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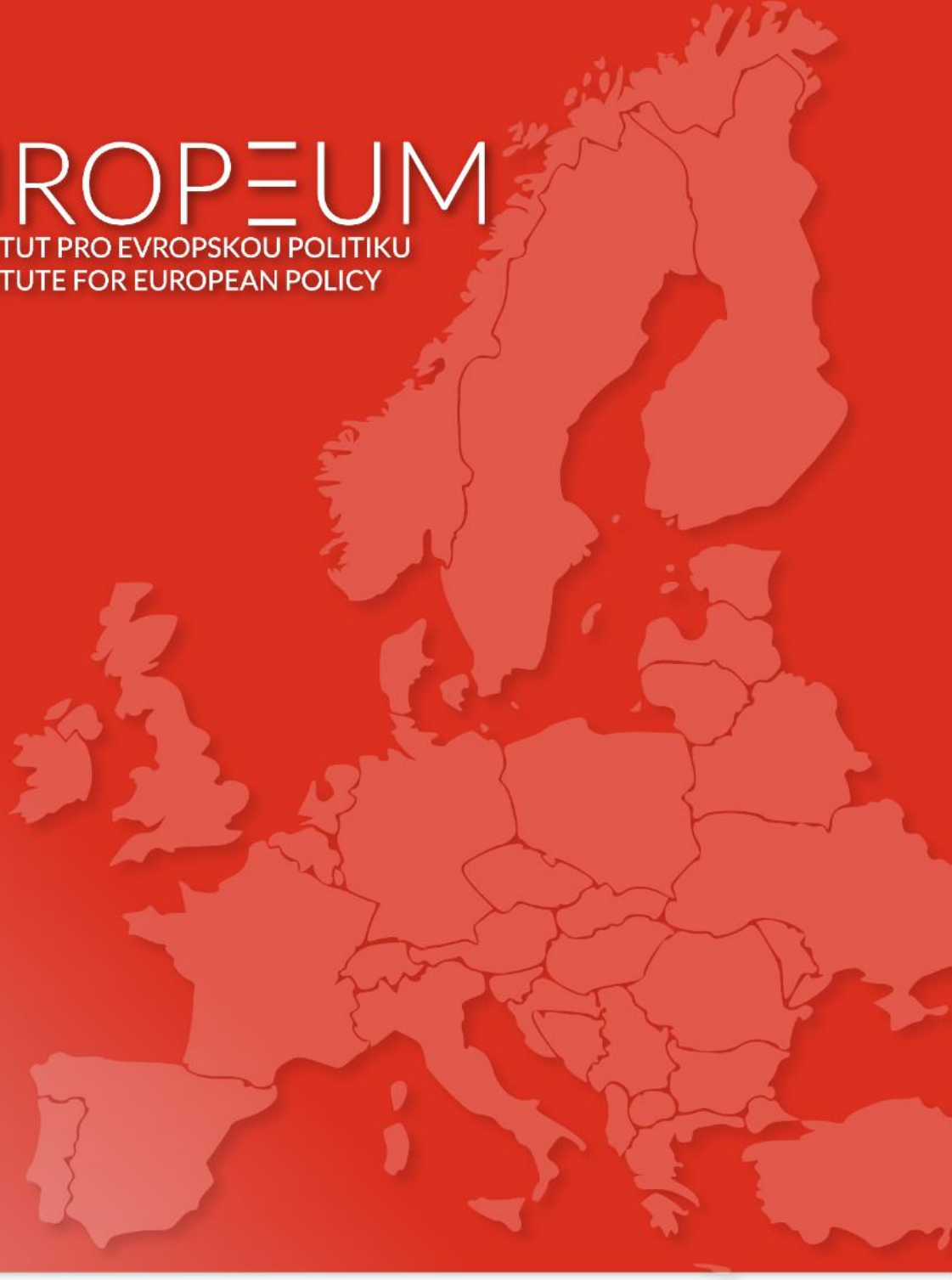

Policy Paper

The Future of Energy Poverty: Will the Social Climate Fund be enough for a Just Transition?

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Contents

Introduction

A just transition towards a green economy is one that leaves no one behind. In 2020, a European Union (EU) wide survey concluded that over thirty-million people within the EU population are unable to properly heat their homes.[1] On the one hand, decarbonising the EU's energy system is critical in reaching the EU Green Deal's climate objective of carbon neutrality by 2050 and reducing emissions by at least 55% compared to 1990 levels, as presented in the Fit for 55 package by 2030.[2] On the other hand, vulnerable citizens in low-income families, who are already feeling the brunt of the incline in energy prices, will be impacted even more as they have less resources and finances to move away from fossil fuels. The ecological transition, therefore, is not cost-free and comes with several challenges that need to be addressed to ensure the social and economic welfare of all European Member State (MS) citizens are met.

One in five people in the EU are at risk of poverty and social exclusion – or around 110 million people.[3] To date, carbon-based energy is still the cheaper option, but not if energy prices continue to increase. The Russia-Ukraine conflict has caused oil prices to be its highest in 14 years.[4] Without alternative energy sources, the EU will continue to be reliant on Russian gas, and with that, European households will suffer.

The Social Climate Fund (SCF) introduced by the European Commission in July 2021[5] is supposed to better equip MS on the social and distributional impacts of vulnerable groups most impacted by rising fuel prices. At the same time, it plans to address part of the social and distributional challenges of the Union's green transition. The objective of the SCF is to provide 'temporary direct income support for vulnerable households' while at the same time supporting measures and investments in efficient building and transport sectors. The intended result is to

[1] European Commission. Energy Poverty. Available at: https://energy.ec.europa.eu/topics/markets-and-consumers/energy-consumer-rights/energy-poverty_en#eu-projects-tackling-energy-poverty.

