

Green Solidarity

Guiding Principles for a Truly Just Social Climate Fund

POLICY BRIEF - SEPTEMBER 2024



Member States' effective use of the Social Climate Fund to diminish energy and transport poverty will hinge on the following 3 principles.

- **Ensure meaningful public participation and early engagement**
- **Prioritise empowering and inclusive targeted measures aiming for structural solutions, avoiding fossil fuel lock-ins and shortsighted measures**
- **Mobilising additional financing beyond the 25% contribution**

Introduction

The Social Climate Fund (SCF or 'the Fund') - established under Regulation (EU) 2023/955 - is the one of the EU's financial mechanisms to counterbalance the negative socioeconomic effects of the extension of the Emissions Trading System (ETS 2) that will apply to the transport and heating & cooling sectors. The ETS2 price on carbon emissions will be challenging for low-income households [1] and small businesses that might not be able to absorb the price increase or afford investments in renewable and electrified solutions, such as heat pumps or electric cars.

The most vulnerable to energy and transport poverty are especially those who live in low performing homes in suburbs or isolated rural areas with little access to public transport, and those who experience more socio-economic marginalisation [2] due to class, ethnicity, race, gender [3], disability, old age, larger households and citizenship status; and more so when these factors intersect. Investment needs will be even higher in lower-income CEE countries which will be the most affected by the cost-impacts of the ETS2, despite their lower emissions compared to high income countries and will therefore receive a higher proportion of SCF funds [4].

[1] https://www.euki.de/wp-content/uploads/2023/02/ETS2_Policy_Brief_EPG-1-1.pdf

[2] https://energy-poverty.ec.europa.eu/document/download/687479a2-de64-4e04-8449-77b9729cb8b3_en?filename=EPAH_Energy%20Poverty%20National%20Indicators%20Report_0.pdf

[3] E.g. https://link.springer.com/chapter/10.1007/978-3-030-43513-4_8

[4] https://adelphi.de/system/files/document/policy-report_putting-the-ets-2-and-social-climate-fund-to-work_final_02.pdf

Although the SCF's limited size (EUR 65 billion + member state co financing of 25%) and scope does not yet offer the comprehensive framework that the EU needs to tackle the impacts of the transition on affected vulnerable individuals, the implementation of the Fund must be seized as an opportunity to balance out the social cost of climate action as much as possible. Member States must frontload SCF investments (boosted with additional ETS 1 and ETS 2 revenues) and provide targeted structural solutions that break cycles of fossil fuel dependency and poverty.

By 30 June 2025, Member States must submit National Social Climate Plans (NSCPs or 'the plans') to the European Commission, compiling all existing and planned measures under the SCF [5]. The plans must be fully operational by 2026, outlining a socially just decarbonisation strategy, before the ETS2 comes into force in 2027 [6].

25% of the revenues resulting from the auctioning of allowances under ETS 2 will flow towards the new SCF, up to a fixed budget of EUR 65 billion for the period of 2026-2032. The funds will be allocated to Member States based on a progressive formula. About two-thirds of ETS 2 revenues remain directly available for Member States to invest in broader climate and energy initiatives. As the SCF is not enough to balance the burden of ETS 2 on the lowest income groups it is crucial that all households are also supported through additional investments using broader ETS 1 and 2 revenues.

A structural and just decarbonisation in line with the 1,5oC target could generate up to one trillion euros in co-benefits for the EU economy [7], mainly from reduced fossil imports and lower electricity bills. This accelerated transformation would enhance thermal comfort at home, provide clean energy and affordable public transportation, improve air quality, and offer economic relief for millions of EU households and SMEs, all while reducing the EU's strategic dependencies and boosting competitiveness.

An ambitious implementation of the SCF must ensure a fair distribution of benefits and burdens. Member States' effectiveness in diminishing energy and transport poverty will hinge on the following 3 key principles when drafting their NSCPs.

[5] The plans will be assessed by the Commission before any disbursements are made - therefore, ensuring good quality of plans is key to ensuring a timely approval

[6] ETS 2 is agreed to start in 2027, but may be postponed until 2028 in the event of exceptionally high energy prices.

