Social climate fund: Fit for 55 package

OVERVIEW

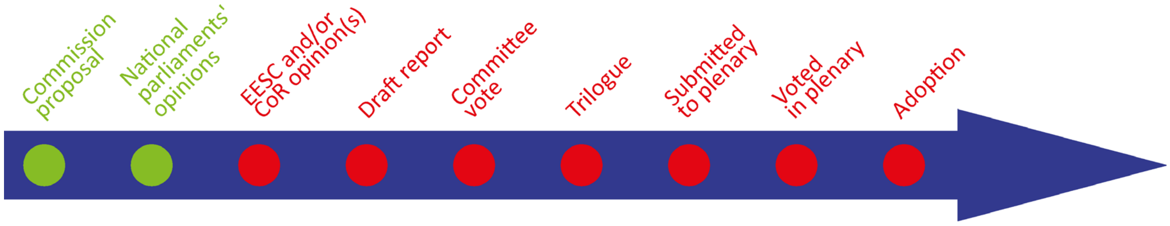
On 14 July 2021 the European Commission adopted the 'fit for 55' package, a set of legislative proposals to meet the new EU objective of a minimum 55 % reduction in greenhouse gas (GHG) emissions by 2030. The fit for 55 package is part of the Commission's European Green Deal, which aims to set the EU firmly on the path towards net zero GHG emissions (climate neutrality) by 2050.

The fit for 55 package includes a regulation establishing a new social climate fund (SCF). The aim of the SCF is to help vulnerable households, micro-businesses and transport users meet the costs of the green energy transition in the buildings and road transport sector. The SCF is designed to counter the additional costs that vulnerable consumers may face when the EU Emissions Trading System (ETS) Directive is revised to cover these two sectors, as proposed in the fit for 55 package.

The SCF aims to provide over €72 billion in EU funding over the 2025-2032 period, to be paid for mainly by ETS credits in the buildings and road transport sectors. The SCF funds will need to be matched by equivalent social climate funding from Member States, which must prepare social climate plans. As a new budget line to be financed from EU 'own resources', the SCF will require amendments to the Own Resources Decision and the 2021-2027 multiannual financial framework.

The file has been referred to the Committee on Environment, Public Health and Food Safety (ENVI) and to the Committee for Employment and Social Affairs, which will be producing a joint report.

Proposal for a Regulation of the European Parliament and of the Council establishing a Social Climate Fund		
Committees responsible:	Environment, Public Health and Food Safety (ENVI) and Employment and Social Affairs (EMPL)	COM(2021) 568 14.7.2021
Co-rapporteurs:	David Casa and Esther De Lange (EPP)	2021/0206(COD)
Shadow rapporteurs:	Klára Dobrev; Petar Vitanov (S&D) Ondřej Knotek ; Marie-Pierre Vedrenne (Renew) Sara Matthieu; Katrin Langensiepen (Greens/EFA) Dominique Bild; Joëlle Mélin (ID) Andrey Slabakov; Beata Szydło (ECR) Leila Chaibi; Petros Kokkalis (The Left)	Ordinary legislative procedure (COD) (Parliament and Council on equal footing – formerly 'co-decision')
Next steps expected:	Publication of draft report	



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Introduction

On 14 July 2021, the European Commission adopted a legislative proposal to create a new social climate fund (SCF), alongside a broader overhaul of existing EU climate and energy legislation referred to as the 'fit for 55' package. The fundamental aim of this legislative package is to deliver the climate action objective of a minimum 55 % reduction in greenhouse gas (GHG) emissions by 2030 (compared with 1990 levels), thus setting the EU more firmly on the path towards meeting its ultimate goal of net zero GHG emissions (i.e. climate neutrality) by 2050. The recent European Climate Law (July 2021) wrote both the 2030 and the 2050 targets into European law.

The main purpose of the SCF is to compensate vulnerable households, micro-businesses and transport users financially for the future costs of the EU's green energy transition in the buildings and road transport sectors, to which the Commission is proposing to extend the emissions trading system (ETS). The SCF would be funded primarily by the EU's own resources, as a proportion (25 %) of ETS revenues accrued to the EU from these two new sectors. The SCF will require equivalent funding from Member States, which will need to prepare detailed and costed social climate plans.