[2] European Commission. The European Green Deal. COM(2019) 640 final. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1576150542719&uri=COM%3A2019%3A640%3AFIN.

[3] Eurostat. Living conditions in Europe - poverty and social exclusion. Available at: https://ec.europa.eu/eurostat/statistics-explained/index.php?title=Living_conditions_in_Europe_-_poverty_and_social_exclusion#Key_findings.

[4] Jones, L. March 7, 2022. BBC. Available at: https://www.bbc.com/news/business-60509453.

[5] European Commission. Social Climate Fund. COM(2021) 568 final. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0568.

reduce costs for vulnerable households.[6] Nevertheless, this paper argues that the SCF should not be the main policy instrument in minimizing the impact of the just transition, but rather be part of a larger initiative. For example, the Just Transition Mechanism (JTM) aims to compliment the SCF by providing EUR 55 billion between 2021-2021 to alleviate the socio-economic impact of the transition and particularly of coal dependent regions.[7] Combining funds from other initiatives, primarily derived from the Emissions Trading System revenues, should be considered on supporting direct climate action, investment, and social compensation.

This paper aims to (1) outline the primary measures and objectives of the SCF; (2) provide a brief overview of the current situation of energy poverty in the EU, particularly considering the rise in energy prices and how access to stable energy resources is vital for poverty eradication; (3) Lastly, it will be crucial for policy makers to implement inclusive consultation between local governments in regional municipalities, so they are involved in decision-making, and monitoring processes in the governance of the fund.

The Social Climate Fund: Making the EU Fit for 55

What is the SCF?

On 14 July 2021 the European Commission adopted the 'fit for 55' package that includes a set of legislative proposals to meet the EU climate objective of a minimum 55% reduction in greenhouse gas (GHG) emissions by 2030.[8] The fit for 55 package is part of the Commission's European Green Deal (EGD), which aims to have the first climate neutral continent by 2050.[9] As part of the revision of the EU emissions trading system (EU ETS) under the Fit for 55 legislative package, the European Commission is proposing to extend emissions trading to the building and road transport sectors.[10] Emissions from these sectors will not be covered by the existing EU ETS but by a new, separate emissions trading system known as ETS

[6] European Commission. Social Climate Fund. COM(2021) 568 final. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0568.

[7] European Commission. The Just Transition Mechanism: making sure no one is left behind. Available at: https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal/finance-and-green-deal/just-transition-mechanism_en.

[8] European Parliament. Social Climate Fund: Fit For 55 Package. Available at: https://www.europarl.europa.eu/RegData/etudes/BRIE/2021/698777/EPRS_BRI(2021)698777_EN.pdf.

[9] European Commission. The European Green Deal. COM(2019) 640 final.

[10] European Commission. Social Climate Fund. Available at: https://ec.europa.eu/clima/eu-action/european-green-deal/delivering-european-green-deal/social-climate-fund_cs.

II, which aims to strengthen European climate action by ensuring that the 2030 targets are met by setting a cap and reduction path. From the ETS II, the SCF would redistribute substantial amounts of auction revenues to low-income MS.

Together with the Innovation Fund (IF) and the Modernisation Fund (MF) under ETS I, the aim of the SCF is to help vulnerable households, small businesses and transport users meet the increasingly high costs of the green energy transition.[11] In a report by McKinsey & Company, it was estimated that the total global spending by governments, businesses and individuals on energy and land-use systems will need to rise by $3.5 trillion a year if we are to achieve net-zero by 2050.[12] That would mean a 7% increase in household spending. Furthermore, the report also predicts that transitioning the energy sector to zero carbon and upgrading electricity grids to keep up with the doubling of global demand by 2050, is expected to increase consumer bills by 25% between 2020 and 2040.[13]

Technological innovations are expected to soften the price increase; however, a focus must be on building reliable low-cost power grids to help consumers with their high energy bills. In other words, the price for the transition should not be going to the consumer, but to the energy companies themselves in coming up with innovative technological solutions using the revenues from the ETS.

[11] / European Commission. Social Climate Fund. Available at: https://ec.europa.eu/clima/eu-action/european-green-deal/delivering-european-green-deal/social-climate-fund_cs.

[12] Mckinsey & Company. January, 2022. The Net Zero Transition. Available at: https://www.mckinsey.com/business-functions/sustainability/our-insights/the-net-zero-transition-what-it-would-cost-what-it-could-bring#.

[13] *Ibid.*

Figure 1 demonstrates the various funds that exist under ETS I and ETS II.