[7] https://caneurope.org/content/uploads/2024/01/CAN-Europe-co-benefits-of-climate-action_REPORT.pdf

Ensure meaningful public participation and early engagement

The NSCPs must be developed with broad, transparent and inclusive public participation processes.

Early, preliminary public consultations and effective nation-wide awareness raising campaigns can ensure that the broader public is aware of the likely increases in prices to be brought about by the ETS2, as well as the potential alleviating effects of the SCF and wider ETS revenue. Spain successfully held a broad consultation in September 2022 to raise awareness around the upcoming review of its NECP [8] **Explaining to community members why their heating and transport bills will rise, is not an easy task. Ongoing public dialogues, backed by scientific data with clear communications strategies will be required.** A mix of different consultation methods (e.g., online surveys & in-person workshops) should be employed to maximise reach.

Citizen assemblies can also provide democratic legitimacy, with the policies co-designed by citizens themselves often leading to more ambitious results [9]. These consultation processes should be tailored to the different kinds of public targeted (e.g. citizens vs. professionals). Managing Authorities should also take stock of potential accessibility measures, such as for example organising in-person events with sign-language interpretation and wheelchair-accessible facilities. The Energy Justice Workbook [10] emphasises additional measures, such as providing childcare support during meetings, and financial support to frontline advocates to defray the cost of participation in the process (e.g., payments to assist with intervention in a regulatory proceeding). **Stakeholder feedback from these consultations should be incorporated into the National Social Climate Plans, and where not this should be duly justified.**

Develop sectoral working groups and policy scenarios, highlighting the decarbonisation pathways with the most equitable social-economic-environmental benefits

Following the broader consultation approaches, a sectoral approach focusing on policy scenarios for different sectors (e.g., transport, renewable heating, energy efficiency) could generate important data and modelling, indicating what types of reforms and investments could produce the highest social & environmental impact.

[8] https://commission.europa.eu/document/download/9ea170ec-fdce-49cb-9424-4ee95db33a4a_en?filename=EN_SPAIN%20DRAFT%20UPDATED%20NECP.pdf

[9] <https://naradaoenergii.pl/wp-content/uploads/2023/01/podsumowanieen.pdf>

[10] <https://iejusa.org/wp-content/uploads/2019/12/The-Energy-Justice-Workbook-2019-web.pdf>

This would be the natural continuation after a broad and open consultation with the public, where preliminary policy directions can be translated into concrete, data-backed proposals and scenarios through expert feedback. Lithuania stands as a positive example in this case, as it created such working groups early on in the NECP drafting process, providing facts and analyses for different policy strategies (in line with Art. 5, 7 of the Aarhus Convention). All meetings, including relevant materials and participant lists were published in relevant online platforms [11] providing transparent and timely information to all parties.

Ensure the voices of those most affected by ETS2 are reflected in the consultations

Mobilising a wide array of social partners to pool expertise (NGOs, unions, energy communities [12], academia, advisory groups on energy poverty [13], representatives of marginalised communities and people with lived experiences of energy vulnerabilities, SMEs etc.) will be essential for identifying the most vulnerable groups who should receive priority support under the SCF. Structural vulnerability [14] entails many layers, thus to ensure the NSCPs' measures leave no one behind (e.g., those living in illegal settlements), genuine dialogue will be required.

The institutional capacity of local authorities, economic and social partners and non-governmental organisations must be strengthened in order to enable them to meaningfully participate in the preparation, implementation, monitoring and ex post evaluation of the NSCPs. Managing Authorities should ensure there is an adequately staffed workforce to carry out the above measures, including the follow-up processes with participating stakeholders.

Utilise existing public national consultation fora (e.g., the Multilevel Climate and Energy Dialogues) to ensure policy coherence

Article 4(2) of the SCF Regulation requires Member States to ensure **consistency of their NSCPs with their National Energy and Climate Plans (NECPs). A natural development would be for Member States to utilise existing Multilevel Climate and Energy Dialogues, which in some countries have been used during the NECP drafting and revision process**, to consult on and co-create their NSCPs.

