



# Implementation and use of ETS2 revenues in Spain

Recommendations for an equitable application of carbon pricing of housing and transport

*The paper was commissioned by CMW – Carbon Market Watch as part of the LIFE Effect project (LIFE23-GIC-BE-LIFE EFFECT, [www.life-effect.org](http://www.life-effect.org)) and was funded by the European Union.*



*Views and opinions expressed are however those of the author(s) only and do not necessarily reflect those of the European Union or CINEA. Neither the European Union nor the granting authority can be held responsible for them.*

**Main author:**

Javier Tobías González, Policy Officer, ECODES  
[javier.tobias@ecodes.org](mailto:javier.tobias@ecodes.org)

more info:

[life-effect.org](http://life-effect.org)

[ecodes.org](http://ecodes.org)

**Layout:**

Gavin Mair, Communications specialist, Carbon Market Watch  
[gavin.mair@carbonmarketwatch.org](mailto:gavin.mair@carbonmarketwatch.org)



**Cover art:**

Ricardo Resende, Unsplash+

For interviews or more information on the use and dissemination of the contents of this briefing, please contact:

Javier Tobías

**Publication date:**

January, 2026





## Context

We find ourselves at a time when climate policy is in a very complex situation, especially when we consider that not long ago it was basically common sense. The housing crisis in particular, and the cost-of-living crisis in general, are too often linked to environmental issues such as energy efficiency and food sustainability. Various far-right parties and other pressure groups blame environmental policies for generating few benefits for the population as a whole, while enriching or serving a supposed global elite.

Despite this, the signs of the effects of human-induced global warming are becoming increasingly evident, especially in Spain, where extreme weather events are becoming more frequent and temperatures are rising, with the 11 warmest years in the historical series — which records annual temperatures from 1969 to the present — occurring in the 21st century(1).

Policies such as the European Union Emissions Trading Scheme (EU ETS) have helped to reduce this effect by reducing greenhouse gas emissions from the various sectors that have been affected so far, under the premise of 'the polluter pays'. Sectors such as energy production have seen their

emissions in Spain reduced considerably since the EU ETS came into force. However, emissions from sectors not yet included in the ETS remain above 1990 levels. This is particularly evident in the case of road transport, where emissions have hardly been reduced, except for a slight decrease after the turn of the century (2).

It is therefore essential to maintain strong climate action within tools such as ETS2, towards the most polluting sectors, but to do so in a way that benefits society as a whole and, in particular, those who are most likely to be left behind during the ecological and energy transition. Those who lack the resources to decarbonise their way of life and may be more dependent on energy or transport than others, for socio-economic, territorial or dependency reasons, should benefit directly from this transition. It is necessary that these climate policies not only benefit the population, but that this benefit is also noticeable and transparent, clearly linking an improvement in the living conditions of the Spanish population with the development of ambitious climate policies. To achieve this, both an ambitious ETS2 and an adequate implementation that protects vulnerable groups are both necessary.

(1) 2024, a year marked in Spain by high temperatures and the October floods in Valencia.

<https://www.miteco.gob.es/es/prensa/ultimas-noticias/2025/mayo/2024---un-ano-marcado-en-espana-por-las-altas-temperaturas-y-la.html>

(2) European Environment Agency. Greenhouse gases data viewer.

<https://www.eea.europa.eu/en/analysis/maps-and-charts/greenhouse-gases-viewer-data-viewers>

# How has the ETS been managed in Spain?

The Emissions Trading Scheme has been managed in Spain through the Climate Change Policy Coordination Commission, created by Law 1/2005, which regulates the greenhouse gas emissions trading scheme. This commission includes representatives from most Spanish ministries —those responsible for the environment, energy, economy, finance, industry, tourism, trade, interior, mobility, education, science, employment, agriculture, fisheries, food, public administration, health, consumer affairs, Agenda 2030 and housing— as well as the regions and various local entities, commonly represented by the Spanish Federation of Municipalities and Provinces.

In turn, the National Climate Council was created, which also enabled trade unions, business organisations and environmental organisations to participate in monitoring the implementation of the emissions trading scheme in terms of its effects on competitiveness, employment stability, social cohesion and environmental coherence.