Existing situation

The Commission has proposed a revision of the ETS Directive that would extend the EU carbon trading scheme to cover the buildings and road transport sectors, where existing decarbonisation efforts have been slow. However, expanding the ETS to these two new sectors could ultimately increase energy bills for consumers. This poses a particular problem for vulnerable consumers who spend a large proportion of their income on energy and transport, and may lack alternative options in terms of green mobility, or live in homes that are not energy efficient or are dependent on fossil fuels for heating and cooling. The Commission therefore wants a proportion of additional ETS revenues from these new sectors (25 %) to be spent on financial compensation schemes for consumers investing in improving energy efficiency and/or on promoting decarbonisation in buildings and/or road transport. This additional EU funding is necessary to address some of the social and distributional challenges of the green transition for vulnerable households, micro-businesses and transport users.

Parliament's starting position

The European Parliament has consistently expressed its view that the EU and its Member States should properly identify, assess and address the problem of energy poverty, through a combination of improved energy efficiency and policy actions of a social nature. The key question of how to finance energy efficient renovations needs to be resolved, since the people who could benefit most from improved energy efficiency are often those least able to afford costly home renovations.

In its topical resolution of 15 January 2020 on the European Green Deal, Parliament stressed that 'the energy transition must be socially sustainable and not exacerbate energy poverty', arguing that 'the costs of energy efficiency renovations should not be borne by low-income households'.

In an own-initiative resolution of 17 September 2020 on maximising the energy efficiency potential of the EU building stock, Parliament welcomed the Commission's desire 'to pay particular attention to the renovation of energy-poor households' and underlined 'the importance of adopting energy-saving measures, promoting energy efficient consumption habits and behavioural change'.

In a further own-initiative resolution of 17 December 2020 on a strong social Europe for just transitions, Parliament argued that the EU and its Member States should seek 'to eliminate energy poverty by 2030' by 'supporting energy efficiency investment by low-income households'. Parliament's own-initiative resolution of 21 January 2021 on access to decent and affordable housing for all meanwhile noted that 'the energy efficiency of housing stock has a direct impact on energy poverty'.

During interinstitutional negotiations over the European Climate Law, Parliament pushed for the reduction of energy poverty to become one of the main goals of the energy transition in the EU.

In the previous legislature, the Committee for Industry, Research and Energy (ITRE) published the proceedings of an expert workshop on energy poverty (September 2017), which built on the findings of an external study for Parliament on how to end energy poverty in the EU (October 2015).

Also in the previous legislature, Parliament's own-initiative resolution of 17 September 2018 – Europe on the Move: An agenda for the future of mobility in the EU – both notes 'the current financial and non-financial barriers that consumers face in purchasing a low-emission vehicle; [and] recalls that end-user acceptance of low-emission vehicles strongly depends on the availability and accessibility of comprehensive and cross-border infrastructure'.

Preparation of the proposal

The Commission did not carry out an impact assessment (IA) for this legislative proposal, nor is the SCF linked to any kind of ex-post evaluation or fitness check. In fact, the SCF was not originally conceived as part of the 'fit for 55' package and therefore did not appear in the Commission's 2021 work programme. The SCF proposal was developed in response to criticism that the Commission's various proposals (in particular the reform of the ETS Directive) will place a considerable burden on EU consumers to finance the energy transition, but without providing adequate support for more vulnerable consumers who could face the greatest difficulty in managing high energy costs.

The Commission argued that a specific impact assessment (IA) was not necessary in this instance as the SCF builds on problems identified and solutions proposed in two other IAs. The IA supporting the 2030 climate target plan found that meeting the 55 % GHG emissions reduction target by 2030 would increase the share of households' energy-related expenditures by 0.7-0.8 %. However, this distribution would not be even, with lower earners carrying a proportionally greater burden. The IA accompanying the proposal to revise the ETS Directive (part of the 'fit for 55' package), in order to expand ETS credits to cover the buildings and road transport sectors, found that 'emissions trading for buildings will not affect households equally, but would likely have a regressive impact on disposable income, as low-income households tend to spend a greater proportion of their income on heating'. The same IA found that the cost of ETS credits in the road transport sector would fall disproportionately on middle and lower-middle income classes. In consultations over the proposal to revise the ETS system, 'several stakeholders also referred to the social impacts of an increase in the price for heating and transport fuels on the most vulnerable households. In particular, it was highlighted that low-income households may need support in order to carry out the necessary investments in energy efficiency and zero- and low-emission mobility and transport'.