[12] In its dedicated note on effective consultations for the SCF, the Commission also highlights the role of energy communities as effective intermediaries to identify people facing energy and transport poverty. <https://op.europa.eu/en/publication-detail/-/publication/5dbb39a1-350e-11ef-b441-01aa75ed71a1/language-en>

[13] <https://www.eapn.eu/who-we-are/our-members/> and <https://esf-cat.org/wp-content/uploads/2023/11/Collective-advisory-assemblies-Empowermed-ESF.pdf>

[14] Defined here as "An individual's or a population groups' condition of being at risk for negative health outcomes through their interface with socioeconomic, political and cultural/normative hierarchies." <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5233668/>

These dialogues convene various stakeholders to discuss and co-create climate and energy policies. The Swedish “Viable Cities” [15] initiative is an example of a credible multi-stakeholder dialogue, wherein municipalities, business, academia, civil society and government agencies work together with a mission-based approach (renewing their commitments every year) to tackle the objective of Climate Neutral Cities 2030. From 9 pilot projects in 2019 to 23 cities today, representing 40% of the Swedish population, the initiative has allowed for valuable coordination and information-sharing, and sees stakeholders co-funding over €8 million for capacity building and operational costs, besides portfolio investments for instance into infrastructure. Other examples of pre-existing consultation structures include the NECP platform utilised by European Municipalities, consultation fora used for the Territorial Just Transition Plans, or other similar structures foreseen in national climate laws.

Avoid the pitfalls of past public consultation processes

Member States should avoid repeating the mistakes of past consultation strategies, such as with the NECPs or the National Plans under the Recovery Facility. The consultation processes foreseen in the NECP update process have been deemed inadequate in many EU countries [16]. Following the draft update of the NECPs, the European Commission provided country-specific recommendations to improve these consultations [17]. It also highlighted the overall need for greater accountability in Member States’ consultation processes [18]. Similarly, the National Plans under the Recovery Facility were hastily put together during the pandemic, and often outsourced to large consultancies. This lack of meaningful stakeholder engagement prior to, and during the implementation of the Recovery Plans, was also highlighted by the Commission as a structural barrier [19], and in fact did lead to a revolving door phenomenon with larger companies counting as the top beneficiaries of the Recovery Funds in many Member States.

Member States should ensure that they draw lessons from those past processes so that public participation in the NSCPs is fit for purpose and in line with the requirements of the Aarhus Convention: early and meaningful engagement, publication through multiple media avenues (online and offline), and a thorough analysis of how comments were taken into account. Member States should not make the same mistakes twice. **The SCF presents a unique opportunity to co-create reforms and investments by and for citizens, contributing to an equitable decarbonisation pathway.**

[15] <https://viablecities.se/en/om/>

[16] See, for the draft revision of NECPs: <https://caneurope.org/public-participation-in-national-energy-and-climate-plans-evidence-of-weak-uneven-compliance-in-member-states/> and https://caneurope.org/content/uploads/2023/10/NECPs_Assessment-Report_October2023.pdf

[17] The Commission’s country-specific recommendations for NECPs are available here: https://commission.europa.eu/energy-climate-change-environment/implementation-eu-countries/energy-and-climate-governance-and-reporting/national-energy-and-climate-plans_en

[18] <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=COM%3A2023%3A796%3AFIN>

[19] https://commission.europa.eu/about-european-commission/departments-and-executive-agencies/economic-and-financial-affairs/evaluation-reports-economic-and-financial-affairs-policies-and-spending-activities/mid-term-evaluation-recovery-and-resilience-facility-rf_en

Prioritise empowering and inclusive targeted measures aiming for structural solutions, avoiding fossil fuel lock-ins and shortsighted measures

Complement temporary relief measures with targeted structural measures addressing root causes of energy and transport poverty

As structural measures are time intensive to implement social tariffs, direct payments and vulnerable consumer protection measures are necessary to prevent increased energy prices from hitting low-income households prior to structural measures relieving them from increased carbon prices. Member states should make sure that direct payments develop dynamically with carbon prices, and are complemented by structural measures guaranteeing that energy bills remain affordable for low-income households in the long run. To unlock all the potential benefits of a just decarbonisation process, Member States should prioritise measures that enable lasting change, going beyond direct payments for the most vulnerable to address structural causes of energy and transport poverty [20]. Tackling these issues means making ambitious efforts to connect social and climate policies and prioritising long-term investments over temporary fixes.