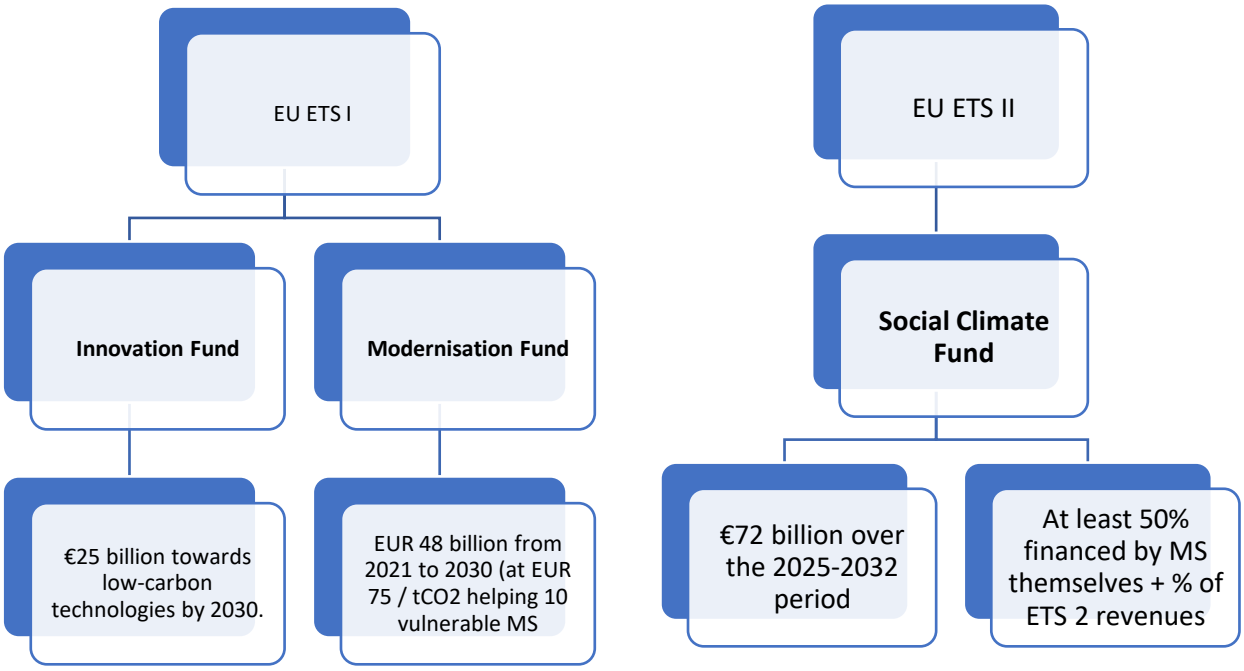

Figure 1: Composition of the three funds derived from ETS I and ETS II

The primary sectors targeted in the ETS II are buildings and road transport.[14] The two sectors account for 22% and 35% of EU emissions, and hence their decarbonisation is necessary in achieving the EU's climate targets.[15] In other words, these emissions covered under the EU ETS II should be reduced by 43% by 2030 compared to 2005 levels.[16]

Procedural Requirements

The procedural requirements concerning the plans are aligned to those under the Governance Regulation: they must be submitted by the end of June 2024 as part of the update of the NECP under the procedure and timeline envisaged by the Governance Regulation. In terms of the substantive requirements, the plans need to include specific measures and investments to meet the objectives, as well as a timeframe for their implementation and impact assessments about the likely

[14] European Commission. Increasing the ambition of EU emissions trading. Available at: https://ec.europa.eu/clima/eu-action/european-green-deal/delivering-european-green-deal/increasing-ambition-eu-emissions-trading_en.

[15] *Ibid.*

[16] *Ibid.*

effects of increasing prices on households.[17] The Commission is going to assess the submitted plans in accordance with the criteria of 'relevance, effectiveness, efficiency and coherence' and in case of a positive assessment, adopts an implementing decision.[18] If the Commission rejects the plan, the MS concerned should, according to the proposal, update its plan.[19] The actual payments of financial allocations to the MS shall only be made when the relevant agreed milestones and targets indicated in the Social Climate Plans are completed.[20]

By means of these plans the Commission pursues two objectives:[21]

1) MS should be enabled to provide temporary income support to vulnerable groups of their population

2) MS should be supported carrying out their measures and investments intended to reduce reliance on fossil fuels. Correspondingly, measures providing temporary direct income support as well as measures and investments incentivizing the decarbonization of buildings and their energy efficiency are eligible for funding.

Monitoring and eligibility of funds

The Commission monitors and reports on progress as part of the energy union report. The Fund and the Social Climate Plans will connect with and be framed by the reforms planned and the commitments made by the NECPs.[22] For eligibility of the funds, the Plan is to be submitted together with the update of the NECP under the procedure and timeline envisaged by the Governance Regulation, where the official submission is due by end-June 2024.[23]

Fuel suppliers held accountable

Another larger objective of the ETS is, according to the EU Commission, to put pressure on the fuel suppliers by holding them accountable for monitoring and reporting the quantity of fuels they place on the market and for surrendering

17 Art. 4 Social Climate Fund Regulation Proposal; COM(2021) 568 final, 23–25. Available at: https://ec.europa.eu/info/sites/default/files/social-climate-fund_with-annex_en.pdf.
18 Art. 15, 16 Social Climate Fund Regulation Proposal; COM(2021) 568 final, 29–32.
19 Art. 16 para. 3 Social Climate Fund Regulation Proposal; COM(2021) 568 final, 32.
20 Art. 19 para. 1 Social Climate Fund Regulation Proposal; COM(2021) 568 final, 33.
21 European Commission. Establishing a Social Climate Fund. COM(2021) 568 final. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:52021PC0568.
22 Ibid.
23 Ibid.

emission allowances each calendar year.[24] This mechanism incentivises fuel suppliers to decarbonise their product in order to reduce the cost of compliance under ETS II.

How is it funded?

The SCF is fully funded by revenues from the EU ETS II, which is extended to tackle building and road transport emissions from 2026. Its financial volume corresponds to 25% of the expected revenues and amounts to €72.2 billion for the period of 2025-2032.[25] To receive funds from the SCF, MS would have to submit Social Climate Plans, as mentioned above, for approval by the European Commission and commit to co-finance at least 50% of the proposed measures and investments.[26] The Social Climate Plans will be assessed by the EU Commission, and it is expected that the MS should finance at least 50% of the total costs of the Social Climate Plans. MS may use part of their expected revenues from EU ETS II for this purpose. Hence, according to the estimates of the European Commission, the SCF would mobilise €144.4 bn in total in the period of 2025-2032.[27] Considering the complete overhaul of the economy to meet net-zero, this amount might still not be enough. According to the current proposal by the Commission, "the Fund shall provide support to Member States, so that they could finance a coherent set of measures, including temporary direct income support, and investments considered necessary to meet the climate targets of the Union and, in particular ensuring affordable and sustainable heating, cooling, and mobility."[28]

Over a 7-year period, the €72.2 billion, which is around €10.1 billion per year, is expected to cover all the costs needed by vulnerable households to cover their high energy costs and impacts of the transition. Simply put, it will not be enough.

