socialplatform



Policy paper on the

SOCIAL CLIMATE FUND

For the Social Climate Fund to be an effective instrument to address the social and distributional challenges of the green transition, Social Platform recommends that the Social Climate Fund:

1. Must be a transformative instrument that tackles structural injustices, places well-being at the centre, and upholds EU fundamental rights, including social rights.

2. Its scope, budget and duration should be strengthened to balance social and environmental impacts and should be decoupled from the Emissions Trading System 2 (ETS 2).

3. Must target the lowest income households and those in vulnerable situations.

4. Should ensure the right balance between direct support and investment programmes.

5. Should uphold civil society engagement and the participation of all stakeholders in particular those representing vulnerable households.



Introduction

The Social Climate Fund (SCF) has been proposed to address part of the social and distributional challenges of the green transition in the EU, should climate measures lead to higher bills for consumers of fossil fuels or other unfair impacts. The SCF must guarantee that people's well-being is at the centre of climate policies and mainstream the implementation of the European Pillar of Social Rights. Though some progress has been made, the social dimension remains weak in the European Green Deal.

The establishment of an SCF is an essential element of the energy transition, and it needs to ensure a socially fair transition by excluding the financing of new fossil fuel investments and prioritising investments in the decarbonisation of transport and buildings that combine social and climate priorities. It must not focus purely on mitigating the impact of a potential Emissions Trading System (ETS) extension but also be proactive in addressing the social impact of the whole Green Deal and ensure a just transition. It must not be solely reparative, and target only new injustices created by the extension of ETS to road transport and buildings. The SCF needs to also address the structural injustices already existing in our societies, such as energy and mobility poverty and environmental racism, while supporting meeting national and European climate targets. However, the current proposed budget is not sufficient for making sure that it is used to compensate the direct needs of the people affected as well as being a transformative instrument.

A Social Climate Fund that fights inequalities and supports the green transition

Social Platform sees great potential in the SCF to drive large-scale (social) housing renovations, improve access, availability and affordability of public transport, pre-finance or subsidise electric (including shared) alternatives for the most vulnerable households, and promote the green transition in social economy enterprises. Its revenues are supposed to come from the extended Emissions Trading System 2 (ETS 2) focused on transport and buildings. This extension could jeopardise the positive potential to support access to renovations and renewable

schemes for those in vulnerable situations. Existing structural inequalities mean that redistribution between households is essential both within and between Member States, even in the absence of an extension of emissions trading to road transport and buildings. EU-wide climate and energy targets require EU-wide solidarity. This means the EU institutions must recognise that countries, regions and people start at different points in the transition.

Addressing the cost-of-living crisis

In 2020, 8.2 % of Europeans (EU-27) reported that they could not heat their homes adequately, i.e. 37 million people. As increasing numbers of households are facing energy poverty exacerbated by soaring energy prices and the current energy crisis, not only do we need to support energy poor households, we also need to build the capacity of EU households to cope with future price hikes and accelerate the transition to renewable energy through a wide set of policy measures.

The SCF cannot be the only mechanism to provide support to people: the EU and Member States are responsible for de-carbonisation and there is the need to integrate the fund with other resources. Climate policies should be accompanied by a push to strengthen social protection systems to accompany and support people through the transition.

If the SCF manages to be this supportive and transformative instrument it could also contribute to increasing the social acceptance of the green transition. To make sure that the SCF can be used as an instrument to deliver a socially fair and just transition and to limit its effect while supporting EU citizens to invest in renewable energy, sustainable transport infrastructure and energy efficiency measures that deliver on the EU's 2030 climate and energy targets, the European Commission proposal needs some reforms and safeguards.

Social Platform's recommendations

1. The SCF must be a transformative instrument that tackles structural injustices, places well-being at the centre, and upholds EU fundamental rights, including social rights

All the measures implemented and financed by the fund need to have the well-being of people at the centre and contribute to the implementation of the European Pillar of Social Rights. The SCF should also facilitate policy reforms where necessary to accelerate the socially fair decarbonisation of transport and buildings.