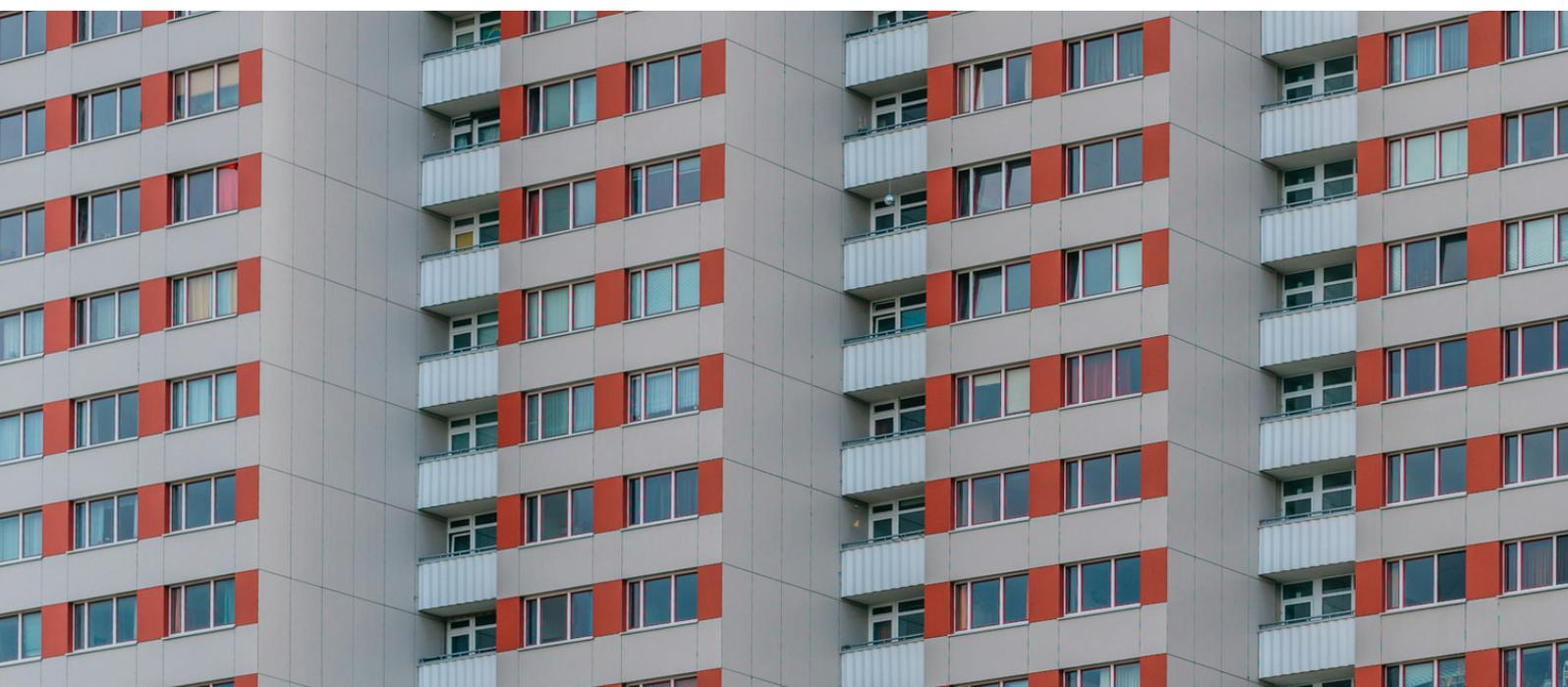
Within this diversity of actors, there are two particularly relevant roles:

- That of the Ministry for Ecological Transition and Demographic Challenge, responsible for monitoring data and allocating emission rights, although some of these tasks must be carried out with the advice of the relevant ministries, as is the case with the Ministry of Transport for emission rights associated with aviation.
- The Ministry of Finance, responsible for proposing the General State Budget. Since the funds obtained through the ETS are managed through these budgets, the Ministry of Finance plays an essential role in the design and management of the use of these funds.

Within this management of funds, most of the funds collected through the ETS have been used to cover costs in the electricity sector, with a certain lack of traceability as to whether all the funds are being used, considering in particular that Directive 2003/87/EC refers in Article 10.3 to the development of renewable energy production and electricity networks (3), while the Spanish regulations referring to this distribution of funds refer to “financing the costs of the electricity system”(4).

(3) Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community and amending Council Directive 96/61/EC.  
<https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02003L0087-20240301>

(4) Law 7/2021, of 20 May, on climate change and energy transition.  
<https://www.boe.es/buscar/act.php?id=BOE-A-2021-8447>



# How to ensure a fair and effective ETS2 implementation

It is unclear how ETS revenues have been spent, despite the fact that they should be allocated to environmental actions. If this is repeated in the use of ETS revenues in their application to other sectors such as road transport and buildings (ETS2), it will be difficult to ensure that they benefit those who will be most affected, namely vulnerable households and transport users. We must therefore reduce the negative impact of ETS2 on these groups as much as possible.

There is already a precedent in Spain in Law 38/2022 of 27 December, which establishes temporary taxes on energy and credit institutions and financial credit institutions and creates a temporary solidarity tax on large fortunes. Law 38/2022 established that these taxes could not have direct or indirect repercussions, meaning that the payment made could not be transferred to the customers of these energy, credit or financial institutions. Failure to comply with this rule could be punished with a fine of 150% of the amount charged to these customers. Clauses of this kind could be applied at both European and national level, particularly when the profits of many of the energy supply companies in Spain are taken into account<sup>(5)</sup>.