[24] European Commission. Emissions Trading – Putting a Price on carbon. Available at: https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_3542.
[25] *Ibid.*
[26] *Ibid.*
[27] Held, B. et al,. 2022. Assessment of the EU Commission's Proposal on an EU ETS for buildings & road transport (EU ETS 2). German Watch. Available at: https://www.germanwatch.org/sites/default/files/criteria_for_an_effective_and_socially_just_eu_ets_2.pdf: 15.
[28] European Commission. Establishing a Social Climate Fund. COM(2021) 568 final.

According to Housing Europe, it is estimated that an additional €13 billion per year until 2050 would be needed in renovating the social housing sector alone.[29]

Moreover, the way the SCF is distributed and *how* the money is allocated among the MS themselves is not entirely clear. Annex 1 of the Commission's proposal states that the share which an MS can receive is limited to their maximum allocation share based on gross national income (GNI) per capita, population size, the population at risk of poverty living in rural areas, CO2 emissions from fuel combustion by households and percentage of households at risk of poverty with deficits on utility bills.[30] Figure 2 demonstrates the maximum amount per capita member states can receive. Overall, there is a clear redistribution toward lower-income MS with Poland benefiting the most, receiving €6.7 billion from 2025 to 2032.[31]

[29] Housing Europe. 2020. Housing Europe's ambition to renovate 4 million affordable homes by 2030. Available at: https://www.housingeurope.eu/resource-1471/housing-europe-s-ambition-to-renovate-4-million-affordable-homes-by-2030.

[30] European Parliament. Social Climate Fund: Fit For 55 Package.

[31] Held, B. et al,. 2022. Assessment of the EU Commission's Proposal on an EU ETS for buildings & road transport (EU ETS 2).

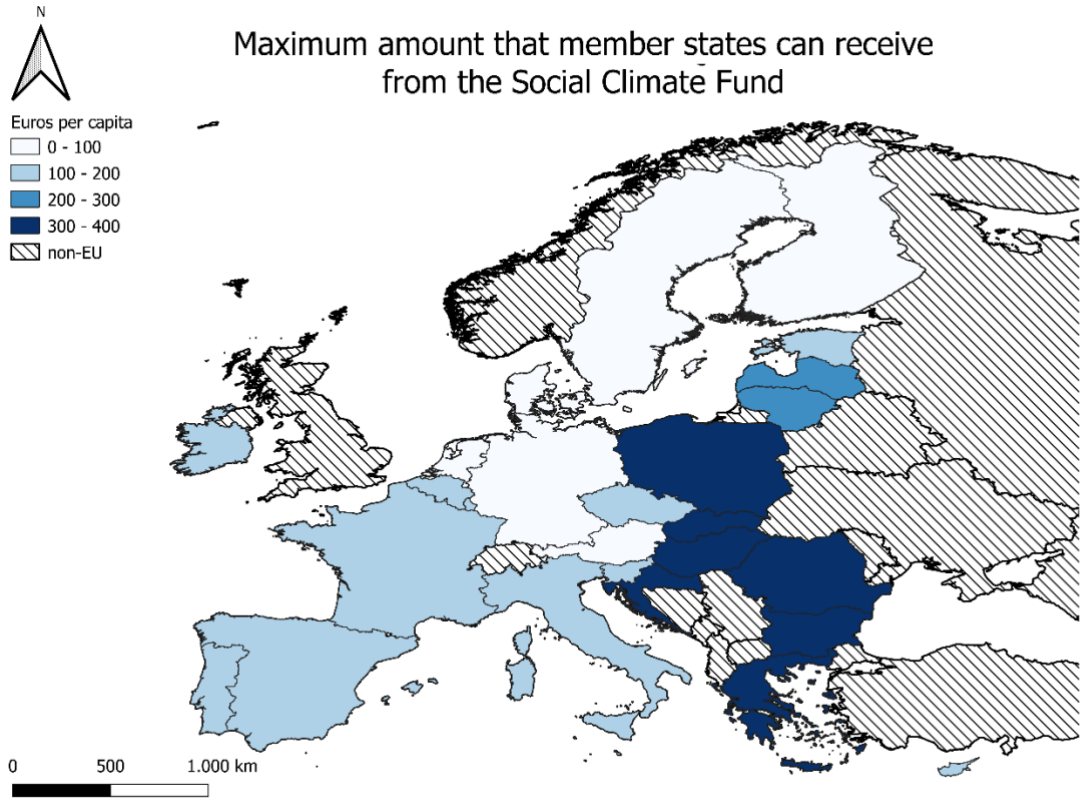

Figure 2: *Maximum share per capita of the SCF member states can receive*[32]

Since the distributional key in the EU ETS II is designed to be constant over time, the MS that reduce their GHG emissions more than the average will benefit. Since Effort Sharing Regulation (ESR) targets differ considerably between MS, this could lead to distributional problems in the future. For example, distributional challenges may arise based on the amount of emitted GHG subtracted from the funds received from the SCF. In a study done by German Watch, it shows that the per capita value plays the largest role in gains as demonstrated in Bulgaria (314 Euro/capita) and Romania (266 Euro/capita) receiving the most, in relation to lower-income MS gaining 30-60%.[33] The CO2 price will also play a role, however, the relative distribution of MS funds is independent of the absolute revenues.

