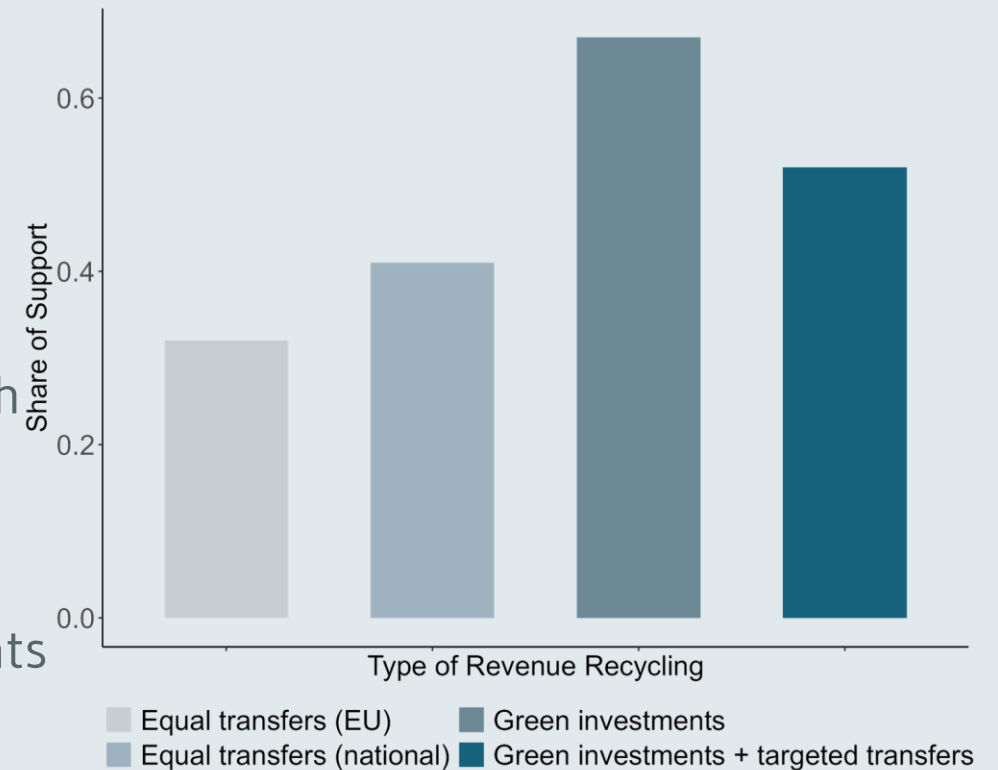
- › EU ETS 2 affects consumers directly (heating and transport costs)
- › Social Climate Fund (SCF) to alleviate energy poverty and support most vulnerable
  - › **Funding investment projects for vulnerable households**
    - › Housing renovations, decarbonize heating, expand public transport
    - › Guidance on designing cost-effective investment programmes (DG CLIMA, 2024)
  - › **Direct income support to vulnerable** (max. 37.5% of national SCF funds)
    - › **temporary** support that decreases over time until structural measures become effective
    - › Legal requirements: social grading or dividend with proven positive environmental impact (Busch & Harder, 2024)



# BALANCE BETWEEN INVESTMENTS AND INCOME SUPPORT TO CLOSE THE SUPPORT GAP

- › Any type of revenue recycling increases public support for carbon pricing (Mohammadzadeh Valencia et al., 2024)
  - › But: Only green spending has large, unambiguous and statistically significant effect (ibid, Funke et al., 2024)
- › However: Only focusing on green investments in conflict with fairness for vulnerable households (Pahle, 2023)
- › Policy mix not most popular but acknowledges extreme vulnerability at high prices, and with >50% green investments majority support in Germany (Kaestner et al., 2023)

→ SCF's 'double' approach promising?



Based on Funke et al. (2024).



# THEORETICAL ARGUMENTS IN FAVOUR OF DIRECT INCOME TRANSFERS

## Cooperative policy making

- › Can make carbon pricing **financially fair** (for a given fairness concept)
- › Can increase **trust in government** that carbon pricing is NOT to generate state income
- › **Can engage the wider public** (informing, learning) on carbon pricing
- **Can increase public support for carbon pricing**

## Non-cooperative policy making

- › **Can channel revenues to constituency** of political supporters of carbon pricing
- › **Can avoid mis-use of revenues** for purposes in interest of political opponents
- › **Can make carbon pricing sticky:** taking away dividends in the future could be unpopular
- **Can increase political robustness against opponents trying to abolish carbon pricing**

# ARGUMENTS AGAINST DIRECT INCOME TRANSFERS

- › **Conflicting empirical evidence** on the positive effect of direct income transfers on support
  - › **Stickiness might be limited** because benefits are widely dispersed, no creation of organized interest group
  - › **Conflicts over different fairness concepts for redistribution** imply political conflict and instability
  - › **Hard trade-off with support for investment** if public finance for climate action is limited
  - › **Over time less and less fair** because higher-income households can afford to decarbonize
  - › **High administrative and informational capacity required**
- Less of a silver bullet to foster support than widely thought?

# REGIONALLY DIFFERENT ETS2 BURDEN

- › Affectedness to ETS2 price depends on country-level and regional factors: availability of public transport, heating type availability, ...
- › Large regional variation of, e.g., transport poverty in Germany and Poland
  - › but: wide range of existing indicators (Cludius et al., 2024)
- › Could regionally adjusted transfers tackle this variation? How could energy vulnerability with respect to heating be targeted?

## Vulnerability to increased fuel prices

Germany



Agora Verkehrswende (2023)

Poland



Gutowski & Głowacki (2023)

# TRADE-OFFS WHEN DESIGNING DIRECT TRANSFER PAYMENTS TO VULNERABLE HOUSEHOLDS

Targeting vulnerability



Equal per capita transfer



EPC transfer x regional adjustments



Individual targeting

Administrative complexity

Ability to close support gap?

# TAILORING OF DIRECT INCOME SUPPORT

› **Trend** towards **regionally adjusted income** support

## › Austria's Klimabonus

› **Regional Adjustment:** €50, €100, or €145 added based on local infrastructure and **public transport availability**

## › Canada's Carbon Pricing Rebate

› 20% rebate top-up for higher energy needs and limited access to cleaner transport options in rural areas



# QUESTIONS

- › In light of the arguments we provided, what is your (and Citizens' Climate Lobby's) theory of change for why a climate rebate could work? What is crucial for its success?  
→ James Collis
- › Does fairness matter for the political efficacy of compensation? Is fair compensation politically ineffective?  
→ Jacob Edenhofer
- › Could a climate rebate help getting political and public support for the ETS2 in Poland?  
→ Joanna Pandera



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