

Designing a Social Climate Fund true to its name

The Social Climate Fund (SCF or the Fund) is considered a promising tool to fill the existing gap for financing structural and proactive solutions for climate and energy injustices,¹ which now more than ever will prove crucial to strengthen the EU's resilience for the future.

However, the Commission's proposal reduced the Fund to a predominantly reactive instrument, aimed at mitigating the distributional impact of an extension of the Emission Trading System to buildings and Transport (ETS 2). ETS 2 is meant to create an economic incentive to reduce fossil fuel consumption and, thus, greenhouse gas (GHG) emissions. Due to low-demand elasticity of householder's energy use for heating, cooling and transportation, considerable debate exists around the effect of using price mechanisms to provoke behaviour change.² This is also acknowledged in the REPowerEU Plan. It recognises that 'market-driven savings' may fall short in guaranteeing fairness and solidarity: "the wealthier may or may not adjust their behaviour. Others, specifically the most vulnerable, may instead be forced to take painful measures."³

Indeed, as pointed out by the Regulatory Assistance Project (RAP), barriers especially exist for low-income households, as they lack resources to invest in energy efficiency and renewable energy technologies. Pushing for behavioural change, without supportive programmes to tackle the root causes of energy poverty, might lead to unhealthy living conditions and a reduction in the quality of life.⁴ The SCF, as proposed by the Commission, will not be able to buffer the extension's social impact, let alone be a structural tool.

This structural inequity necessitates that the SCF is capable of delivering on its objectives. In itself, the SCF has significant potential to serve as a cornerstone of a just energy transition, ensuring vulnerable social groups are addressed. However, in order for

¹ Kneebone (2021, 21 July). Fit for 55: EU rolls out largest ever legislative package in pursuit of climate goals. <https://fsr.eui.eu/fit-for-55-eu-rolls-out-largest-ever-legislative-package-in-pursuit-of-climate-goals/>.

² 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-transition-who-pays-who-benefits/>.

³ (COM(2022) 240 final, Chapter 2).

⁴ Regulatory Assistance Project (RAP) (2020, 18 May). Equity in the Energy Transition: Who Pays and Who Benefits?

this potential to be realised, the inter-institutional negotiations between the Parliament and the Council need to result in:

- a more substantial and impactful scope and size for the SCF, delinking the ETS 2 as a prerequisite for the creation of an SCF;
- targeted support for low-income and vulnerable households and their empowerment;
- acknowledgment and support for the role renewable and citizen energy communities can play in achieving the objectives of this regulation.

The size and scope of the fund: delinking the SCF from ETS 2

While we welcome the weakened link between the SCF and ETS 2 in the Parliament's negotiating position, the Council's general approach still holds too many risks for low-income and vulnerable households. Overall, though, improvement is needed for the Fund to fulfil its potential as a transformative instrument.

This aspect should be retained:

- Timing – the Parliament suggests to run the Fund for eight years from 2024 onwards, one year sooner than the Commission's proposal. This means there is more time to mitigate the impact of a carbon price on households, who would be excluded from ETS 2 until 2029. It also means that the submission of the Social Climate Plans (SCPs) could be coupled to the Member States' National Energy and Climate Plans (NECPs) updates, which could strengthen consistency between priorities. The Council, on the other hand, has pushed back the launch of the Fund to 2027. In light of the current crisis and its impact on households, 2027 is a lifetime away. We need a strong SCF sooner rather than later.

These areas need improvement:

- Sufficiency – neither the Parliament, nor the Council put forward a proposal that makes the SCF substantial enough to both compensate for a carbon price on buildings, transport and investments in structural solutions for energy vulnerability. To make the Fund less dependent on the ETS 2, increase its size and ensure its sustainability over time, other sources of funding need to be thoroughly explored. For instance, for the duration of the current energy price crisis, the SCF could be frontloaded by the Regulation on an emergency intervention to address high energy prices (EU 2022/1854).
- Strategic fit – overall, more clarity is needed on how the SCF will fit into a holistic strategy to address the distributional impact of the climate and energy transition. 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 Parliament has taken important steps in this regard, but more effort is needed.