Structural measures relating to energy and transport are ones that improve accessibility, affordability, and equity, while ultimately reducing fossil energy dependency. For instance they should, in addition to guaranteeing basic access to energy, improve the energy efficiency of buildings, enhance access to renewable energy services and technologies, create enabling conditions for energy sufficiency, deploy zero-emission public transport for all, promote active mobility, and enable the clean decarbonisation of heating and cooling systems. Structural measures are not limited to investments either. For example, Member states must ensure that energy efficiency improvements or renovations in homes do not result in excessive increases in housing prices, rents, and housing costs leading to unaffordability issues, displacement of residents or evictions. Making sure that vulnerable households receive the benefits of decarbonisation and can still afford their bills, can be achieved through regulatory measures like rent law amendments and minimum energy performance standards in rented properties, administrative rules (e.g. revisions of the governance structure of jointly- owned apartment buildings) and various financial and fiscal incentive schemes targeted to vulnerable groups.

[20] Recital 13 of the Social Climate Fund Regulation (EU) 2023/955

Prioritise investments that make energy efficiency, renewable energy and electrified solutions more accessible and affordable.

At the residential level, many European citizens heavily rely on fossil fuels, particularly gas, to heat their homes. This reliance exposes consumers to more expensive and volatile energy costs, exacerbating financial strain, especially on vulnerable households [21]. Vulnerable consumers often lack access to affordable and efficient electrified systems and cannot pay upfront costs for housing renovations. Due to current subsidisation of fossil fuels, electrified solutions are often more costly to operate compared to other energy sources. Making electrification accessible and affordable requires structural and efficiency measures in homes that are inefficient and have old electric systems or have no central heating [22]. When homes are ready to absorb them, clean renewables offer significant benefits for consumers as they are cheaper and provide substantial economic savings [23].

Therefore, **Member States must prioritise investments that make energy efficiency, renewable energy and electrified solutions more accessible and affordable** [24], avoiding short-sighted measures that support the continued use of fossil fuels such as hybrid non-renewable energy heating systems or costly and inefficient equipment like hydrogen boilers must be accompanied with market measures to lower the cost of electricity in relation to fossil fuels [25].

Fossil fuel investments for end use must be fully excluded from the SCF

In drafting their NSCPs, Member States must ensure that all measures and activities comply with the "Do No Significant Harm" (DNSH) principle, as required by other EU funds such as the Recovery and Resilience Facility (RRF) and cohesion funds. This compliance is mandated by Article 17 of the Taxonomy Regulation (Regulation (EU) 2020/852), which requires that economic activities do not significantly harm environmental objectives as outlined in Article 9. However, the Taxonomy Regulation controversially classifies fossil gas investments as sustainable and a transition technology, contradicting scientific consensus and undermining climate goals and energy security [26].

[21] <https://www.imf.org/en/Publications/WP/Issues/2022/07/28/Surging-Energy-Prices-in-Europe-in-the-Aftermath-of-the-War-How-to-Support-the-Vulnerable-521457>

[22] https://www.researchgate.net/figure/Household-energy-price-ratio-electricity-vs-gas-in-EU-Member-States-in-2023-January_fig3_371761181

[23] <https://www.iea.org/reports/renewable-energy-market-update-june-2023/how-much-money-are-european-consumers-saving-thanks-to-renewables>

[24] <https://www.csrf.ac.uk/blog/hydrogen-for-heating/>

[25] <https://www.euractiv.com/section/energy-environment/news/energy-taxation-directive-europes-key-climate-law-stuck-in-a-quagmire/>

[26] <https://eeb.org/wp-content/uploads/2022/01/EEB-Paper-Taxonomy-delegated-acts-nuclear-and-gas.pdf>

This discrepancy has led to instances where funds under the REPowerEU RRF chapters were used to expand fossil fuel infrastructure, such as Croatia's investment in LNG infrastructure [27].

The SCF presents an opportunity to learn from the shortcomings of other EU programs and improve the application of the DNSH principle. Under the SCF Regulation, the Commission will issue technical guidance to help Member States apply the DNSH principle within the scope and objectives of this fund [28]. The guidance outlines eligible activities for the SCF. This is complemented by sector specific annexes with listed activities that are compliant or noncompliant with the DNSH. One of those fundamental guiding principles is the prevention of lock-in effects related to the use of fossil fuels, therefore requiring a **full exclusion of fossil fuel investments through the SCF**.