The changes the proposal would bring

The Commission has proposed a new regulation to establish a social climate fund (SCF). The main aim of the SCF is to support Member States in their policies to address the social impacts of the new emissions trading system (ETS) for buildings and road transport. Projects financed by the SCF should contribute towards financing temporary income support and investments to reduce reliance on fossil fuels through increased energy efficiency of buildings, decarbonisation of heating and cooling of buildings (including the integration of energy from renewable sources), and granting improved access to zero- and low-emission mobility and transport. The beneficiaries of the SCF should be vulnerable households, vulnerable micro-enterprises, and vulnerable transport users.

Legal basis

The SCF cuts across several EU policy areas: energy, climate action, mobility and transport, social policy, etc. The legislative proposal therefore has three legal bases: Article 91(1)(d) of the Treaty on the Functioning of the European Union (TFEU) (Transport); Article 192(1) TFEU (Environment); and Article 194(1)(c) TFEU (Energy).

Financial aspects

The SCF constitutes an additional spending line for the EU budget, to be financed largely from the EU's own resources. Its implementation will therefore require revisions to the Own Resources Decision as well as to the 2021-2027 multiannual financial framework (MFF). Both legislative revisions will be proposed by the Commission in due course. Since the SCF is expected to operate until 2032, it will also need to be incorporated into the next MFF covering the 2028-2032 period.

The Commission is proposing that the **SCF should receive €72.2 billion of EU funding (in current prices) over the period of its operation (2025-2032)**. €23.7 billion of funding will fall under the 2021-2027 MFF (for the years 2025, 2026 and 2027), while €48.5 billion of funding will fall under the next MFF (for the years between 2028 and 2032). The SCF will be frontloaded with the highest annual funding in 2026 (€10.7 billion), followed by modest reductions each year until 2032 (€9.15 billion). Given the start of SCF operations and the fact that revenues from ETS credits will only accrue from 2026 onwards, a small amount of EU funding will be allocated in 2025 (€2.5 billion).

In principle, the financial envelope of the SCF should eventually correspond to **25 % of expected revenues from the inclusion of buildings and road transport within the scope of the ETS Directive**. The future revision of the EU's Own Resources Decision will set out exactly how Member States will need to make available the necessary revenues to the EU budget. The ETS is only due to cover the buildings and road transport sector from 2026 onwards, so the limited amount of SCF funding required for 2025 will need to come from other EU revenues. Disbursement of any SCF funds will require a Commission decision to approve the Member State's social climate plan (SCP).

Annex I of the Commission's proposal contains the formula used to calculate the maximum financial allocation from the SCF for each EU Member State. The variables considered are total population; population at risk of poverty living in rural areas; percentage of households at risk of poverty with arrears on their utility bills; gross national income (GNI) per capita, measured in purchasing power standard; overall GHG emissions; and CO_2 emissions from fuel combustion by households.

Annex II of the Commission's proposal lists **the maximum amount that each Member State can receive from the SCF**, based on the formula in Annex I. In absolute terms, the biggest beneficiaries will be Poland (17.6 % of total SCF funding), France (11.2 %), Italy (10.8 %), Spain (10.5 %) and Romania (9.3 %). Yet considering their much smaller population sizes, countries such as Bulgaria (3.9 %), Hungary (4.3 %) and Slovakia (2.4 %) will also benefit quite considerably.

Member State requests for SCF financing will need to be included and justified in the SCP submitted to the Commission. Furthermore, **Member States should finance at least 50 % of the total cost of SCPs from their own resources**, thereby ensuring that national and EU spending priorities are aligned and complementary. To finance their share of the SCPs, Member States should use some of the additional revenues they will receive from ETS credits in the buildings and road transport sectors.