For and with the right people

If the energy price crisis taught us anything so far is that many people feel disempowered by the way our energy system and the politics surrounding it are currently organised. The SCF should aim to empower citizens to participate in the energy transition. This objective should be coupled with concrete provisions that support active participation in the development and implementation of national actions supported by the Fund. A strong social dialogue is necessary to ensure that the content of the SCPs is tailored to local needs and delivers for those most vulnerable.

These aspects should be retained:

- Inclusive governance - the Parliament's negotiating position shows promising progress on inclusive governance for the Fund in amendments to Article 4(1)(i) and Article 4(1)(j), requiring Member States to include in their SCPs a summary of the consultation process with local and regional level authorities, economic and social partners and relevant civil society organisations for the preparation, monitoring and, where available, the implementation of the plans. Member States are also required to specify which role different stakeholders played in each of these areas. The amendments to Article 4(1)(j) in this regard additionally refer to Article 8 of Regulation (EU) 2021/1060, thereby further strengthening partnerships and multilevel governance;
- SCP templates - both the Parliament and the Council empower the Commission to supplement the SCF regulation with a template based on which Member States are to prepare their SCPs. A template can provide clarity on how the Fund will be governed, enhancing certainty for stakeholders about opportunities to get involved in the decision making and topics to provide input.

These areas need improvement:

- Citizen empowerment - empowerment and participation of low-income and vulnerable households in the energy transition should be a key objective of the Fund in order for it to become an impactful instrument. This should be reflected in an amendment to Article 1 of the SCF Regulation;
- Outreach strategies - while this is implied by the Parliament amendment to article 4 of the SCF regulation which refers to Article 8 of Regulation (EU) 2021/1060, Member States should be particularly obliged to provide details on how outreach was conducted, and how the consultation process was adapted

to facilitate participation of those most affected by the distributional impacts of the green transition and of local actors working on the ground, taking into account common challenges such as time constraints, lack of digital skills, lack of access to digital tools, language barriers, mobility poverty and so on;

- Social dialogues - the SCF should be part of a broader European strategy to ensure vulnerable groups are shielded from the economic impacts of the energy transition. Member States should be obliged to establish a multilevel dialogue on distributional impacts of the energy transition. Such dialogues should contribute to the development of employment, social and distributional impact assessments as part of climate and energy policy. These dialogues may be integrated within Member States' multilevel climate and energy dialogues pursuant to Article 11 of EU Regulation 2018/1999.

Acknowledgement of energy communities' role in driving a just energy transition

Energy communities show great potential as mechanisms for participative and collective decision-making, problem solving and action. They create social cohesion and spaces to educate and train people on issues around energy, climate and democracy, triggering behavioural change and energy savings through a deeper and more conscious involvement within the energy system. As such, they have the potential to build meaningful approaches to citizen empowerment that go beyond the creation of individual capabilities. This enables collective empowerment, which is necessary to tackle systemic inequalities.⁵

If we want to make these benefits accessible to people from all walks of life and scale up broader equitable participation in the energy transition, the EU and national governments should provide support through grants, procurement, incentives for vulnerable consumer groups, and dedicated measures to the support schemes for renewable energy communities that want to focus on energy poverty as a priority. The SCF can strengthen accessibility of energy communities for energy poor and vulnerable households, while the latter can help achieve several objectives put forward in the proposal.

This aspect should be retained:

- the acknowledgement of energy communities' social role in Recital 19(a) (new) of the EU Parliaments negotiating position. It recognises RECs and CECs potential to help achieve the objectives of the SCF via bottom-up approaches initiated by citizens. Encouraging Member States to promote energy

⁵ Hanke & Lowitzsch (2020). Empowering Vulnerable Consumers to Join Renewable Energy Communities—Towards an Inclusive Design of the Clean Energy Package.

communities' role, the Parliament concretely positions them as eligible beneficiaries of the Fund.

These areas need improvement:

- Coherence - while the Parliament included a reference to citizen energy communities' social role in Article 6, various amendments from the Parliament conflate energy communities as technical or activity-based concepts. To ensure clarity and coherence around the added value such initiatives bring towards delivering the objectives of the SCF, references framing energy communities as activity-based concepts should be deleted;
- support for initiatives by renewable energy communities and citizen energy communities towards energy poverty alleviation, and promoting and facilitating the participation of vulnerable households and vulnerable transport users in energy communities should be included in Article 6.