Provide financial, administrative and technical support for retrofits and deep renovations, targeting low-income and rural households in the worst-performing buildings

Heating and cooling buildings is a leading source of carbon emissions in Europe with around 38% of all final energy use consumed for this purpose [29]. And while incomes have stagnated, average rent has risen by 19% and housing prices by 47% over the past decade [30]. This results in a widespread housing crisis, characterised by unaffordable housing and energy bills for at least 10% of households, as well as insecurity of tenure, derelict housing, and disempowerment when it comes to making choices about renovations and energy provision. **Renovating worst-performing homes and providing affordable social housing equipped with renewable energy** are therefore key solutions to address both the climate and cost of living crisis at the same time.

Investments under the SCF **should support the implementation of the Energy Performance of Buildings Directive (EPBD) and the Energy Efficiency Directive (EED)** [31], **ensuring coherence with the National Building Renovation Plans** [32] to accelerate renovation rates especially for worst-performing buildings. Supporting vulnerable households that depend on fossil-fuel heating systems to switch to either district heating or heat pumps is crucial for helping citizens transition, as it reduces their energy bills and enhances their living environment.

[27] <https://www.rescoop.eu/policy/financing-tracker/repowereu-tracker/croatia-repowereu>

[28] https://climate.ec.europa.eu/eu-action/eu-emissions-trading-system-eu-ets/social-climate-fund/consultation-application-dnsh-principle-under-social-climate-fund_en

[29] Call to publish the Heat Pump Action Plan. https://api.euroheat.org/uploads/20240122_Call_to_publish_the_Heat_Pump_Action_Plan_without_further_delay_FINAL_f0862b626d.pdf

[30] Eurostat.

[31] Part of the Clean Energy Package, the EPBD and the EED set binding targets for the decarbonization of the building stock by 2050 and a collective reduction of EU energy consumption of 11.7% by 2030. They include targeted measures as well as new standards for energy performance and efficiency.

[32] The EPBD requires Member States to adopt National Building Renovation Plans, previously “long-term renovation strategies”.

To ensure that people live in decent homes, consume less energy, and can afford their bills, more investments in social housing which is energy-efficient and powered by renewable energy are also needed. For example, Belgium's Recovery Plan foresees the installation of solar panels, and solar panels and heat pumps in respectively 3 600 and 285 social housing units in Wallonia [33].

Measures should especially **tackle the barriers of financing and access for vulnerable households and prevent increased housing costs, evictions and displacement.** Many households are unable to pay upfront costs and benefit significantly less from tax-related bonuses as their income tax is low. Households that face the most difficulties with energy efficiency renovations are for instance those in owner-occupied multi-apartment buildings as well as single family homes in rural areas. Good targeted financing measures can include dedicated grants fully covering up-front costs and leaving zero remaining costs for low-income households (e.g. by paying directly to contractor: public to business model), low/zero-interest public loans, and de-risking of loans from private financial institutions.

Provide supporting services to the target groups and implementing agencies, for instance with one-stop-shops, and give the beneficiaries agency to co-design and implement solutions themselves

Navigating the complexity of funding options, renovation projects, and service providers, can be impossibly time-consuming and discouraging. Awareness-raising and accessibility measures can take the shape of one-stop shops (OSS) to provide tailored advice and support, and skills training to improve energy literacy, both for the target groups and for implementing agencies (e.g. local authorities, social institutions, social housing providers, funding institutions...).

Both the EED and the EPBD require Member States to roll out one OSS for every 80,000 inhabitants or at least one per region, but regulations and funding opportunities vary across Europe. OSS need to offer strong administrative support and cooperate with local frontline workers in the health and social sector and in civil society to reach out to vulnerable groups. A prominent example is 'La Palma Renewable', which runs a local OSS in the island of La Palma, providing citizens with advice on energy efficiency and savings, and opportunities to participate in local collective self consumption projects. The OSS is currently funded by local (Council) funds, but the goal is to expand its operation through Recovery and Resilience funding. This peer-to-peer approach helps foster more trust around the energy transition and its various complexities, securing local buy-in.

