BRIEFING

EU Legislation in Progress

European Parliament

Social climate fund: 'Fit for 55' package

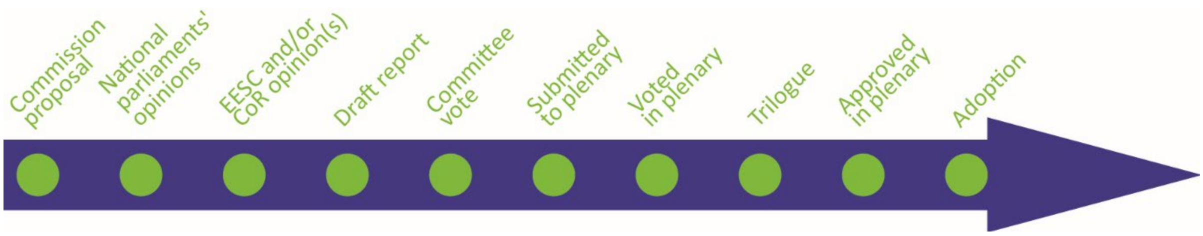
OVERVIEW

On 14 July 2021, the European Commission adopted the 'fit for 55' package of legislative proposals to meet the new EU objective of a minimum 55 % reduction in greenhouse gas (GHG) emissions by 2030. The 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 counter the additional costs they may face when the EU Emissions Trading System (ETS) Directive is revised to cover these two sectors. The SCF should provide up to €65 billion in EU funding over the 2026-2032 period, mainly through ETS credits in the buildings and road transport sectors. Member States are expected to co-finance 25% of the total estimated cost of their social plans. The fund can be used for temporary direct income support, as well as investments in energy efficiency-related building renovations and sustainable transport.

Trilogue negotiations concluded on 18 December 2022 with a provisional agreement, which was then formally adopted by the Parliament and the Council in April 2023. The adopted text was published in the Official Journal of the EU on 16 May 2023 and entered into force on 5 June 2023.

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')
Procedure completed.	Regulation (EU) 2023/955 OJ L 130, 16.5.2023, pp. 1–51	



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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 13 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, and as part of 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 were adopted by the Commission on 22 December 2021 (see textbox below). Given that the SCF is expected to operate until 2032, it will also ultimately need to be incorporated into the next MFF (2028-2035) in order to cover the years of its operation between 2028 and 2032.

The Commission has proposed 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). Since 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.

Financing of the Social Climate Fund

During the negotiations on the 2021-2027 multiannual financial framework (MFF), the European recovery instrument Next Generation EU (NGEU) and own resources (OR), the European Parliament defended a proper reform of the EU's own resources system as a necessary pre-condition for giving its consent to the agreement of the MFF. It reiterated the need for introduction of new own resources, with the aim of covering at least the repayment costs of NGEU. In November 2020, in the political compromise reached on the MFF, NGEU and OR, Parliament secured the inclusion in the interinstitutional agreement on budgetary matters between Parliament, Council and Commission, of a roadmap for the **introduction of new own resources by 2026**. These will be used to repay, from the general budget of the Union, the grant component of NGEU and its borrowing costs, and should be aligned with and in support of the EU's policies and objectives, such as the fight against climate change.

The Social Climate Fund (SCF) is a new initiative proposed to be primarily financed by EU own resources, and therefore requires therefore two adjustments to the Union's budgetary framework. These were presented by the Commission on 22 December 2021 in the own resources package (but neither of these two proposals has been adopted):

First, an amendment to the Own Resources Decision to include an ETS own resource. Member States will have to make available to the EU budget 25 % of the revenues generated from the auctioned allowances, as well as of the allowances that are not auctioned, under the broadened emissions trading system. To ensure fair contributions, the Commission also proposes an adjustment mechanism until 2030, by establishing an upper and lower limit to the contributions depending on the Member States' gross national income. The Commission estimates ETS revenues at around €9 billion per year over the 2023-2030 period. According to the interinstitutional agreement, the Council should deliberate on the proposals for new own resources by 1 July 2022 at the latest, with the aim of introducing them by 1 January 2023.

Second, on the expenditure side, an amendment to the 2021-2027 MFF to increase by €23.7 billion (current prices) the ceiling in commitment appropriations under heading 3 'Natural Resources and Environment' and, by the same amount, of the payment ceiling for 2025-2027. The remaining financing of €48.5 billion for 2028-2032 will be settled under the next MFF.

In its opinion, the European Parliament's Committee on Budgets underlined the need to integrate the SCF into the EU budget, respecting in this way the Community method and enhancing democratic accountability as well as the protection of the EU budget in the event of breaches of the principles of the rule of law in Member States. It also asked that further allocations are provided to the SCF in case of a higher carbon price. These additional funds should be integrated in the MFF through an automatic adjustment of the ceiling of heading 3 and the payments ceiling.

