



BRIEFING  
PAPER  
#102

# **SOCIAL CLIMATE FUND: A MAJOR STEP FORWARD IN THE DELIVERY OF A JUST TRANSITION**

In 2019, it was estimated that over 50 million Europeans live in energy poverty and struggle to keep their homes adequately warm or cool, pay their utility bills on time and live in healthy spaces. As a result of the economic hardships caused by the Covid-19 pandemic, the rising inflation and the current oil and gas crisis, which was recently exacerbated by uncertainties over the EU's future energy supplies due to the war in Ukraine, the number of Europeans living in energy poverty has grown exponentially and socioeconomic inequalities have worsened.

In mid-2021, the European Commission proposed the creation of the Social Climate Fund to cushion the social costs of the clean energy transition. This initiative marks an evolution in the Commission's view of a "Just Transition": from "leaving no one behind" in the regions and sectors that depend on fossil fuels or carbon-intensive processes, mainly through the Just Transition Mechanism and Fund, to helping those suffering from energy poverty all across Europe.

This briefing paper sets out the main features of the Commission's proposal for a Social Climate Fund and provides SOLIDAR's recommendations on the scope and governance of this new, hopefully soon-to-be-born funding source.





## INTRODUCTION

In July 2021, the European Commission (EC) adopted a first **Fit for 55 package**<sup>1</sup> under the European Green Deal (EDG), the European Union's (EU) strategy to make Europe climate-neutral by 2050. This package contained 13 legislative proposals aiming to revise the climate and energy framework of the EU to ultimately reach the Union's objective of reducing emissions by at least 55% by 2030 – in line with the targets set in the European Climate Law.<sup>2</sup> Out of the 13 proposals, 8 are revisions of existing legislation and 5 are brand new initiatives.

In the Communication accompanying the July Fit for 55 package, the EC recognised that “the transition towards climate neutrality can be a unique opportunity to reduce systemic inequality” and set the objective of delivering a socially fair transition by “tackling inequality and energy poverty through climate action”.<sup>3</sup> As part of the package, the EC thus proposed a regulation establishing a **Social Climate Fund** (SCF or Fund).<sup>4</sup> The main aim of this new Fund is to provide support for citizens in EU Member States should climate measures lead to higher energy bills or to other unfair impacts on people in vulnerable situations. At the time of writing, the EC's proposal is undergoing the ordinary legislative procedure and is in the hands of the European Parliament and the Council of the EU.

The outbreak of the war in Ukraine in February 2022 has shed a light on Europe's energy dependence

on autocratic regimes and has sparked debates on adjusting the EU's energy strategy to the new geopolitical situation. The SCF, which was devised at a time preceding this conflict, is one of the initiatives that now require a deep rethink. This represents an opportunity to accelerate the green transition and build a more ambitious, effective and transformative Fund.

## SOCIAL CLIMATE FUND AND EMISSIONS TRADING SYSTEM

The SCF is closely interlinked with another proposal under the Fit for 55: the revision of the **EU Emissions Trading System** (ETS).<sup>5</sup> The ETS is a cornerstone of the EU's policy to combat climate change, and its functioning can be summed up as follows. Firstly, the EU sets a limit on the overall volume of greenhouse gas (GHG) that the companies regulated by the ETS (airlines, power stations and energy-intensive industries such as oil refineries, steelworks, and producers of iron, aluminium, cement, paper, and glass) are allowed to emit. Then, the ETS allocates carbon allowances (or “credits”) totalling this amount. Companies in the sectors and geographical areas covered by the ETS must acquire carbon allowances. Then, each year, they must “pay back” enough allowances to account for their GHG emissions. Those that do not comply receive heavy penalties. Companies that invest in environmentally friendly technologies and, as a result, reduce their emissions, must surrender less carbon allowances. A company can also keep the spare carbon allowances for future use or trade its

<sup>1</sup> European Commission (2021). *European Green Deal: Commission proposes transformation of EU economy and society to meet climate ambitions*: [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_21\\_3541](https://ec.europa.eu/commission/presscorner/detail/en/IP_21_3541)