[33] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/assets/thematic_analysis/scoreboard_thematic_analysis_efficiency.pdf

To structurally empower citizens to take up an active role in the energy transition, it is not enough to merely provide legal possibilities and information. In that regard the SCF opens important doors to **create dedicated support schemes that empower the most vulnerable and remove barriers to participation**. One example would be to lower financial barriers to join or set up a community energy project through pre-financed shares or revolving funds. More specific vulnerabilities should be carefully analysed with the help of relevant stakeholders, and can be addressed with targeted measures. For instance, single-mother households are more vulnerable to energy poverty, and among many factors is women's exclusion from the technical knowledge typically reserved for men [34]. Providing specific educational support as well as taking measures to improve safety and gender balance in energy maintenance services, can be a way to remove barriers. Another option is to leverage existing local or regional energy poverty network groups, who utilise 'energy ambassadors', i.e. members of the local community, to conduct housing inspections and provide tailored advice around energy savings and efficiency measures, such as renovations. The financing of 'Community Transformation Offices' [35] in Spain's Recovery Facility employs this peer-to-peer approach: financing is provided to local, established organisations, to set up local One Stop Shops and help with the creation of new energy communities.

The importance of targeted and tailored approaches cannot be overstated. Different communities have unique needs and challenges, often rendering a one-size-fits-all approach ineffective.

Ensure proper maintenance and development of public transport and cycling infrastructure, and improve access to bicycle use

To alleviate transport poverty, calculated measures are needed to fit the local contexts. In sparsely populated areas, **increasing the density and convenience of public, demand-based, and shared transportation options** is fundamental for granting access to essential transport services. Investments in **decarbonising public and social transportation in lower-income municipalities** are equally needed to tackle transport emissions and ensure sustainable mobility for all residents. Inclusive transportation planning that prioritises the needs of vulnerable populations—such as the elderly, disabled, migrants and minorities, children and youth, women, and low-income households—will help reduce social inequities while supporting a transition towards more environmentally friendly transportation systems. Cycling is a cheap, healthy and carbon free way of transport. Safe and high standard cycling networks are able to reduce social distances as well between wealthy urban centres and marginalised peripheries of cities. Mobile services, increased access to essential public services (e.g. top-up of prepayment metres) and e-literacy among marginalised communities can further reduce the need for transportation.

[34] https://oa.upm.es/66337/1/FEMENMAD_vONLINE_compressed.pdf

[35] <https://www.idae.es/ayudas-y-financiacion/comunidades-energeticas/ayudas-oficinas-de-transformacion-comunitaria-para-la>

Mobility advisory services at local level can be one of the measures used to address the lack of information on (sustainable) transport options.

“El Meu Bus” in Barcelona is an on-demand bus service which has greatly improved accessibility for users in less populated areas in the periphery [36]. In London, the “Transport for All” programme is a mentoring initiative to provide guidance and support to individuals who face barriers to accessing public transport [37].

Support the development of Renewable Energy Communities (RECs) together with support schemes to make these initiatives accessible to poor and vulnerable households

The SCF should also be leveraged to raise opportunities for co-ownership and democratic decision-making in the energy transition. The main task should be enhancing access to renewable energy, focusing especially on renewable energy generation and storage. Actively engaging and de-risking vulnerable households’ participation in energy communities is one way to break the cycle of dependency on temporary relief schemes and exposure to the volatility of energy market prices. Citizen energy communities (CECs) and renewable energy communities (RECs) are not only eligible beneficiaries of the fund [38], they are instrumental to achieving its objectives [39]. Beyond enhancing access to renewable energy services, they are vehicles for awareness-raising, capacity-building, and social inclusion. They can foster more trust in climate policy, especially when involved in consultations. Member States should include in the NSCPs reforms that (further) simplify and promote collective self consumption and energy communities, in line with the Renewable Energy Directive (RED) II and RED III. As an example, Spain’s Recovery Plan foresees significant financial support for energy communities, while encouraging their participation in novel sectors, such as demand response, e-mobility, and housing renovations [40].

It should be pointed out that in most national contexts, insufficient distinction is made between energy communities as an organisational concept and activity-based concepts such as peer-to-peer trading and their associated benefits. We recommend **clarifying the legal concept of energy communities and defining clear criteria for the allocation of funding**, to avoid corporate capture of limited resources by large commercial energy services providers and make sure funds reach the target population.