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 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 in which 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'. On 28 April 2022, the CoR adopted a joint opinion (CDR 4801/2021) entitled 'Towards a socially fair implementation of the Green Deal' (rapporteur: Csaba Borboly, EPP, Romania), which covers both the SCF and the Energy Taxation Directive (also part of the 'fit for 55' package). The CoR welcomes the SCF as a statement of solidarity and commitment to achieving a just and socially fair transition, and as a way to balance the negative effects on the most endangered groups and territories. The CoR demands that at least 35 % of the financial envelope should be managed by local and regional authorities, with a role for the latter in delivering national social climate plans, and a system of shared management linking the SCF to EU regional funding. The CoR warns that the SCF itself will not be enough to tackle the undesirable social effects and economic shortcomings of the measures to achieve climate neutrality, and that further financial efforts will be necessary.

The European Economic and Social Committee (EESC) adopted an opinion (TEN/759-EESC-2021) on the Social Climate Fund (co-rapporteurs Thomas Kattnig, Austria, Group II – Workers; Alena Mastantuono, Czechia, Group I – Employers) during its plenary session on 8 December 2021. The EESC is generally critical about the SCF being tied to the introduction of an ETS for buildings and transport, whose benefits are outweighed by its drawbacks, and would instead welcome a specific heading in the EU budget dedicated to the social impact of the green transition. The EESC calls on Member States to exploit the synergies of the Social Climate Fund with other available financial resources and to use it in the most efficient way, and highlights the need for concrete measures against energy poverty at both national and European level.

National parliaments

The Commission's proposal was transmitted to national parliaments and they had until 8 November 2021 to submit reasoned opinions. The Swedish and Irish parliaments submitted reasoned opinions arguing that the Commission's SCF proposal breaches the principle of subsidiarity. Four other Member States entered into political dialogue with the Commission.

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 was referred to the European Parliament's Committee for Environment, Public Health and Food Safety (ENVI) and Committee for Employment and Social Affairs (EMPL), as joint committees under Rule 58. Esther De Lange (EPP, the Netherlands) was appointed as ENVI rapporteur, while David Casa (EPP, Malta) was appointed as EMPL rapporteur. The Committee for Budgets (BUDG) was an associated committee under Rule 57, and appointed Margarida Marques (S&D, Portugal) as its rapporteur. A draft joint report was published on 18 January 2022. Amendments were subsequently tabled and negotiated, with a final joint report adopted on 18 May 2022. The joint report expects national social climate plans to prioritise investments and incentives in clean mobility over temporary direct income support measures, with the latter limited to 40 % of SCF expenditure, and phased out by 2032. The joint report adopts definitions of 'energy poverty' and 'mobility poverty', makes disbursement of funds linked to countries respect for the rule of law, and asks that national plans consider in particular the socioeconomic challenges of islands and outermost regions. The joint report was tabled and debated, and the amendments voted, during the June I 2022 plenary session.

The Council adopted its general approach on 29 June 2022, which agreed that the SCF should be part of the EU budget and fed by external assigned revenues up to a maximum amount of €59 billion. The fund would be established for the period from 2027 to 2032, to coincide with the entry into force of the ETS for the buildings and road transport sectors, with r2026etroactive eligibility of expenditure from 1 January 2026. The Council decided to apply a ceiling of 35 % of the estimated total costs of social climate plans to the possibility for Member States to offer temporary direct income support. It also agreed that the fund would benefit all Member States and kept the allocation method proposed by the Commission. However, the Council's general approach did not to retain the national contribution (co-financing) envisaged by the Commission proposal.

Trilogue negotiations concluded on 18 December 2022 with a provisional agreement, which was formally adopted by the Parliament in plenary session on 18 April 2023 and by the Council on 24 April 2023. Under the final text, the SCF is established for the 2026-2032 period and becomes a part of the EU budget that is fed by external assigned revenues (mostly emissions trading allowances), up to a maximum of €65 billion. The use of external assigned revenues avoids having to reopen the 2021-2027 MFF. Member States would need to co-finance 25 % of the total estimated costs of their social climate plans. A ceiling of 37.5 % would apply to the share of temporary direct income support financed under these plans. The adopted text was published in the Official Journal of the EU on 16 May 2023 and entered into force on 5 June 2023. The SCF Regulation will apply only from 30 June 2024, which is the deadline for Member States to make the necessary adjustments in line with the revised ETS Directive.

EUROPEAN PARLIAMENT SUPPORTING ANALYSIS

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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.

ENDNOTE

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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