Policy aspects

Article 3 of the proposed SCF regulation requires each Member State to submit a **social climate plan (SCP)** to the Commission, as part of the scheduled updates to their national energy and climate plans (NECPs). NECPs are the main reporting requirement under the Governance of Energy Union Regulation and cover successive 10-year periods (2021 to 2030; 2031 to 2040 and 2041 to 2050). They include crucial mid-term updates to reflect changing goals. As part of this governance process**, Member States will be required to deliver their final SCPs by 30 June 2024** at the latest.

Article 4 sets out the content of the SCPs, which should include concrete measures and investments; milestones and targets; total costs (including the share of national contributions); effective national monitoring and implementation (including measures to counter fraud and corruption); an appropriate consultation process; and accurate data on phenomena such as energy poverty.

Article 5 sets out the principles governing the SCPs. Milestones and targets, and related measures and investments, should be **compatible with EU climate objectives** and cover the following areas (with more specific examples provided in article 6): energy efficiency; building renovations; zero/low emission mobility and transport; GHG emissions reductions; and action to reduce the number of vulnerable households (especially those in energy poverty), vulnerable micro-enterprises, and vulnerable transport users (including in rural and remote areas).

Article 7 specifies that the total costs of SCPs (and therefore any related SCF funding) should not generally include public interventions to manage fossil fuel prices. An exception is made for direct income support schemes, but only where it can be shown that the costs of public intervention are lower than the additional cost to consumers of including buildings and road transport in the ETS.

Article 12 specifies that SCF funding must be additional to support provided by other EU funding programmes. SCF projects may receive other EU funding, so long as this covers different costs. Any SCF support must be additional to (and not simply replace) existing national funding schemes.

Article 15 sets out how the Commission should assess each SCP, while article 16 specifies what the Commission decision (**implementing act**) for each SCP should contain. **Negative assessment in a Commission decision will require the Member State to revise and resubmit their SCP**.

Article 17 allows an approved SCP to be amended on the initiative of the Member State, should the milestones and targets no longer be achievable owing to objective circumstances. More generally, all Member States will have to assess the appropriateness of their existing SCP by 15 March 2027.

Article 18 requires the Commission to enter into an agreement with Member States whose SCPs are approved. Each agreement constitutes an individual legal commitment for the allocated funds. Article 19 sets out the broad rules for payment, suspension or termination of these agreements. **Member States are able to request SCF payments twice per year from the EU budget**.

Article 23 requires the Commission to monitor implementation of the SCF, if necessary through the introduction of **delegated acts** setting out common indicators to report on progress.

Article 24 requires the Commission to produce an **evaluation report** on the implementation and functioning of the SCF by 1 July 2028. This may be accompanied by a proposal to revise the SCF. The Commission must also deliver an independent ex-post evaluation report by the end of 2033.

The new SCF regulation would **enter into force by 30 June 2024**, with the first payments in 2025. However, the Commission makes an explicit commitment (in the explanatory memorandum) that the SCF regulation will enter into force at the same time as the deadline (to be agreed) for transposition of the revised ETS Directive covering the buildings and road transport sectors. This confirms the very direct link between these two legislative proposals in the 'fit for 55' package.

Advisory committees

The European Committee of the Regions (CoR) issued a press release on the 'fit for 55' package where it argued that 'Europe's regions and cities must be recognised within the Social Climate Fund ... as over centralisation can threaten territorial cohesion and the social fairness of the green transition'. The CoR is preparing a joint opinion on the social climate fund and the energy taxation directive (another proposal in the 'fit for 55' package) and will be appointing a rapporteur. The subject is on the agenda of the meeting of the CoR's Commission for Social Policy, Education, Employment, Research and Culture (SEDEC) scheduled for 13 December 2021.

The European Economic and Social Committee (EESC) is preparing an opinion (TEN/759) on the Social Climate Fund, and has appointed Thomas Kattnig (Austria/Group II – Workers) and Alena Mastantuono (Czechia/Group I – employers) as co-rapporteurs. The TEN section (Transport, Energy, Infrastructure and the Information Society) is expected to vote on the draft opinion in November 2021 and the final opinion is scheduled for discussion at the 8-9 December 2021 plenary.

National parliaments

The Commission's proposal was transmitted to national parliaments and they had until 8 November 2021 to submit reasoned opinions on grounds of subsidiarity. The Swedish and the Irish parliaments have submitted reasoned opinions that argue that the Commission's SCF proposal breaches the principle of subsidiarity.