[32] Belloa Europe. 2021. Financing the Fit for 2030 package: Modernisation, Innovation and Social Funds spell the EU's recipe for the future. Available at: https://bellona.org/news/climate-change/2021-09-financing-the-fit-for-2030-package-modernisation-innovation-and-social-funds-spell-the-eus-recipe-for-the-future.

[33] Held, B. et al,. 2022. Assessment of the EU Commission's Proposal on an EU ETS for buildings & road transport (EU ETS 2).

Bulgaria and Romania will essentially double their revenues from the SCF, 95% more in allowances, in comparison to the amount it would have received based only on historical emissions from 2016-2018.[34]

Soaring Energy Prices and risks of the ETS II

The social concerns triggered by soaring energy prices across Europe are a reality of the social and economic problems arising from the transition of the carbon market. It is therefore inherent that the green transition is a *just* transition and is managed carefully, building a more inclusive market foundation to mitigate the social costs down the road. The Rockefeller Foundation defines an inclusive economy as one that expands opportunity for more shared prosperity, especially for those facing the greatest barriers to advancing their well-being through growth, equity, sustainability, stability, and participation.[35]

The SCF is designed to ensure fair burden-sharing across society of the forthcoming energy price increases that would stem from the creation of a new EU carbon market on emissions from the building and road transport sector. Nevertheless, the very success of the SCF will primarily depend on the unity by all MS acting together. A lack of ambition from one MS risks derailing the success of the SCF, or snowballing, to other MS who do not take climate policies seriously in the first place. MS such as Czech Republic, Hungary, Poland, or Romania that have struggled historically to keep climate policies high on the agenda will be more adamant to instill changes. Without unified policy reforms and safeguards, there is a strong risk that the SCF will fail.

The objective of the SCF is to tackle the expected impact of the extension of the ETS to building and road transport emissions down the road. However, the contradiction is that the revenue coming from the ETS II goes towards compensating for its negative impacts in the first place. To mitigate such consequences, it can be argued that, in comparison to the innovation and modernisation fund under ETS I, the ETS II would be more efficient if the revenues would be directly transferred to renewable energy infrastructure for vulnerable households living in inefficient buildings, and secondly, investments into

[34] Held, B. et al,. 2022. Assessment of the EU Commission's Proposal on an EU ETS for buildings & road transport (EU ETS 2).

[35] Koh, H. et al,. 2017. Shaping Inclusive Markets How Funders and Intermediaries can Help Markets Move toward Greater Economic Inclusion. The Rockefeller Foundation. Available at: https://www.issuelab.org/resources/28114/28114.pdf.

sustainable public transport or subsidies for electric vehicles – all of which contribute to the EU's 2030 climate and energy targets. This would make the SCF itself a driver of change in the sectors, rather than predominantly a safety net against the social risks from an ETS II.

Funds from the EU ETS II aims to counter the additional costs that vulnerable households may sustain when the ETS is extended to transport and buildings from 2026, which may lead to rising fuel bills. However, the proposed SCF does not aim at tackling already existing energy and mobility poverty. Therefore, consumers particularly at risk should receive direct funding to better protect them from higher fuel costs and provide immediate relief from price rises.

Figure 3 demonstrates that in the first half of 2021, average household electricity prices in the EU increased slightly compared with the same period of 2020 (€21.3 per 100 kWh), standing at €21.9 per 100 kWh.[36] More recently, wholesale prices for electricity and gas are increasing substantially across the EU. According to Eurostat, "taxes and levies accounted for 39% of the electricity bills charged to households in the EU in the first half of 2021. For gas bills, the corresponding share was 36%."

[36] Eurostat. 2021. Electricity and gas prices in the first half of 2021. Available at: https://ec.europa.eu/eurostat/web/products-eurostat-news/-/ddn-20211020-1.

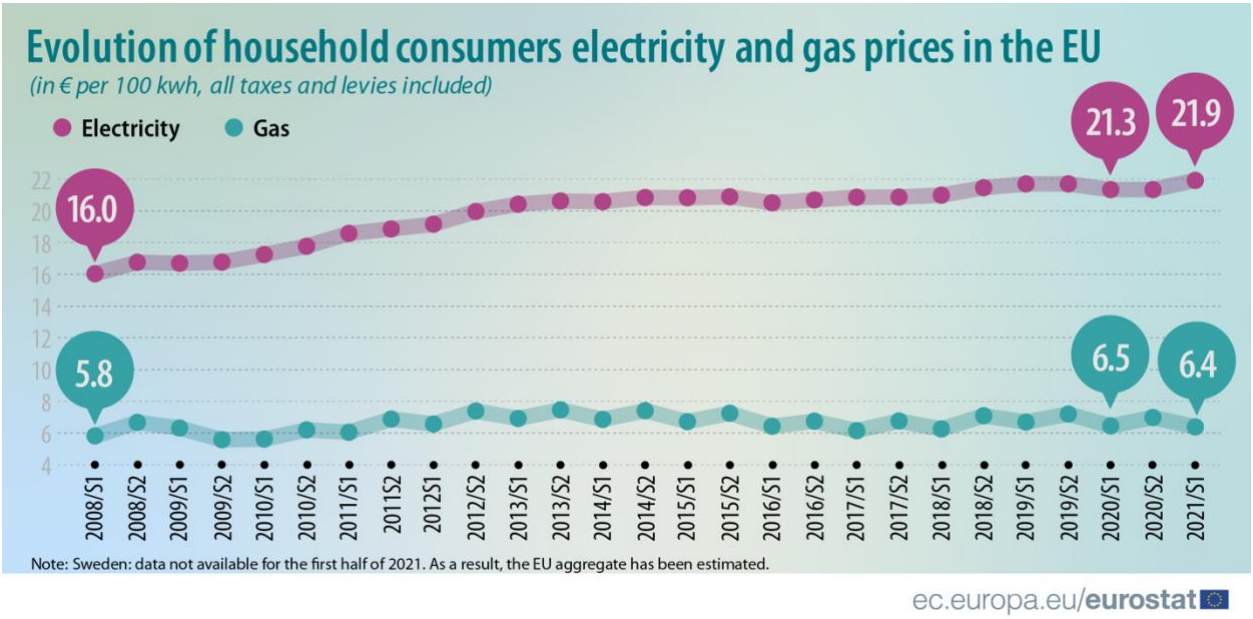

Figure 3: Evolution of household consumers electricity and gas prices in the EU[37]

