RESCOOP.EU

Regulation (EU) 2023/955 establishing a Social Climate Fund

Introduction

One of the key components of the Fit for 55 legislative package[1] is the extension of the European Emissions Trading System[2] to buildings and road transport (ETS 2). ETS 2 is meant to create an economic incentive to reduce fossil fuel consumption and, thus, greenhouse gas (GHG) emissions. Recognizing the socioeconomic challenges this may bring, especially on those households and businesses already struggling to pay energy bills and participate in the energy transition, the EU established the Social Climate Fund (SCF), designed to mitigate adverse impact on vulnerable communities, small businesses, and transport users. While many concerns remain with regards to the Fund's scope and size, the initiative showcases a new commitment to ringfence resources and provide concrete tools to "leave no one behind" on the road towards net-zero.

By 30 June 2024, Member States need to bring into force the laws, regulations and administrative provisions necessary to transpose the amendments to the Emissions Trading System.[3]

The Regulation[4] establishing the Fund entered into force on 5 June 2023. It is binding and directly applicable in all Member States. To access the Fund, Member States must

[1] More information on the Fit for 55 Package can be found on the official website of the Commission: https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/delivering-european-green-deal/fit-55-delivering-proposals_en

[2] The European Emissions Trading System is a cap-and-trade system that sets a maximum limit on total greenhouse gas emissions allowed by participating entities, permitting them to buy and sell emission allowances as a way to incentivise reductions in their carbon footprint. The point of regulation for ETS 2 will be upstream, at the level of fuel suppliers. It is, however, expected that these firms will pass on most or all of their compliance costs to consumers by raising their fuel prices. Source: EUKI (2023). Policy Report. Putting the ETS2 and Social Climate Fund to work. https://www.euki.de/wp-content/uploads/2023/10/Policy-Report-Putting-the-ETS-2-and-Social-Climate-Fund-to-Work.pdf

[3] Directive (EU) 2023/959 of the European Parliament and of the Council (37) amending Directive 2003/87/EC as regards Chapter IVa of Directive 2003/87/EC

[4] 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, available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=uriserv:OJ.L_.2023.130.01.0001.01.ENG

submit to the Commission a Social Climate Plan (SCP) by 30 June 2025 and will be required to co-finance at least 25 % of the estimated total costs of their Plans.

The SCF is especially relevant for energy communities as it opens new doors for dedicated support towards energy projects that foster social impact. The Regulation highlights the importance of grassroots efforts and local knowledge in driving impactful change, recognising the instrumental role energy communities can play in fulfilling the Fund's goals.

Summary of REScoop.eu Recommendations

1) In its allocation of SCF budget, Member States should **prioritise participatory and empowering measures** over measures that keep vulnerable households in a cycle of dependency on support schemes or overly exposed to commercial, for-profit initiatives. This includes mobilising the Fund to increase accessibility of energy communities for low-income and vulnerable households. In its guidance and evaluation of national SCPs, the EU should highlight and incorporate the wealth of value-driven, citizen- and community-led energy examples and their impact across Europe and steer Member States towards prioritising energy communities as a vehicle to achieve SCF objectives.

2) Given the limited size of the Fund compared to the challenge at hand, Member States should **mobilise both ETS 1 and ETS 2 revenues** to reinforce SCF objectives. At the EU level, the imminent shortfall in green funding requires urgent strategic planning as well as proactive discussions with Member States to identify how NECP funding gaps, which cannot be covered by the SCF, will be addressed.

3) Both Member States and EU policy makers should reinforce the SCF's ambitious provisions on **public consultation and co-creation** in other policy initiatives to tackle persistent gaps between social and climate policies. This involves low-income and vulnerable households to be considered as co-creators of climate and energy policy and not just beneficiaries or recipients.

4) Member States should put in place significant effort to maintain **transparency** of and clearly communicate about the new carbon pricing measures and social compensations.

5) Since vulnerabilities to the energy and climate transition are present in all European countries, we recommend all Member States to submit a **Social Climate Plan**.

