

DISTRIBUTIONAL IMPACTS AND COMPENSATIONS OF THE EU-ETS2: AN EMPIRICAL ILLUSTRATION FOR SPAIN OF THE SOCIAL CLIMATE FUND IN VIEW OF OTHER COMPENSATORY PACKAGES (2022 AND 2026)

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Extended Abstract

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Abstract Summary

This study analyzes the distributional impact of the upcoming EU Emissions Trading System (EU-ETS2) on Spanish households and evaluates the effectiveness of the Social Climate Fund (SCF) in mitigating its effects. The introduction of the EU-ETS2 is expected to have a regressive impact, disproportionately affecting low-income and rural households due to rising costs in automotive fuels and heating. Since these households spend a larger share of their budget on energy and often possess less efficient durable goods, the policy could increase overall inequality.

To address this, the research simulates several revenue recycling strategies that are consistent with the regulations of the SCF. The findings show that lump-sum transfers and public transport subsidies are highly progressive, as they provide a more significant relative benefit to lower-income groups. In contrast, subsidies for the acquisition of low-emission vehicles can be regressive if they are generalized, as they would primarily benefit wealthier households.

Ultimately, the study concludes that while the EU-ETS2 initially presents social risks, the policy as a whole can achieve a progressive outcome if compensatory measures are well-designed and targeted. By prioritizing direct transfers and income-based eligibility for green incentives, the SCF can advance decarbonization brought about by the EU-ETS2 without harming the most vulnerable. Actually, this approach is found to be more efficient and equitable than the broad tax reductions implemented by the Spanish government in 2022 and 2026, which were fiscally costly and failed to provide long-term structural incentives for a green transition.

Presenting Author Biography

I am a professor and acting director of the Department of Applied Economics at the University of Vigo and director of Economics for Energy, a research center that specializes in the analysis of energy issues. I have collaborated with the UN Intergovernmental Panel on Climate Change (IPCC) in the production of its Fifth (2014) and Sixth (2022) Assessment Reports. Moreover, I was the director of the Florence School of Regulation-Climate at the European University Institute in Florence (2014-2017). My research interests lay in the boundaries between climate, energy and public economics. I am member of the EAERE's Policy Outreach Committee.