In comparison to renewable energy prices, carbon prices are lower but are rapidly increasing. Even though it's been demonstrated that since 2017, electricity generation costs of solar and wind power have indeed fallen below conventional electricity power plants such as natural gas, coal or nuclear[38], the difference lies in the problem of total system costs for renewables. A study done by the International Renewable Energy Agency stated that 162 gigawatts (GW) or 62% of total renewable power generation added in 2020 had lower costs than the cheapest new fossil fuel option.[39] The global weighted-average levelized cost of electricity (LCOE) of new, concentrating solar power (CSP) projects commissioned in 2020 fell by 49%, year-on-year.[40] The design of electricity systems has failed to catch up with the revolution in renewable energy. Electricity prices for consumers are high due to a combination of increased levies and taxes that make up half the price. For example, in Germany, the average power price for households and small

[37] Eurostat. 2021. Electricity and gas prices in the first half of 2021.
[38] Fraunhofer Institut ISE, 2021).
[39] IRENA. 2021. Renewable Power Generation Costs in 2020. Available at: https://www.irena.org/publications/2021/Jun/Renewable-Power-Costs-in-2020.
[40] *Ibid.*

businesses amounted to 32.16 cents per kilowatt hour (ct/kWh) in 2021.[41] The highest in the EU. About one quarter of the 2021 price (7.8 ct/kWh) were from regulated grid fees, another quarter arises from the actual power supply costs, and around 20% is made up by the renewables surcharge, which covers the guaranteed feed-in tariffs for renewable energy installations.[42]

Moreover, lack of technological and infrastructural developments in renewable energy storage increases the cost of renewable energy. Therefore, the lack of consistent supply from renewable sources is still far out of reach for consumers. Especially for EU MS that do not have reliable access to renewable energy that could supply an entire nations energy demand. Therefore, the ETS II is designed as a separate upstream system that will regulate fuel suppliers directly, rather than the consumer.

Carbon Price Increases

In December 2020, ETS prices reached a new record high of nearly €90 per tonne of carbon, almost three times as high as at the beginning of 2021, and a multiple of their level a few years ago.[43] This was due to the unexpectedly strong demand for energy from the Covid-19 pandemic, met with supply constraints in natural gas especially.[44] The response is that power generators ramped up production from carbon-intensive coal-fired capacity, driving demand for additional carbon allowances.

The drastic rise of carbon prices will help accelerate the green transition. If persistent, it strongly disincentivizes new investments in fossil fuel energy carriers. A price on carbon shifts the burden for the costs associated with climate change on to those who are responsible for it. The reason is that carbon pricing activates incentives throughout the economy, all along the value chain. Every actor is incentivized to reduce their emissions further along the line as it is cheaper than paying the price.

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[41] German Association of Energy and Water Industries. 2022. Available at: https://www.bdew.de/service/daten-und-grafiken/bdew-strompreisanalyse/.

[42] Appunn, C. 2022. Effects on households and businesses and government's reaction. Clean Energy Wire. Available at: https://www.cleanenergywire.org/factsheets/energy-crunch-effects-households-and-businesses-and-governments-reaction.

[43] *Ibid.*

[44] World Bank Group. 2020. State and Trends of Carbon Pricing 2020. Available at: https://openknowledge.worldbank.org/bitstream/handle/10986/33809/9781464815867.pdf?sequence=4&isAllowed=y.

Carbon pricing does not consider all barriers to the deployment of low- and zero-emissions solutions in road transport and buildings, however. Hence, the ESR is designed to complement the ETS by establishing binding targets to reduce GHG emissions not covered under the ETS. More enhanced regulatory measures on energy efficiency, renewables, eco materials, energy performance of buildings, CO_2 emission standards for cars and charging infrastructure will also drive the shift towards greener transport and buildings.

ETS II should play larger role in renewable energy infrastructure investment for poorer households:

Reacting to high energy prices plays a pivotal role and should involve immediate support for households at risk of energy poverty along with investments to increase the share of low-carbon energy production in the long term. The transition to a climate-neutral economy means learning new skills, innovating, and implementing new renewable technologies, renewing infrastructure of older buildings and cutting dependence on fossil fuels. It requires not only more investments, but better, transformational investments towards a net-zero economy.

This means paying closer attention to issues of governance, namely the creation of an enabling regulatory and institutional environment for renewable technology investment and infrastructure development. It will require additional investments in all sectors and areas of society. Auction revenues from the ETS II, as well as MS funding, together with the SCF would mobilise €144.4 billion for a socially fair transition by investing into low-carbon heating systems, refurbishing energy-inefficient homes, and providing subsidies for both the consumer and car manufacturing companies of electric vehicles.