<sup>2</sup> European Commission (2021). *European Climate Law*: [https://ec.europa.eu/clima/eu-action/european-green-deal/european-climate-law\\_en](https://ec.europa.eu/clima/eu-action/european-green-deal/european-climate-law_en)

<sup>3</sup> European Commission (2021). *'Fit for 55': delivering the EU's 2030 Climate Target on the way to climate neutrality* COM/2021/550 final: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021DC0550>

<sup>4</sup> European Commission (2021). *Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing a Social Climate Fund* COM/2021/568 final: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0568>

<sup>5</sup> European Commission (2021). *Questions and Answers - Emissions Trading – Putting a Price on carbon*: [https://ec.europa.eu/commission/presscorner/detail/en/qanda\\_21\\_3542](https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_3542)



“credits” with companies within the same industry that are short of allowances. As the GHG limit set by the EU decreases annually to meet the emissions reduction target, the **market price for carbon** allowances increases, which makes it economically attractive for industries and airlines to invest in emissions reduction technologies. In conclusion, this system rewards low-emitters and increases costs for polluters.

In July 2021, the EC proposed to extend the ETS system to the maritime sector and to introduce a new ETS for **buildings and road transport** from 2026 (called ETS 2 or ETS-BRT). However, the EC fears that the inclusion of GHG emissions from buildings and road transport into the scope of ETS, as well as the introduction of other climate policies, will have considerable social impacts, such as increased costs for **vulnerable consumers**. The EC’s proposal for the SCF was developed against this backdrop. The Fund’s main objective is to counter and mitigate such additional expenses and thus help people meet the rising costs of the energy transition. It aims to support **those in vulnerable situations**, specifically households in energy poverty, micro-enterprises and transport users in remote or rural areas and without access to public transport, whose “wallets” would be heavily affected by the increases in energy price potentially caused by ETS 2/ETS-BRT during the initial phase of the transition.

The SCF is composed of financial resources. The EC proposed that the SCF be fully funded by revenues from ETS 2/ETS-BRT and that its total financial volume correspond to 25% of the expected revenues, which amounts to €72.2 billion in current

prices for the EU budget period of 2025-2032. Until ETS 2/ETS-BRT comes into force in 2026, the SCF is to be primarily frontloaded by the EU Multiannual Financial Framework (MFF), the EU’s 7-year budget. Moreover, EU Member States are expected to match the EU’s own resources and may use 25% of their expected revenues from ETS 2/ETS-BRT for this purpose. As a result, the SCF would mobilise a total of **€144.4 billion in the period of 2025-2032**. Funding under the SCF should be used for both **compensation** – that is, temporary direct payments to citizens to help them pay energy bills – and **investment programmes** that would finance climate measures in the building and transport sectors, such as increasing the energy efficiency of buildings, using energy from renewable sources to heat and cool homes and improving the access to zero – and low – emission mobility and transport.

To receive funds from the SCF, EU Member States must draft and submit Social Climate Plans by June 2024. These plans shall outline the measures and investments that Member States plan to implement to support their most affected citizens or those at risk of energy or mobility poverty. The Plans will be assessed by the EC and the maximum financial allocation received by each Member State from the SCF will be determined by a combination of indicators that reflect energy poverty, mobility poverty, Gross National Income (GNI) per capita and average emissions. Based on early calculations, Poland, Bulgaria and Romania would be among the countries receiving the highest shares.<sup>6</sup>

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<sup>6</sup> Institute for European Environmental Policy (2022). *Can Polluter Pays policies be progressive?*: [https://ieep.eu/uploads/articles/attachments/7a9ac44a-fa75-4caf-9db5-76d55110217c/Can%20polluter%20pays%20policies%20in%20buildings%20and%20transport%20be%20progressive\\_IEEP%20\(2022\).pdf?v=63813977582](https://ieep.eu/uploads/articles/attachments/7a9ac44a-fa75-4caf-9db5-76d55110217c/Can%20polluter%20pays%20policies%20in%20buildings%20and%20transport%20be%20progressive_IEEP%20(2022).pdf?v=63813977582)



## SOLIDAR'S POSITION

SOLIDAR views the SCF as a **major step forward** in ensuring a socially Just Transition in Europe, as it enacts the introduction of a new dimension of Just Transition into the EGD: directly addressing issues of income inequality and poverty through climate and environmental action.<sup>7</sup> The combat against energy and mobility poverty plays a fundamental role in reducing socioeconomic inequalities across the continent and building a strong social Europe that is fair and inclusive. For this reason, SOLIDAR welcomes this new initiative, which is at the crossroads of the **European Pillar of Social Rights (EPSR) and the EGD** and contributes to realizing Principles 19 (right to adequate shelter) and 20 (access to essential services) of the EPSR.