[36] <https://www.barcelona.cat/mobilitat/es/medios-de-transporte/bus/bus-demanda>

[37] <https://www.transportforall.org.uk/your-rights/#:~:text=TfL%20offers%20a%20free%20Travel,use%20public%20transport%20in%20London>

[29] Call to publish the Heat Pump Action Plan. https://api.euroheat.org/uploads/20240122_Call_to_publish_the_Heat_Pump_Action_Plan_without_further_delay_FINAL_f0862b626d.pdf

[38] Social Climate Fund Regulation (EU) 2023/955, Article 8(c).

[39] EUR-Lex. https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2023.130.01.0001.01.ENG

[40] <https://www.rescoop.eu/policy/financing-tracker/recovery-resilience-funds/spain-recovery-resilience-funds-2-2>

Mobilising additional financing beyond the 25% contribution

The social climate fund was created to offset the potential increases in energy and transport poverty as a result of ETS 2 and not to tackle energy poverty across the EU for which additional funding is urgently needed. Today, over 41 million people across Europe are unable to adequately heat their homes [41], with the number likely much higher given the complexities of collecting accurate data. The amount available in the SCF is inadequate to combat the root causes of transport and energy poverty - however it does make progress in the ring fencing of funds to ensure the social impacts of climate policy are adequately considered.

Dedicate ETS2 (and some ETS1) revenue to socially inclusive decarbonisation of buildings and road transport

Limited to EUR 86.7 billion for the entire union (including member state co-funding of 25%) , it is clear that funds beyond the SCF will need to be mobilised. As a starting point, ETS2 revenues that are returned directly to the budgets of member states should be mobilised to combat energy and transport inequality and to build public support. This can be achieved through a mixture of direct transfers and targeted investment [42]. For the period 2026-2032, assuming an average price of €45 a tonne total revenues would be €258.6 billion. As a result, only 34% of ETS 2 revenues will go to the SCF, while the remaining 66% goes directly to member states. Member states are free to increase the co-financing rate for their social climate plans beyond the mandatory minimum of 25%. They can use their remaining ETS 2 or ETS 1 revenue for this purpose, estimated at €1500 billion between 2031-2050 [43]. Strong examples from the spending of ETS 1 revenue for the purpose of building decarbonisation include the Czech New Green Savings Support Program and the French Ma Prime Renov [44].

Current legislation dictates that all ETS revenue is to be spent on 'climate action' but member states are allowed full discretion on spending and limited transparency means that the funds may just be allocated to already existing environmental spending or used to offset the cost for industry. As the ETS 1 and 2 revenue is expected to peak in 2035 [45], there is a finite opportunity to maximise the benefit of the funds to reduce fossil fuel dependency and protect wellbeing in the long term.

[41] [https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/733583/EPRS_BRI\(2022\)733583_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/BRIE/2022/733583/EPRS_BRI(2022)733583_EN.pdf)

[42] https://ieep.eu/wp-content/uploads/2022/12/Can-polluter-pays-policies-in-buildings-and-transport-be-progressive_IEEP-2022.pdf

[43] [Securing our future Europe's 2040 climate target and path to climate neutrality by 2050 building a sustainable, just and prosperous society](#)

[44] <https://www.service-public.fr/particuliers/actualites/A17134?lang=en>

[45] [Securing our future Europe's 2040 climate target and path to climate neutrality by 2050 building a sustainable, just and prosperous society](#)

Considering the issue of fairness, under current ETS1 rules over 95% of industrial pollution is subsidised. Several industries will receive €226.7 billion in free allowances between 2024-2030, with the majority going to heavy industrial sectors. As people will now be expected to pay for their emissions under ETS2, this subsidisation of the vast majority of industrial pollution must end and funds must be redirected to fund the just climate transition.