Currently, low-income families do not have access to the above-mentioned alternatives due to lack of financial resources for home renovations and electric cars, and lack of proper charging infrastructure, if any. Therefore, the Fund should focus directly on targeted investments by financing the energy transition of vulnerable citizens. For example, already in 2016, the German government announced its Government Programme for Electric Mobility with a total of 1.2

billion EUR, with the automotive industry covering half the fund.[45] A purchase grant, known as the environmental bonus, is paid towards new vehicles – €4,000 for non-hybrid electric cars, and €3,000 for plug-in hybrids.[46] Over 600 million EUR is covered by the German Federal Government into charging infrastructure. A strategic move to help incentivise consumers to buy electric vehicles. A win-win for the automotive industry and consumers. In 2021, the German government once again spent €3.1 billion to subsidise the purchase of EVs in 2021 increasing subsidy applications from 255,000 in 2020 to 625,260 in 2021.[47]

Energy Poverty Outlook in the EU

Traditionally, the causes of energy poverty in EU countries have been attributed to the combination of low incomes, high energy prices and low levels of residential energy efficiency.[48] More recently, it has been shown that "policy practices associated with the state, private and third sectors—as well as existing institutional structures and capacities more broadly—are also being increasingly implicated as key energy poverty factors at multiple decision-making levels."[49] For example, in a localised study done on Germany, it was shown that harmony and configuration between institutions at the local, state, and national levels brought enhanced consistency, enabling more projects in renewable energy.[50] The analysis further demonstrates the importance of third party actors such as stakeholders who are interested in developing their product in the net-zero economy. Such collaboration fosters greater innovation on the market. In the Czech Republic, a company called Operator ICT partnered with the Prague city municipality and other partners on the "Smart Prague" project.[51] From smart buildings and energy technology to intelligent waste management and automobile infrastructure, such

[45] BMWI. Government Programme for Electric Mobility. Available at: https://www.bmwi.de/Redaktion/DE/Downloads/P-R/regierungsprogramm-elektromobilitaet-mai-2011.pdf?__blob=publicationFile&v=6.

[46] *Ibid.*

[47] Federal Office for Economic Affairs and Export Control. Available at: https://www.bafa.de/DE/Energie/Energieeffizienz/Elektromobilitaet/elektromobilitaet_node.html.

[48] Bouzarovski, S. et. al. 2021. Confronting Energy Poverty in Europe: A Research and Policy Agenda. Available at: https://www.mdpi.com/1996-1073/14/4/858/htm.

[49] *Ibid.*

[50] Mehling. J. et al., 2019. Applying institutional theory to the analysis of energy transitions: From local agency to multi-scale configurations in Australia and Germany. Energy Research & Social Science: Volume 53. Available at: https://www.sciencedirect.com/science/article/abs/pii/S2214629618307308.

[51] More information available here: https://www.smartprague.eu/en

companies and governments are working together to meet both consumer demands and climate targets. Examples such as this can be seen across Europe.

In the EU, MS that are more vulnerable to differences in income, inefficient housing, and inadequate infrastructure development are more suspectable to corruption and mismanagement by governments. Governments who do not have climate change high on the agenda will create a more difficult economic environment for investors and companies that are ready for the transition. Therefore, not only does the SCF bring funds, the very success of a just transition depends on the environment the governments of the MS allows. Better climate policies mean more opportunities to build stronger and better prepared communities.

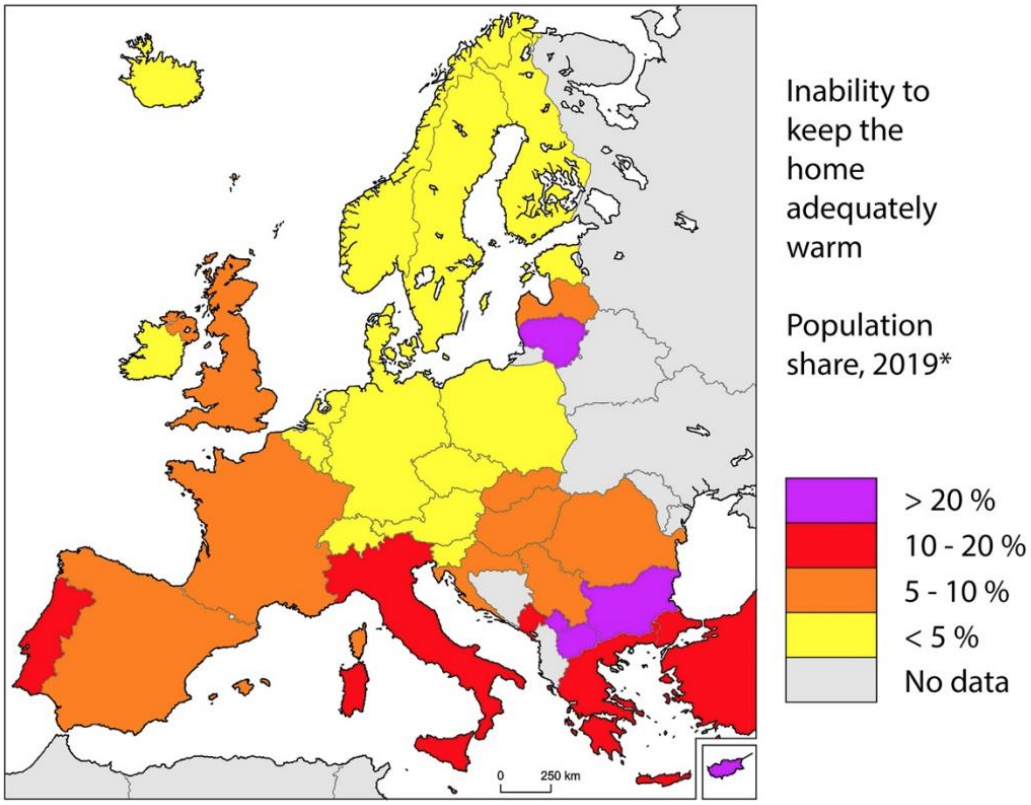


Figure 4: Spatial variation in energy poverty in terms of the inability to achieve adequate thermal comfort[52]

[52] Map by Bouzarovski, S. et. al. 2021. Confronting Energy Poverty in Europe: A Research and Policy Agenda.