Climate and environmental policies can perpetuate or exacerbate existing socioeconomic inequalities, if their social impact is not taken into account. The inclusion of GHG emissions from buildings and road transport into the scope of the ETS system would no doubt have direct effects on Europe's population. SOLIDAR strongly **supports the creation of a fund aimed at helping people** in vulnerable situations pay their energy bills and transition to clean heating and mobility, regardless of the introduction (or not) of ETS 2/ETS-BRT. At the time of writing, certain Member State governments oppose the idea of creating the SCF based on budgetary concerns or claims of subsidiarity. SOLIDAR believes that the EC's proposal should be improved, rather than suppressed, especially in light of the long-term social and economic costs of inaction.

SOLIDAR proposes a non-exhaustive **set of recommendations** on the SCF to the EU and its Member States:

**1. The purpose of the SCF should be much more ambitious.** Rather than merely aiming at mitigating the social impact of extending emissions trading to road transport and buildings or other similar climate policies, the Fund's primary objective should be to **drive a socially just decarbonization in the long term.** Providing temporary and direct income support to vulnerable consumers is important, but measures such as social tariffs, energy cost subsidies and energy vouchers only respond to the cost of energy and do not tackle the structural causes of energy poverty. Moreover, they remunerate the providers of the current (largely fossil fuel based) energy mix. Instead, **the Fund should usher in bold and transformative action for systemic change.** The majority of the financial envelope should be used for measures such as deep house renovation projects, boosting renewables to benefit households, setting up photovoltaic, solar-thermal or other renewable installations, sustainable mobility like cycling infrastructure and public transport, or other energy efficiency and sufficiency improvements.

**2. The SCF should primarily target those who are most impacted by the costs of the transition,** such as people who are unemployed, with low incomes, in energy and mobility poverty, people with disabilities or living in rural and remote areas. Injustices such as energy and mobility poverty are structural and exist independently of climate policies. Although almost everyone across Europe is currently feeling the effects of the high energy prices, giving out a "climate bonus for all" would not tackle the root causes of energy poverty as effectively as targeted investments or taxation measures would. Designed

<sup>7</sup> SOLIDAR (2020). Briefing Paper 100: The European Green Deal: <https://www.solidar.org/en/publications/briefing-paper-100-european-green-deal>



rightly, the SCF can help to **tackle socioeconomic inequalities and remove barriers** that exclude vulnerable groups from broad investment measures and investment-related decision making. This way, the Fund would become a powerful instrument to meet the third headline target of the EPSR's Action Plan, which aims at reducing the number of people at risk of poverty or social exclusion by at least 15 million by 2030.<sup>8</sup>

**3. The SCF should help meet national and European climate targets.** Neither the Fund, nor other EU resources, should be used to finance fossil fuels projects, including investments that contribute to technological and infrastructural lock-in of fossil fuel use, such as extensions of pipelines. The ongoing energy price crisis, which is driven by the pricing volatility of fossil fuels, and the war in Ukraine are showing us the importance and urgency of accelerating the transition to **renewable energy**. Doing so would increase Europe's energy autonomy from autocratic leaders and shield EU consumers from future fossil fuel price crises.

**4.** The drawing up of national Social Climate Plans and the eventual implementation and monitoring of the Fund should ensure strong **social and civil dialogue**, as well as bottom-up governance. **Participation of civil society, trade unions and local communities** must be meaningful and trade unions and representative civil society organisations should be involved in determining how funds from the SCF are spent. The adoption of participatory initiatives would not only raise greater awareness among citizens on the benefits of climate action, but also empower marginalised groups to become more involved in local governance and democratic decision-making processes.