Analysis of relevant provisions for energy communities

1. Size and scope

The SCF is narrowly focused on alleviating the regressive impacts of the new carbon pricing under ETS 2, by ensuring that part of the revenues from auctioned allowances is directed towards household, transport users and small businesses most negatively affected.

ETS 2 is agreed to start in 2027, but may be postponed until 2028 in the event of exceptionally high energy prices. 25% of the revenues resulting from the auctioning of allowances under ETS 2 will flow towards the new Social Climate Fund. The Fund will have a total budget of up to EUR 65 billion for the period of 2026-2032, or EUR 54.6 billion if ETS 2 were to be postponed to 2028. 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.

Analysis

There is a lot of discussion on putting a price on carbon, and therefor changing energy prices, as an effective way to get people to change their energy consumption habits.[5] Especially for those households failing or only just able to meet their basic energy needs, such measures may have adverse effects. This is also acknowledged in the REPowerEU Plan.[6] It recognises that 'market-driven savings' may fall short in guaranteeing fairness and solidarity: "*the wealthier may or may not adjust their behavior. Others, specifically the most vulnerable, may instead be forced to take painful measures*".[7] Much of the burden of ETS 2 (including higher prices and unattainable investment decisions) will fall upon individual consumers and households. With over 41 million Europeans already struggling to heat their homes in 2022 and sometimes already paying more for essential goods and services than others (referred to as the 'poverty premium'), this might lead to an exacerbation of inequality, social friction and socioeconomic deprivation.

Given the rather limited size of the SCF and reduced co-financing obligation for Member States (from 50% in the original Commission proposal to 25% in the agreed Regulation), it is likely that the Fund will fall short in buffering the adverse effects of ETS 2 on households. What's more, by 2026, the conclusion of the Recovery and Resilience Fund will create a significant green funding shortfall at the EU level, precisely at a time when carbon pricing's impact broadens. In fact, the European Court of Auditors recognises that the 2021-2027 EU budget leaves a hundreds of billions of euros gap in green funding, if the EU's legally binding climate goals were to be met by 2030. At the same time, the reinstatement of stricter debt and public spending rules under the revised Stability and

[5] Regulatory Assistance Project (RAP) (2020, 18 May). Equity in the Energy Transition: Who Pays and Who Benefits? https://www.raponline.org/knowledge-center/equity-in-energy-transitionwho-pays-who-benefits/

[6] More information on the REPowerEU Package can be found on the official website of the Commission: https://commission.europa.eu/strategy-and-policy/priorities-2019-2024/european-green-deal/repowereu-affordable-secure-and-sustainable-energy-europe_en

[7] COM(2022) 240 final, Chapter 2

Growth Pact is already resulting in certain Member States cutting green and social spending for the coming years. It is worth remembering that financial co-benefits of frontloaded climate action far outweigh costs. The EU economy could benefit to the tune of 1 trillion euros if it follows a 1.5°C aligned 2030 climate strategy, highlighting the shortsightedness of reducing public green investment.

Despite the importance of initiatives like the SCF, on their own they will not suffice to meet the investment requirements for reaching climate neutrality by mid-century, let alone buffer social and political challenges that will increasingly occur as climate and energy policies become more extensive.

Recommendations for national and EU action

National recommendations

- With the challenge at hand, it is crucial that Member States allocate the budget as efficiently and effectively as possible, thereby focusing on investments that ignite lasting change, and structurally tackle climate and energy injustices. The Fund's effectiveness to trigger impact in this regard will largely depend on Member States additional efforts.

- There should be a complete exclusion of fossil fuel investments through the Social Climate Fund. With the risk of creating lock-ins into outdated systems, such investments would run counter to the objectives of ETS 2, the Fund itself and overall climate and long-term just transition objectives.

- Although ETS 2 mentions broad criteria to allocate the remaining ETS auctioning revenues to climate and energy initiatives, we recommend Member States to use those revenues to reinforce SCF objectives, as well as to mobilise ETS 1 in this regard.

