Safeguarding social justice in EU climate finance

Unpacking the MFF—SCF link

LIFE Effect GERMANWATCH EEB European Environmental Bureau

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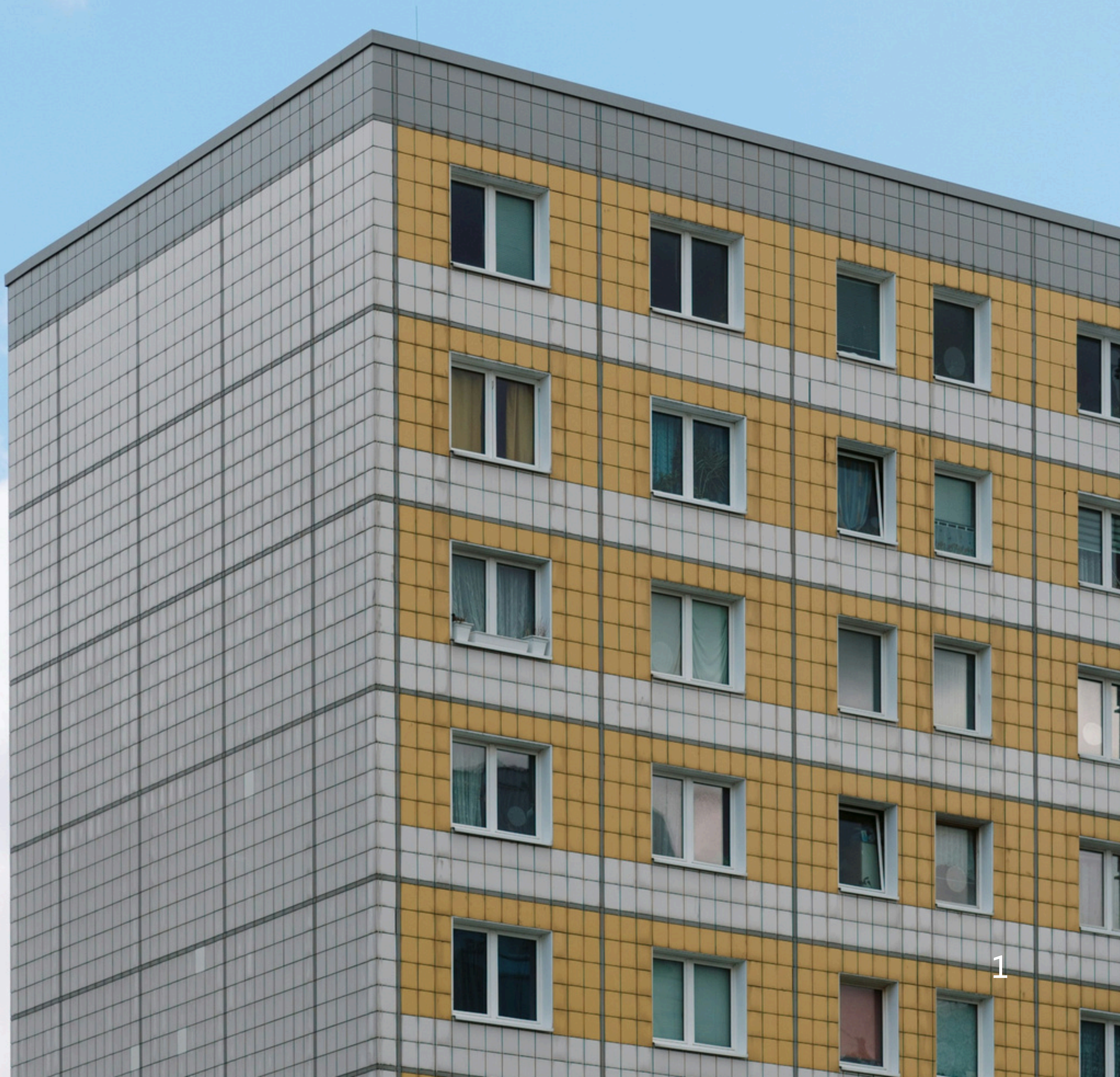
Introduction

In this policy brief, we explain how the current Multiannual Financial Framework (MFF) proposal affects the integrity of the Social Climate Fund (SCF) and the role of National Social Climate Plans (NSCPs).