**5.** For the SCF to drive a socially fair decarbonization in the long term, it is fundamental to **allocate sufficient financial resources for it**. Assessments of the annual needs for public and overall investment needs in housing and transport suggest that the proposed budget of €72.2 billion for 8 years falls critically short of making a significant contribution to the social and climate objectives of the EGD.<sup>9</sup> Moreover, funding under the SCF should come from **sustainable sources of revenue**, regardless of whether ETS 2/ ETS-BRT will see the light of day or not. These could include, for instance, the remaining resources from the NextGenerationEU recovery fund, relocating ETS revenues, or proposing a new EU solidarity instrument.

In light of the SCF's uncertain future, SOLIDAR calls on all co-legislators, as well as allies and partners, to work together to ensure the set-up of an ambitious, impactful and empowering Social Climate Fund.

<sup>8</sup> European Commission (2021). *The European Pillar of Social Rights Action Plan*: [https://ec.europa.eu/info/strategy/priorities-2019-2024/economy-works-people/jobs-growth-and-investment/european-pillar-social-rights/european-pillar-social-rights-action-plan\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/economy-works-people/jobs-growth-and-investment/european-pillar-social-rights/european-pillar-social-rights-action-plan_en)

<sup>9</sup> FEPS, Wildauer et al. (2020). *How to boost the European Green Deal's scale and ambition*: [https://www.feeps-europe.eu/attachments/publications/green%20deal%20ambition%20-%20web%20-18-06\\_1.pdf](https://www.feeps-europe.eu/attachments/publications/green%20deal%20ambition%20-%20web%20-18-06_1.pdf)



## RECOMMENDED READINGS

SOLIDAR, Briefing Paper 100: The European Green Deal:

<https://www.solidar.org/en/publications/briefing-paper-100-european-green-deal>

European Alliance for a Just Transition, Joint Statement on the Social Climate Fund:

<https://alliancejusttransition.eu/wp-content/uploads/2022/03/Joint-Statement-on-Social-Climate-Fund-March-2022.pdf>

ETUC, Position on the creation of a second ETS on road transport and building and of a new Social Climate Fund:

<https://www.etuc.org/en/document/etuc-position-creation-second-ets-road-transport-and-building-and-new-social-climate-fund#:~:text=In%20order%20to%20answer%20those,for%20road%20transport%20and%20building>

Germanwatch, Criteria for an effective and socially just EU ETS 2:

[https://www.germanwatch.org/sites/default/files/criteria\\_for\\_an\\_effective\\_and\\_socially\\_just\\_eu\\_ets\\_2.pdf](https://www.germanwatch.org/sites/default/files/criteria_for_an_effective_and_socially_just_eu_ets_2.pdf)

ICLEI Europe, response to the EU's Social Climate Fund as part of the Fit-for-55 consultation process:

<https://iclei-europe.org/publications-tools/?c=search&uid=TmnQFALF>

Jacques Delors Institute, A Social Climate Fund for a Fair Energy Transition:

<https://institutdelors.eu/en/publications/a-social-climate-fund/>

Jacques Delors Institute, An inclusive Social Climate Fund for the just transition:

[https://institutdelors.eu/wp-content/uploads/2022/01/PB\\_220125\\_An-inclusive-Social-Climate-Fund-for-the-just-transition\\_Defard\\_Thalberg.pdf](https://institutdelors.eu/wp-content/uploads/2022/01/PB_220125_An-inclusive-Social-Climate-Fund-for-the-just-transition_Defard_Thalberg.pdf)

WWF European Policy Office, The EU Social Climate Fund: the potential to deliver more:

<https://www.wwfmmi.org/?5443966/The-EU-Social-Climate-Fund-the-potential-to-deliver-more>

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SOLIDAR is a European network of membership based Civil Society Organisations who gather several millions of citizens throughout Europe and worldwide. SOLIDAR voices the values of its member organisations to the EU and international institutions across three main policy sectors: social affairs, lifelong learning and international cooperation.



Co-funded by the European Union- By the EaSI strand of the ESF+ programme. Views and opinions expressed are however those of the author(s) only and do not necessarily reflect those of the European Union. Neither the European Union nor the granting authority can be held responsible for them.