- Member States should provide greater detail regarding funding sources for the investments foreseen in their revised National Energy and Climate Plans (NECPs).[8]

EU-level recommendations

- The SCF constitutes merely one component among various policies addressing climate, energy, and social development. Yet, with the upcoming shortfall in green funding, the strategic fit of the SCF becomes elusive. To achieve a just transition towards climate neutrality by 2050, there is an urgent need for strategic planning to bridge the green funding gap and sustain momentum for the European Green Deal. The EU should engage in proactive discussions with Member States to identify how NECP funding gaps, which cannot be covered by the SCF, will be addressed. This could include another round of joint EU borrowing to promote the shared goals of a green, social and digital transition.

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[8] NECPs are Member States' blueprints for meeting EU energy and climate goals for 2030, covering everything from renewable energy to efficiency. SCPs are specifically focused on cushioning the socio-economic impacts of ETS 2 first and foremost.

- There is a pressing need for more ambitious efforts to connect social and climate policies. This will require low-income and vulnerable households to be considered as co-creators of climate and energy policy and not just beneficiaries or recipients. The SCF is ambitious in its provisions on public consultation and co-creation of measures and indicators. We recommend such approaches to find their way into other policy initiatives.

2. Energy Communities as an eligible measure or investment

In the Recitals 10 and 25 of the Regulation, the SCF recognises the importance of renewable and citizen energy communities, along with peer-to-peer renewable energy trading, as crucial for reducing EU's import dependency and emissions while enhancing the EU's resilience. These initiatives are seen as vital for promoting energy efficiency, supporting renewable energy adoption among vulnerable households and micro-enterprises, and addressing energy poverty through bottom-up approaches. It is recognised that dedicated funding will be needed to harness this role and make citizen-led community initiatives more accessible for vulnerable groups. The recitals, along with Article 8, thus urge Member States to promote the role of energy communities and regard them as eligible beneficiaries of the Fund.

Analysis

The inclusion of investments in energy communities as an eligible measure under the SCF is an important achievement. It highlights and recognises energy communities' potential as vehicles for empowerment and a just transition. There are, however, two main shortcomings. Firstly, 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. Second, in the actual articles, energy communities' multidimensional role, as recognised in the recitals and officially established in other revised EU Directives, is not sufficiently reflected.

Recommendations for national and EU action

National recommendations

- The SCF should be leveraged to actively engage and de-risk vulnerable and low-income households' participation in energy communities and the energy transition as a whole. Such participatory measures, raising opportunities for co-ownership and democratic decision-making, should be prioritised over measures that keep vulnerable households in a disempowering cycle of dependency on support schemes or overly exposed to commercial, for-profit initiatives.

- Managing Authorities should work closely with national community energy stakeholders, and develop financing programs that fit their particular challenges to engage households in vulnerable situations. As a more structural measure, energy communities should be actively involved in multi-stakeholder dialogues and consultations in the framework of the design, implementation and monitoring of the Social Climate Plans from the very beginning.

- Beyond open calls for grants, the SCF should foresee additional financing instruments with greater replicability and potential impact, such as pay as you save programs, and guarantees to back up low/zero interest loans for deep housing renovations.

- Energy communities can play a multifaceted role in achieving the SCF's objectives, beyond increasing accessibility of renewable energy services. Member States should mobilise energy communities' strengths with regards to education and awareness raising, building social cohesion, participatory governance and engagement strategies within and beyond the context of the Fund.

EU-level recommendations

- A clear distinction between energy communities as an organisational concept and other activity-based concepts should be consistently upheld across all EU policy files, guidance and communications. Conflation of such concepts creates confusion and hampers their development and impact across the EU. It should be made clear that energy sharing activities facilitated by large commercial third parties do not come with the same levels of ownership and participation as those performed by citizens themselves through energy communities. In its guidance and evaluation of national SCPs, the EU should steer Member States towards prioritising the latter and making sure there is a level playing field for energy communities to be able to participate in such activities without discrimination.

3. Social Climate Plans

Up to 37.5% of the plans' total estimated costs may be allocated towards temporary direct income support to mitigate the immediate effects of ETS 2, with a gradual decrease in support over time. The majority of the funding, however, is designated for long-term investments to improve the energy efficiency of buildings, decarbonize heating and cooling systems, and enhance access to renewable energy services and low-emission transport and mobility solutions.

