



Decarbonisation as a Cure for Energy Poverty: What next for the Social Climate Fund

On 25 October 2022, the [Centre for Transport and Energy](#) and the [EUROPEUM Institute for European Policy](#) held a roundtable titled ***Decarbonisation as a Cure for Energy Poverty: What next for the Social Climate Fund***. It was the 2nd roundtable on the topic of the extended EU carbon markets ([1st roundtable](#)), this time from the social and just transition viewpoint. The roundtable was held remotely and under Chatham House rules, with speakers from the Czech Ministry of Environment, the European Commission DG Clima, the German Federal Ministry for Economic Affairs and Climate Action and various think tanks and NGOs with expertise in carbon markets and social and just energy transition. The roundtable was moderated by Barbora Urbanová, Director of the Centre for Transport and Energy and attended by over 40 participants from across the EU.

In July 2021, the EC proposed to extend its emission trading as of 2026 to include road transport and buildings (ETS2). As the costs of ETS2 will be passed onto consumers and put pressure on many vulnerable subjects, revenues from ETS2 would be used to protect them as follows: 75% would remain in the member state (MS) where the emissions occur and 25% would flow into the [Social Climate Fund](#) (SCF) which would then allocate funds to individual MS. Such a proposal is being currently negotiated by the EP and the Council with the aim to reach the final agreement by December 2022 under the Czech EU Presidency. The lengthy process is due to the **disagreement between the EP and the Council on how to ensure ETS2 helps to meet the EU emissions targets while the SCF sufficiently protects vulnerable subjects from increasing energy and fuel prices.**

At the onset of the discussion, speakers emphasised that the **ETS2 is at the heart of the European Green Deal and Fit for 55 package, but so are social aspects and the just transition.** The SCF was introduced to mitigate ETS2 consequences, particularly in the short term due to the pressure ETS2 would put on vulnerable subjects through increased

energy and fuel prices. Speakers however argued that if the SCF is set up correctly, it will protect vulnerable subjects, increase the acceptance of climate measures and foster innovation, economic growth, and investment flows in clean technologies.

Speakers then discussed key requirements for an effective SCF that would be able to respond to multiple crises the EU currently faces: the energy security crisis, Inflation/cost of living crisis, energy and e-mobility challenges and climate emergency. They referred to a coalition of 38 climate and social NGOs, trade unions and renewable energy producers that called for a **bigger, bolder, and transformative SCF to help vulnerable households in the energy transition**. They discussed a need for the SCF budget to be large enough and proportionate to the carbon price, a need for a minimum SCF budget at least to the levels proposed by the EC (EUR 72.2 billion over 8 years) and use contributions and funds from revenue caps on the industries that are profiting from high energy prices. This would help MS co-finance their Social Climate Plans and target spendings where they are the most needed while excluding funds for fossil fuel technologies.

As **MS need to prepare Social Climate Plans in connection with the SCF**, speakers shared existing **examples from other Funds and Plans that could be replicated for SCF**. One of the mentioned ones was the Territorial Just Transition Plans under the EU Just Transition Fund, which focused on social dialogue with broad public participation, a need for increased transparency and a vision to ensure social acceptance of climate measures. Germany's ETS2 was also mentioned, as Germany introduced ETS2 for building and transport sectors in 2021 with an initial carbon price of EUR 25 per tonne of CO2. It includes all revenues under the national climate and transformation fund and is used to support energy efficiency and renovations programmes as well as e-mobility and hydrogen infrastructure. However, the German fund does not yet focus on vulnerable households, but offers some lessons learned.

MS cannot start developing national Social Climate Plans until the trilogues have come to an end to understand what is needed to be implemented. At the same time, ETS2 starts in 2026 and by then a carbon price and social protection should be set. Speakers discussed three general remarks. Firstly, a need to not overburden the SCF, the importance to address different situations in the different MS and the period by when the SCF can be used, and a need to set up administrative mechanisms by MS. Many MS do not have such mechanisms and poorer MS will struggle as it will be costly and lengthy. Speakers emphasised that **MS would benefit from an EU-wide knowledge-exchange and sharing of what exists and what works in different MS.**

While the ETS2 and SCF are key to deliver just energy transition, many points of disagreement are piling up among key stakeholders. The Czech Presidency to the Council of the EU has therefore a decisive role to play in reconciling these differing views and facilitating a compromise that will both help reduce EU's emissions as well as protect its vulnerable subjects.



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