Compensation might be applied in some Member States in the first years after the creation of the Fund, but the SCF must primarily drive a socially fair decarbonisation in mobility and buildings in the long-term, rather than providing short-term support. After the first year of implementation the European Commission must analyse the need for compensation in each Member State and, during the implementation of the Fund, it must ensure scrutiny over the use of compensation. Proposals for policy reform must also be included in the National Social Climate Plans as, without accompanying measures, investment will not reach those most in need, nor will it be able to tackle structural injustices.

Member States should receive payments with the conditionality not only of achieving targets and milestones set by the plans in line with the union climate targets, but also in line with the implementation of the Social Pillar and its Action Plan and the Porto Social Commitment.

This is why we advocate for having in place a mechanism such as a social impact assessment, linking the spending and plans on green investment with transition and renovations on their social impact, to make sure that the Fund is not only an emergency response but a transformational Fund.

2. The SCF scope, budget and duration should be strengthened to balance social and environmental impacts and should be decoupled from Emissions Trading System 2 (ETS2)

To be an effective instrument the SCF needs to be extended in duration and its financial envelope should be broadened. The proposed €72.2 billion for seven years (2025-2032) is not enough and can only partly compensate 20% of the poorest households for the rise of energy prices, and is not sufficient for adopting a long-term solution for decarbonisation.

In the European Commission proposal, the SCF is planned for 2025, the year before the foreseen introduction of ETS2, but this is too late as we are currently facing rising energy costs. To be effective and address part of the social and distributional challenges of the green transition while reaching the 2030 climate target, the SCF must be launched by 2023 at the very latest, in line with the review of the National Energy and Climate Plans (NECPs) and the ETS2 timeline.

The SCF should be increased and financed by a range of sources, including a proportion of the revenues from the existing ETS. These revenues have more than doubled since 2019 due to the rising cost of carbon. Beyond using ETS revenues, the SCF should leverage additional revenue sources to support the objective of decarbonising transport and buildings in a socially fair way. Further national level financing for the SCF could be encouraged, recognising the barriers to high levels of co-financing.

To reach its full potential the SCF should be decoupled from the proposed extension of the ETS to buildings and transportation that risks worsening the social challenges associated with the energy transition, fuelling more energy poverty. Carbon pricing policies on road transport and buildings produce regressive distributional effects and generate inequality and energy poverty. The fund should be used to tackle pre-existing inequalities in accessing the green transition and fund new programmes, rather than to appease regressive effects of climate policy and fund existing measures.

If properly designed, the SCF could address upfront costs of renewables and

empower low-income households to become part of community energy ownership models. Finally, to facilitate transformative planning, the SCF may also require safeguards to ensure that a baseline allocation can be provided to Member States. This could be provided via a floor price in ETS 2, if introduced, or a floor revenue guaranteed by the EU budget. All revenue should be channelled back through the SCF to enable the buildings and transport sectors to be transformed for everyone, everywhere in Europe. No ETS 2 revenue should go into the Innovation Fund - which is supposed to help industry decarbonise. If introduced, 100% of revenues of ETS 2 should be used to compensate households to finance clean mobility and energy efficiency alternatives and reduce energy poverty.

3. The SCF must target the lowest income households and those in vulnerable situations

Currently the European Commission proposal aims to support vulnerable households, vulnerable micro-enterprises and vulnerable transport users. This is not enough and does not address structural inequalities. The SCF should support people that live in energy poverty, low-income households and people and households in vulnerable situations. To do so, the SCF should adopt a comprehensive definition of energy poverty to identify the target groups that will be supported. The current definition - setting 'energy poverty' as a household's lack of access to essential energy services that underpins a decent standard of living and health, including adequate warmth, cooling, lighting, and energy to power appliances, in the relevant national context, existing social policy and other relevant policies - should be integrated with income poverty or inadequate income.

The lowest income households face the most acute challenges to transition. They are confronted with the greatest barriers to investment to tackle inefficient energy systems, poorly insulated homes and overreliance on polluting transport. At the same time, the poorest households are those most exposed to the negative impacts of climate change such as extreme weather. The SCF must focus more on proactive solutions to help vulnerable households break the energy and mobility poverty cycle and supply the dedicated support that is urgently needed to accelerate the transition in the transport and buildings sectors.

