

POLICY BRIEFING
October 2022

Decarbonization as a cure for energy poverty

The case for a strong Social Climate Fund

Citizens and businesses are struggling to pay their bills due to the extremely high energy prices. At the same time, the EU has proposed extending the EU ETS to private sectors for the first time. Carbon price on road transport and buildings should ensure that all sectors follow a decarbonization pathway consistent with the EU 2030 and 2050 climate goals.

It is widely acknowledged that climate policy has to be socially fair and just in order to be acceptable to the public. Also, it needs to be affordable and inclusive to enable low-income households to participate in the energy transition. The European Commission recognized this fact by proposing a new Social Climate Fund as part of the Fit for 55 package in July 2021. If designed right, the SCF can be a driver for change and help the EU achieve its climate and energy goals. But common EU goals and an EU-wide ETS price require solidarity and fair burden-sharing across society as a recognition of different backgrounds.

The Social Climate Fund and the accompanying national Social Climate Plans need to become a comprehensive framework to ensure that all EU citizens can participate in the energy transition despite different starting conditions. Given the rather limited size of the SCF, it is vital that the Social Climate Plans do not focus solely on the spending of the SCF resources. Rather, they should entail a social policy reform addressing energy poverty and just

transition on a systemic level. Therefore, they should include additional national funding and programs beyond the scope of the SCF.

Lower-income households are affected in multiple ways when it comes to the energy transition. They are hit the hardest by the impacts of climate change but cannot participate in the energy transition due to lack of their own resources. Energy bills represent a higher share of their income compared to other social groups. On the other hand, vulnerable households have the potential to benefit the most from investment support into clean energy and energy efficiency in terms of cost savings, health benefits, and improved living conditions.

The amount of funding provided by the Social Climate Fund needs to be sufficiently high to provide investment support to low-income households on the one hand and to provide direct compensation for high energy prices on the other. Therefore, launching the Social Climate Fund well before the EU ETS2 impacts households is crucial. The sooner low-income households are able to shift away from fossil fuels in heating and transportation, the less needs to be spent on direct compensation. Besides the sufficient amount of finances being well timed, the precise targeting of the fund must be rightly defined. Since Europe is facing climate and energy crises at once, measures supported by the SCF need to be win-win solutions for the climate and the citizens, such as investments into clean heating, deep renovation of buildings, sustainable transport, or free access to public transport. Using part of the SCF to pay out a flat climate dividend should also be considered and evaluated as it could help increase the acceptance of carbon pricing.

Initially, the SCF should be funded by ETS1 revenues and provide investment support only. Once the ETS2 comes into place, the SCF should be funded by 100 % of ETS2 revenues and partially by ETS1 revenues and would - next to investment support - provide direct compensation to those in need. On the contrary, no ETS2 revenues should go into the Innovation Fund, which is dedicated to the decarbonization of industry. Any attempts to restrict the maximum amount of funds available in the SCF should not be approved. In this regard, it is worth noting that it is indefensible to introduce full auctioning for households while keeping free allocation for the big industrial players. This undermines the polluter pays principle and creates a sense of injustice, which is compounded by the current situation where citizens are paying high energy prices while some energy companies are making unprecedentedly high windfall profits. The goal should be to end free allowances as soon as possible.

In order to deliver on the SCF's objectives, it is essential to ensure compliance with the principles of "Do no significant harm" as well as the ones of meaningful public participation. Similarly, to other EU funds, there should be a Monitoring Committee established to ensure the oversight and cooperation of multiple stakeholders with energy and social experts, local governments, and communities, among others. Any support for fossil fuels from the SCF should be firmly excluded. The European Commission as well as member states should undertake efforts to make use of synergies between the SCF and other EU funding instruments.

Policy recommendations

1. **Launch the SCF as soon as possible** and well before the EU ETS2 affects households.
2. All ETS2 revenues must go back to the citizens. The SCF should be composed of **100 % of ETS2 revenues and partly of ETS1 revenues** to ensure that the fund is large enough.
3. **End free allowances to the industry.** Additionally generated ETS1 revenues would help to pay for the costs of the energy transition.
4. A new fund addressing the social impact of climate policies is highly needed. Establish the SCF regardless of the extension of the EU ETS to new sectors.
5. Ensure that everyone can take part in the energy transition. SCF should provide addressed **support to low-income households in the form of investments** into clean energy and transport, and **direct compensation payments**, if needed.
6. Social Climate Plans should be based on **a long-term vision of how to reach social stability.** To deal with energy poverty risks and to support a just transition, the Plans must be comprehensive and focused on gaps in national social policy. Also, they should outline additional national programs and funding.
7. **Exclude any funding into fossil fuels** or funding in contradiction to the "Do no significant harm" principle.
8. **Ensure genuine public participation, partnership principle and transparency.** Decision-making body (platform, working group, committee) must be composed of a balanced representation of various stakeholders, and all the relevant information must be publicly available.
9. Successful implementation of the SCF depends on the European Commission's **careful monitoring and controlling process** as well. Social climate plans must comply with the EU legal framework and other commitments, such as climate targets.
10. The EU institutions and member states should actively **communicate on the benefits** of EU's social and climate policies.

Sources:

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- RAP: [Pricing is just the icing: The role of carbon pricing in a comprehensive policy framework to decarbonise the EU buildings sector](#). 2021
- Stockholm Environment Institute: [The impact of the new Emission Trading System on households](#). 2022
- Transport & Environment: [The road to a road ETS. How to design a socially fair and environmentally effective system](#). 2021
- WWF: [Social Climate Fund. The potential to deliver more](#). 2021

Centre for Transport and Energy (CDE) is a non-profit non-governmental organisation founded in 1998 which focuses on the climate impacts of transportation and energy production. We see our goal in building and reinforcing a wide platform of groups and individuals who are interested in working towards a sustainable future.

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