Secondly, harmful fossil fuel subsidies must be redirected to increasing the affordability of clean renewable energy across our homes and transport. Fossil fuel subsidies greatly undermine the ETS2 price signal. By making fossil fuel relatively cheaper, fossil fuel subsidies facilitate the increased consumption of fossil fuels for higher earners while wasting resources that could be used to tackle energy poverty. Fossil fuel subsidies put investments in renewable energy at a disadvantage and wastes public resources. The EU and Member States have stated their intention to 'end inefficient fossil fuel subsidies' as early as 2009. However, research from CAN exposes that fossil fuel subsidies more than doubled in 2022 following the Russian war in Ukraine and are expected to be as high as EUR 78 billion in 2022. While income support is needed to shield the most vulnerable from high energy costs, this support should be targeted and be accompanied with transformative investments to end the root cause of energy poverty; reliance on fossil fuels and the mercy of fossil fuel giants who have shown that they are not afraid to extract windfall profits in times of economic crisis.

Create an updated Just Transformation Fund to ensure resources for socially inclusive climate spending

Thirdly, structural changes are needed considering the massive green and social investment needs Europe has, with a recent study estimating the investment needs at €1,520 billion yearly [46]. The Next Generation EU fund is scheduled to end in 2026, with an estimated EUR 300 billion less available for climate and nature purposes. Additional measures such as establishing a long-term **EU just transformation fund post-2026** to drive the green and socially just transformation of our economy is urgently needed as delayed spending on climate today means an increase in the cost of climate inaction in the future. The creation of a Just Transformation Fund needs to be paired with a serious commitment to end fossil fuel subsidies as well as the introduction of new progressive taxes including a tax on extreme wealth, an excess profit tax on fossil fuel, and a financial transaction tax to support the EU and governments. The EU must also commit to environmental tax reforms to implement the polluter pays principle while guaranteeing that it does not negatively affect low-income groups in particular.

[46] <https://institut-rousseau.fr/road-2-net-zero-en/>

Make coherent use of existing EU funding schemes to ensure that the spending of the SCF is complementary

Lastly, making coherent use of existing EU funding schemes [47] broadens the scope for financing structural measures to address energy poverty. The Recovery and Resilience Facility, REPowerEU, the Regional Development Fund, the Cohesion Fund, the current Just Transition Fund and the Modernisation Fund also provide investments that should be directed towards renovations, energy efficiency, and deployment of renewable energy. Some good use cases from the use of Recovery and Resilience Funding include investment in renewable energy production for 30,000 energy poor households in Greece through energy communities and Romanian voucher schemes for households to invest in energy efficiency renovations and the creation of one stop shops [48].

Further reading

- [Regulation \(EU\) 2023/955 of the European Parliament and of the Council of 10 May 2023 establishing a Social Climate Fund and amending Regulation \(EU\) 2021/1060](#)
- [Energy poverty advisory hub](#)
- [Social Climate Fund FAQ](#)
- [REScoop.eu briefing](#)
- [Energy solidarity toolkit](#)
- [POLICY REPORT: PUTTING THE ETS 2 AND SOCIAL CLIMATE FUND TO WORK](#)
- [Social Climate Fund: Unlocking the potential for a just transition](#)
- [Energy justice workbook](#)
- [Finding alternative ways to finance the SCF](#)
- [Heat transition options for the least-performing buildings in Hungary](#)
- [Affordable and clean heating for all](#)
- [Case studies: Renovating the unfit housing stock](#)
- [Energy poverty and unfit housing in Poland](#)
- [5 economic reasons to prioritise low-income earners in the renovation wave](#)
- [Putting the ETS 2 and Social Climate Fund to Work](#)

[47] <https://www.rescoop.eu/financing-tracker>

[48] https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/assets/thematic_analysis/scoreboard_thematic_analysis_efficiency.pdf

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Éghajlatvédelmi Szövetség / Climate Alliance Hungary
Electra Energy
Energiaklub Climate Policy Institute
Environmental Justice Network Ireland
EOS energy
EWS Elektrizitätswerke Schoenau eG
Focus Association for Sustainable Development
Friends of the Earth Spain
Green Liberty
Habitat for Humanity International
MIRA Network
Next Energy Consumer
NSC-Friends of the Earth Hungary
Plataforma por un Nuevo Modelo Energético
Reflex Környezetvédő Egyesület
Réseau Cler
Sustainable Agency SYNERGY
The Climate Reality Project Europe
WISE Nederland
World's Youth for Climate Justice
ZERO - Associação Sistema Terrestre Sustentável