Without this support it is difficult for people to make transformational, climate-friendly investments in these sectors – for example, investing in electric vehicles and soft individual transport (bikes, e-bikes etc.) or insulating their home – due to being tenants, high upfront investment costs and the direct link to household expenditure. Measures to address transport and building emissions cannot ignore these barriers to investment, nor the social challenges and opportunities linked to climate action. This is particularly true when addressing transport poverty, through shared mobility and low-carbon public transport, from the perspective of access to an essential service of public interest where the state has an obligation to provide set standards on quality and affordability.

Social Climate Plans should include a dedicated section to ensure the funds are distributed in a way that is proportionate to wealth, while also being mindful of the situation of groups facing multiple disadvantages. This means those groups that are the least able to invest in decarbonisation should receive appropriate and fair support to engage in the transition to climate neutrality. The climate transition's success depends on its ability to deliver for those in the most vulnerable situations while supporting them to acquire the technologies for accessing renewable energies contributing to breaking the energy poverty cycle.

4. The SCF should ensure the right balance between direct support and investment programmes

The SCF includes both compensation – meaning direct payments to citizens – and investment in climate measures. The SCF must not be limited to offset the effects of regressive climate policies on vulnerable groups. The SCF should ensure an optimal mix of short-term support (social tariffs in response to the energy crisis) and long-term measures and structural investments (e.g. access to renovation, renewable schemes, decarbonisation of heating and cooling for people living on low income and/or in social/inadequate housing).

The SCF should balance the necessity of direct income support and investment programmes. Direct income support should not be the priority of the SCF as Member States are responsible for providing direct income support.

To assist Member States in their analysis of the households in need of direct income support, the Commission should publish guidance before the start of the SCF and every two years from 2026. This analysis should be done in cooperation with civil society that represent people living in the most vulnerable situations and are also able to better support the identification of their needs.

Income support should be focused on the lowest three income deciles (overcompensation compared to the average of those income deciles) to ensure all in need benefit sufficiently to not be driven further into energy or mobility poverty. Particular attention should be given to tenants that are at risk of renoviction and are more exposed to the dangers of rent increases due to the cost of energy.

The SCF must be based on tenants' participation and ensure that renovation costs are not passed on to tenants nor lead to renovictions. Additionally, the Fund should be used for investment in adequate, energy-efficient housing that is accessible and affordable. It should set livability standards and minimum energy-efficiency standards for buildings, contributing to addressing inequality and increasing living conditions, including for people living in severely disadvantaged conditions such as Roma communities.

Social tariffs, energy cost subsidies, energy vouchers and other traditional financial instruments currently used by EU countries provide temporary direct income support for vulnerable consumers. These measures do not tackle the structural causes of energy poverty, responding only to the cost of energy and maintaining the status quo of financing the current fossil energy providers. This is why the financial support included in the SCF should not only compensate the price increase but should be allocated for converting building and transport to decarbonisation, such as supporting households in vulnerable situations to renovate their homes, provide direct or indirect investment for the creation of more inclusive green jobs to break the cycle of poverty, and enable Member States to boost investment in energy efficient renovations that will improve the housing conditions and transport of poor and vulnerable households.

5. The SCF should uphold civil society engagement and the participation of all stakeholders in particular those representing vulnerable households

The Commission's proposed SCF contains clauses on participation assessment, but this is still not enough to ensure that the people most affected, such as the energy poor and vulnerable households, are meaningfully consulted and participate in the design, implementation and monitoring of the Fund to make sure that it targets their actual needs.

To reach people living in the most vulnerable situations, the SCF should include a more structured and meaningful civil dialogue. Civil Society Organisations (CSOs) together with social partners and local governments should be involved in determining how revenues from the SCF are spent.

The Fund should also include financing for capacity building for CSOs engaging with communities that will be the most affected by the energy transition. Member States' Social Climate Plans should include a compulsory method for reporting on the consultations of stakeholders for receiving the funds.

While detail on the arrangements for the effective monitoring and implementation of the plan in Member States is required, the provision should be strengthened further to include a requirement for detail on composition of the monitoring committee and assurances that all stakeholder groups are represented. This will help ensure all affected groups can have their say. Social Climate Plans should also empower communities to develop their own bottom-up, bespoke approaches to decarbonising transport and buildings in a socially fair way.

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Further information | platform@socialplatform.org
Website | www.socialplatform.org
Twitter | @social_platform
Facebook | @socialplatform

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