Member States bear the responsibility of tailoring their SCPs to the specific needs of their regions and communities, ensuring the measures are in line with their National Energy and Climate Plans. These national plans should detail targeted measures and investments for decarbonisation and their estimated costs and impact, set clear objectives and timelines, indicate criteria for identifying and supporting vulnerable households and transport users and outline strategies for involving stakeholders in the Plan's development and implementation. The European Commission will support this process by offering guidance, sharing best practices, and facilitating stakeholder consultation to ensure the Plans are effective, cost-efficient, and have broad support. This will be done through the 2024 Flagship Technical Support Project.[9]

[9] More information on the Flagship Technical Support Project can be found on the website of the European Commission: https://reform-support.ec.europa.eu/tsi-2024-flagship-support-social-climate-fund-and-revised-eu-emissions-trading-system_en

The Social Climate Fund Regulation provides Member States with a template for the Plan in Annex V.

Analysis

The successful development and implementation of the SCF as well as the social and political acceptance of ETS 2 will largely depend on the extent to which Member States' plans are rooted in the reality on the ground and are able to target the right people as final beneficiaries. This is rightfully reflected in the Regulation by including an obligation on public consultation and the establishment of the first official EU definitions on energy and transport poverty. However, these definitions are descriptive and the Regulation does not specify how to implement effective targeting of vulnerable groups. Member States are left with the requirement of developing strategies and indicators within their SCPs. This involves identifying eligible groups, locating them, and determining the best ways to provide support, balancing the need for accuracy with practical concerns like data availability and administrative feasibility.[10] To do this, Member States must integrate national and local-level data, including socio-economic factors and energy usage, to craft targeted measures that accurately address the needs of those most at risk of energy poverty. The process demands flexibility, collaboration with local authorities, and further guidance from the European Commission to ensure the successful implementation of the SCF, tailored to the unique circumstances of each Member State.

The provision of an SCP template provides clarity on how the Fund will be governed, enhancing clarity for stakeholders such as energy communities about opportunities to get involved in the decision making process.

Recommendations for national and EU action

National recommendations

- To effectively target SCF measures and investments, Member States should leverage existing resources and good practices from local to EU levels, particularly utilising municipal data, local stakeholders experiences and initiatives like those from the Energy Poverty Advisory Hub and the Covenant of Mayors. Many EU countries already have established/mature, or under-development community energy federations. These networks have already developed creative, practical tools to tackle energy poverty, and should, thus, be meaningfully consulted and included in the design of the SCPs.

- We recommend that Member States not only abide by the obligation in Article 5 to prepare, implement and review their SCPs in close consultation with stakeholders, but also put in place significant effort to maintain transparency of and clearly communicate about the new carbon pricing measures and social compensations. The risk remains that redistributive measures will feel unfair and, thus, create adversity towards climate policy. This can only be mitigated by clear

[10] For an example of the impacts of using different data and indicators for energy poverty in the context of the Social Climate Fund and ETS2, see: EUKI (2023). Policy Report. Putting the ETS2 and Social Climate Fund to work. https://www.euki.de/wp-content/uploads/2023/10/Policy-Report-Putting-the-ETS-2-and-Social-Climate-Fund-to-Work.pdf

communication and meaningful social participation and democratic decision-making.

- Since vulnerabilities to the energy and climate transition are present in all European countries, we recommend all Member States to submit a SCP.

EU-level recommendations

- In guiding Member States on crafting and implementing their SCPs, the Commission should highlight and incorporate the wealth of value-driven, citizen- and community-led energy examples and their impact across Europe, including concrete ways on how Member States can strengthen the social impact of such initiatives through the SCF. The Horizon2020 project CEES[11] provides concrete examples of energy communities' efforts to increase energy justice, and points out current barriers and potential enablers for such examples to scale up and spread across the EU.

[11] More information about the Horizon2020 CEES project can be found on the project website: https://www.energysolidarity.eu/