We believe it is essential to uphold social justice through strong and targeted policy measures accompanying carbon pricing.



What are the SCF and MFF?

Social Climate Fund (SCF)

Starting in 2027, the new EU Emissions Trading System (ETS2) will, for the first time, put a price on CO_2 emissions in the buildings and transport sectors across Europe. Fuel suppliers will be required to purchase CO_2 certificates in order to offset their emissions in these sectors, a requirement that is likely to contribute to higher prices for heating fuels, petrol, diesel, and other energy sources for European households.

To mitigate the social impact of the introduction of ETS2 and to provide targeted support to vulnerable households, small businesses, and transport users affected by energy and mobility poverty, the EU has established the Social Climate Fund (SCF) under Regulation (EU) 2023/955. The SCF is financed by ETS2 revenues and amounts to up to €65 billion EU-wide (plus 25% of co-financing by the member states) for the period 2026—2032.

Multiannual Financial Framework (MFF)

The Multiannual Financial Framework (MFF) is the European Union's long-term budget plan, setting spending priorities and limits over a seven-year period. It ensures that EU funding is allocated in a reliable and predictable manner across key areas like climate action, cohesion, agriculture, research, and external relations. The MFF defines how much money is available and what it can be used for – making it a strategic tool that shapes the EU's policy ambitions.

The current MFF, amounting to €1.2 trillion (in constant prices and excluding the €750 billion earmarked for the NextGenerationEU recovery instrument), will run until 2027. There have been six MFFs to date, including the current one for 2021–2027.

The European Commission published its proposal for the next MFF for the period 2028—2034 on 16 July 2025. This marked the formal beginning of negotiations between EU institutions and member states on the structure, priorities, and funding mechanisms of the Union's long-term budget. The Commission proposal combines ten previously separate funds.

The Social Climate Fund (SCF) would become part of a new European Fund for economic, social, and territorial cohesion, agriculture and rural, fisheries and maritime, prosperity, and security. This integration means that SCF resources, which were previously managed under a separate regulation (EU 2023/955), would now be managed within the broader MFF framework, particularly through National and Regional Partnership Plans (NRPPs).

While this streamlining aims to simplify funding access and align climate and social spending, it also raises concerns.

Why the proposed integration of the SCF into the MFF raises concerns

The integration of the SCF into the MFF carries the risk of weakening the specific targeting criteria set out in the SCF for NSCP measures.

No focus on the vulnerable

According to Article 3 (1) of the Regulation (EU) 2023/955, SCF measures must directly support vulnerable households, micro-enterprises, and transport users. In contrast, Article 3 (1), point (c) (vi) under the proposed European Fund merely requires National and Regional Partnership Plans (NRRPs) to 'address' the social impacts of ETS2 — with no explicit reference to vulnerable groups. The absence of the term 'vulnerable' in the current MFF text marks a clear step backward.

Designing measures that specifically target vulnerable households is considerably more challenging than simply addressing the broader social impacts of ETS2. However, precisely these targeted measures are essential to protect the most vulnerable from rising prices and to help them escape the fossil fuel lock-in. We therefore see a considerable risk to the social implementation of ETS2, a key part of the original agreement.

Without a binding requirement to implement targeted measures for vulnerable groups to address the impacts of the new emissions trading scheme, the core objective of the European Green Deal to 'leave no one behind' risks becoming an empty slogan with no real enforcement.

An incentive to delay the submission of NSCPs

The impact of the new rules could be felt even before 2028. Countries that fail to submit National Social Climate Plans (NSCPs) before 2028 and instead apply for the available funding via NRRPs may no longer be bound by the stricter social criteria set by the SCF Regulation. Therefore, EU governments may strategically postpone the submission of their NSCPs, as such delays do not reduce their overall budget, which means that the financial cost of waiting is relatively low.