The ETS directive should be clearer on how the system's revenues are used, making direct reference to the budget items that are fully or partially financed by these funds and providing a clearer breakdown of the projects to which they are being allocated. In addition, vulnerable groups

must be protected from the negative impact of the system. This protection should not be implemented in a rigid manner, i.e. groups below a certain income threshold are fully protected and those above that threshold are not protected at all. Instead, the negative impact of the ETS2 should be inversely proportional to the degree of vulnerability of the group or individual affected, reducing the effect that the ETS2 may cause to a greater extent on those who have less. To ensure this equitable application of ETS2, the Social Climate Fund (SCF) should be boosted by uncapping it, beginning its application as soon as possible and adding a bigger part of the national budget as part of the co-funding of the Social Climate Plan.

If the ETS as a whole is governed by the “polluter pays” principle, ETS revenue should be clearly dedicated to enabling those who cannot afford to stop polluting to do so. Unlike ETS1, which for years has allocated free allowances to business sectors – and in fact continues to do so – the introduction of ETS2 for European households and transport users omits the possibility of applying this permissiveness to vulnerable groups.

In addition to these measures to make the application of the ETS2 fairer and more effective, it is necessary to start implementing measures with the funds raised through the ETS to protect and decarbonise the lifestyles of the most vulnerable groups.

(5) The major Spanish energy companies listed on the Ibex index earned €9.863 billion through October. <https://www.eleconomista.es/energía/noticias/13623470/11/25/las-grandes-energeticas-espanolas-del-ibex-ganaron-9863-millones-hasta-octubre.html>

# Measures necessary to accompany ETS2 with strong complementary social climate policy

## 1. Subsidy for the use of urban, metropolitan and interurban public transport, as well as public electric bicycles, aimed at vulnerable transport users

This measure would consist of a discount for the use of urban, metropolitan and interurban public transport for short and medium distances, which would be applied on an individual basis to vulnerable transport users. The discount applied would be progressive, i.e. the more vulnerable the user, the greater the discount, according to an intersectional characterisation.

This measure would include the use of existing on-demand transport routes established by regional, provincial or local authorities in rural areas without access to regular public transport services.

The development of this measure would require the implementation of an online platform for user management and verification of service beneficiary status, ensuring the benefit of the vulnerable population.

In order for this public transport pass, aimed at the vulnerable population, to be effective, it is also necessary to improve the service provided by that same public transport, which is an essential measure for decarbonising one of the most polluting sectors in Spain:

- Expand public transport networks to areas with poor coverage, especially rural areas.
- Provision of infrastructure, location and frequencies.
- Establish a network of local/rural mobility hubs based on community needs.
- On-demand transport in rural areas, such as minibuses or taxis, always 100% electric.
- Implementation of on-demand transport systems aimed at vulnerable people.
- Fixed public transport routes that are activated according to demand.
- Point cloud: specific requests for journeys similar to taxis.

The measure should be aimed at the entire vulnerable population, in particular households and individuals living in areas with poor coverage, rural areas and/or areas with low population density, households and individuals who are vulnerable to transport due to low income, lack of availability, difficulty of access or affordability and, within this group, the main beneficiaries would be: the elderly, young people, workers, single-parent families, people with reduced mobility, and people who do not own a vehicle, mainly.

## 2. Support for the renovation of vulnerable housing at neighbourhood level and rental housing

Vulnerable populations, both in urban and rural areas, tend to live in homogeneous areas and, in turn, live in rented accommodation at a higher rate than the Spanish average. It is therefore essential to plan and renovate urban and rural areas with the highest vulnerability rates, paying special attention to rented housing in these areas.

The measure would consist of promoting the comprehensive building renovation, prioritising energy efficiency, targeting areas with greater economic vulnerability, taking into account factors such as the heat island effect, developed by public administrations and civil society organisations.

In order for this measure, aimed at broader environments, to be fair to rented households, it would also be necessary to implement social safeguards and technical requirements in the processes of renovation carried out in rented housing where vulnerable households live, conditional on the degree of vulnerability of the household renting the property, the duration of the safeguard and the establishment of a maximum rent.

To promote the decarbonisation of the residential sector as a whole, complementary measures are also necessary, such as:

- The inclusion of programmes to capture unused housing, so as to reduce greenhouse gas emissions resulting from the construction of housing.
- Requirements to comply with the Technical Building Code (CTE) as a condition for introducing a property onto the rental market, so as to ensure that rental properties follow the path of decarbonisation.

- The inclusion of tax benefits for owners responsible for renovating their homes, differentiating between individuals and legal entities according to income and assets, so that the necessary social safeguards are in place to prevent evictions due to renovation.

This measure should be targeted at vulnerable neighbourhoods in different parts of Spain, particularly those affected by energy poverty, bearing in mind situations of energy poverty in summer and vulnerable households living in rented accommodation. To define these areas, use should be made of socio-economic vulnerability data, but also urban vulnerability data and the catalogue of vulnerable neighbourhoods, so that priority is given to areas where, due to the construction conditions of the buildings, greater decarbonisation and energy savings can be achieved.





**LIFE Effect**