Stakeholder views[1]

The Commission's 'fit for 55 package' received a mixed reaction from stakeholders, with some praising it as an important milestone in tackling climate change, while others felt it lacked ambition for a task of this magnitude. Environmental associations were generally critical of the 'fit for 55' package, but some viewed the SCF as a welcome first step (albeit an insufficient one) towards addressing the high costs of energy transition for ordinary or vulnerable consumers.

Friends of the Earth Europe, an environmental association, sees the SCF as 'recognition of the need to support energy-poor Europeans to access much needed renovations, renewables and transport schemes'. However, it considers the amount of funding available insufficient and outweighed by the more costly energy bills that will emerge from extending the ETS to the buildings and road transport sectors.

E3G, an environmental think-tank, published a policy paper proposing a much stronger social dimension to the 'fit for 55' package. E3G argues for an approach towards consumers that is less transactional than the one taken by the Commission, which focuses entirely on financial compensation. The paper also states that the SCF should contain stricter social and climate conditionalities, that a higher share of funding should be earmarked both to support vulnerable households and to facilitate investment in clean alternatives, and that social climate plans should build on more accurate and comparative data. Furthermore, local governments and citizens should play a stronger role in allocating the SCF.

FEANTSA, the European Federation of National Organisations Working with the Homeless, states that 'the Social Climate Fund is a good start but not nearly enough to compensate for energy renovation costs for all vulnerable households and recurrent higher energy bills of those unable to afford the renovation of their homes'. FEANTSA calls for all ETS revenues from buildings to be earmarked for social purposes, but would prefer not to extend ETS to this sector at all.

Habitat for Humanity International, a housing NGO, welcomes the good intentions behind the SCF but notes that 'many organizations fear that the amount of funding on the table will be insufficient to deliver wide-spread renovations and renewables for energy poor households. Additional fear is that it will also fail to offset the disastrous impact that the new ETS might have on energy bills, especially for low-income Europeans who could see their energy bills skyrocket'.

ETF, the European Transport Workers' Federation, suggested to Politico that the EU should focus more on sustainable transport options than on compensation for consumers via the SCF, because compensating commuters or subsidising electric vehicles will not reduce transport poverty, nor will the SCF increase the number of public transport options available to those concerned.

BEUC, the European Consumer Organisation, sees the SCF as a step in the right direction in terms of mitigating the unfair distributional impacts of the carbon market. However, BEUC maintains that the SCF does not resolve the fundamental flaws in the emerging carbon market and will not trickle down to the most vulnerable consumers, because of the complexity of the compensation system.

Legislative process

The file has been referred to the European Parliament's Committee for Environment, Public Health and Food Safety (ENVI) and Committee of Employment and Social Affairs (EMPL), as joint committees under Rule 58. Esther De Lange (EPP, the Netherlands) was appointed as ENVI rapporteur, while EMPL still has to appoint its rapporteur, and together they will produce a draft joint report. The Committee for Budgets (BUDG) will be an associated committee under Rule 57, and has appointed Margarida Marques (S&D, Portugal) as its rapporteur. The Committees for Economic and Monetary Affairs (ECON); Industry, Research and Energy (ITRE); Transport and Tourism (TRAN) and Regional Development (REGI) will also be providing their opinions to this report.

The file has been discussed in the Council of the EU, which has set up an ad hoc working party on the social climate fund, and met by videoconference on 15 September 2021 and 12 October 2021.

EUROPEAN PARLIAMENT SUPPORTING ANALYSIS

Proceedings of a Workshop on Energy Poverty, Study produced for the ITRE Committee, Policy Department for Economic and Scientific Policy, European Parliament, September 2017.

How to end Energy Poverty? Study of Current EU and Member States instruments, Study produced for the ITRE Committee, Policy Department for Economic and Scientific Policy, European Parliament, October 2015.

OTHER SOURCES

Social Climate Fund. 'Fit for 55 package', Legislative Observatory (OEIL), European Parliament.

ENDNOTES

[1] This section aims to provide a flavour of the debate and is not intended to be an exhaustive account of all different views on the proposal. Additional information can be found in related publications listed under 'European Parliament supporting analysis'.

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