An incentive to avoid submitting NSCPs

Countries such as Germany that receive a relatively smaller share of SCF funds compared to their ETS2 revenues may conclude that it is not worth submitting an NSCP at all, as they can access funds via NRRPs under less stringent conditions. This way, member states can avoid the challenging exercise of developing socially targeted measures for those most in need. This undermines the potential of NSCPs as blueprints for socially just climate policy.

Enforcement of NSCPs

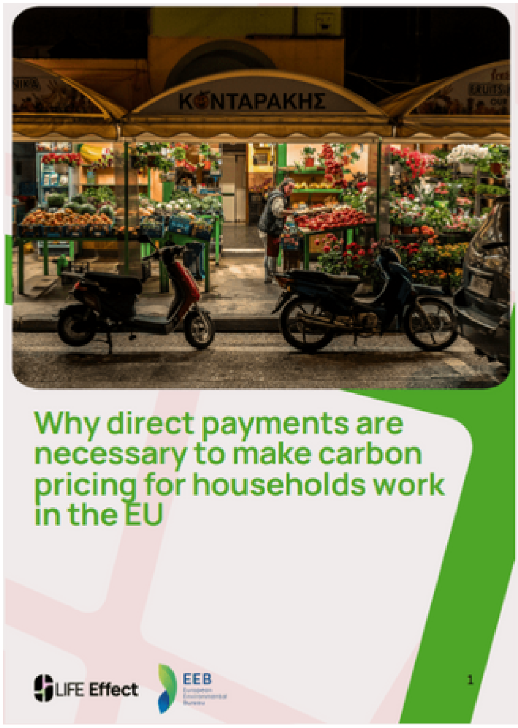
Article 80 (6) of the proposed European Fund allows member states to use all or part of their available SCF funds for other measures, as long as they align with the broad objectives stated in Article 3 (1), point (c)(vi) of the above mentioned fund.

This flexibility creates the risk that, even if member states develop and submit NSCPs, they may still use SCF resources for purposes other than those originally intended, as long as they do not receive full funding before 2028.

In many cases, this risk will arise because member states may struggle to implement their plans quickly enough to access the funds, since they must first finance measures with their own resources and only become eligible for SCF support after meeting specific milestones. This situation could divert resources away from the targeted support needed by vulnerable groups. Without penalties for failing to submit NSCPs, beyond withholding SCF payments before 2028, there is little pressure on member states to fully comply with the strict requirements set out in the SCF Regulation. With the current MFF proposal, some uncertainty persists beyond 2028. While countries may continue to comply with SCF provisions in the short term, it remains unclear whether they will actively continue their measures in accordance with the SCF Regulation after 2028, or whether they will simply redirect funds to other initiatives under relaxed requirements.

Direct payments excluded

The option to include direct payments to households to compensate for rising CO_2 prices in NSCPs – currently allowed under the SCF Regulation for up to 37.5% of the funds – will no longer be available under the new MFF proposal. This change could limit the flexibility and speed with which member states support households, potentially delaying crucial assistance during the climate transition.



Learn more in the LIFE Effect briefing on direct payments.

Conclusion

The current MFF proposal risks substantially undermining both the effectiveness and oversight of the SCF, a key component of the political compromise underlying the EU's climate policy in heating and transport.

To genuinely support vulnerable groups, the EU must recommit to the targeted approach outlined in the original SCF Regulation and enforce binding minimum standards across all member states. Furthermore, the Commission should clarify its stance to resolve inconsistencies between the two Article 3 frameworks and reaffirm its dedication to an inclusive and socially just climate policy.

The SCF was designed as a cornerstone of the social compensation mechanism that is supposed to cushion the effects of ETS2. For advocates of inclusive climate policy, this is a critical moment to monitor how SCF principles are upheld within the MFF and to push for binding safeguards. Otherwise, the effective and socially just implementation of ETS2 across the EU is at risk.

Socially just climate policy is not a side issue — it is the foundation for public trust, equitable outcomes, and long-term political stability in the context of the European climate transformation.