A study by Bouzarovski et. all, argue that geographical differences among regions are the main variable in explaining the distribution of households affected by energy poverty.[53] The use of a composite indicator to assess territorial disparities in household vulnerability to energy poverty is a good indicator of showing the problem in "decentralization of energy infrastructures and improvement of renewable energy access".[54] Yet again, another reason as to why it's important to include municipal governments in climate policy plans. Figure 4 demonstrates the regional differences in energy poverty levels. For example, even though Poland, and Czechia obtain better scores for adequate heating insulation, the map does not demonstrate the wider economic inequalities that exist within cities. The urban energy poverty levels in the inner cities and neighbourhoods of a number of Central and Eastern European cities remain high due to poor infrastructure in district heating and building insulation, as well as financial restraints. A study confirms that on average 23.57% of the Central and Eastern European population is exposed to hidden energy poverty.[55]

The right to access clean and secure energy

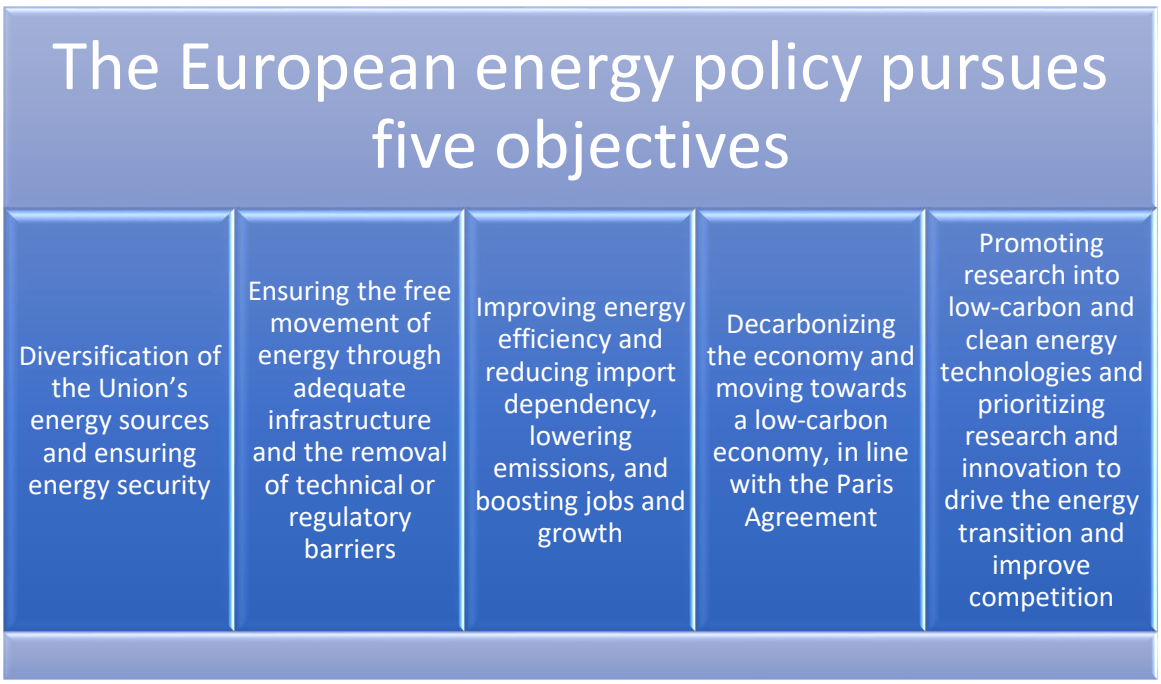
Moreover, it is important to note, under Article 194 on the Treaty on the Functioning of the European Union (TFEU)[56], it establishes a legal ground that empowers the Union in the energy field in three areas: (1) Ensuring the proper functioning of the energy market; (2) Ensuring security of energy supply; (3) Promoting energy efficiency and network interconnection. The European energy policy pursues five objectives which expands on this as follows:

[53] Map by Bouzarovski, S. et. al. 2021. Confronting Energy Poverty in Europe: A Research and Policy Agenda.

[54] *Ibid.*

[55] Karpinska, L. 2020. Invisible energy poverty? Analysing housing costs in Central and Eastern Europe, Energy Research & Social Science: Volume 70. Available at: https://www.sciencedirect.com/science/article/abs/pii/S2214629620302450.

[56] EURLEX. Treaty on the Functioning of the European Union. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A12016E194.



European MS are legally obligated to provide a diverse portfolio of energy and ensure all citizens have access to low carbon energy alternatives. As it stands today, the EU depends on Russian gas for 45% of its imports and around 40% of its consumption.[57] Hence, the EU must work faster to diversify its energy mix if it is to meet its climate goals by 2030 and 2050. Not only that, but energy security and climate policy are united. Decreasing Europe's external reliance on energy sources, particularly from Russia, minimizes the risk of hostile actors manipulating access to stable gas production, and increases demand on renewable energy whereas the EU meets its climate targets by reducing reliance on fossil fuels.

In light of Russia's invasion of Ukraine and soaring energy prices, on March 8, 2022, the EU Commission released a statement that it plans to make the Union independent of Russian gas by 2030.[58] The program REPowerEU will seek to diversify gas supplies, speed up the roll-out of renewables and replace gas in heating and power generation, which is planned to ultimately reduce EU demand

[57] IEA. 2022. How Europe can cut natural gas imports from Russia significantly within a year. Available at: https://www.iea.org/news/how-europe-can-cut-natural-gas-imports-from-russia-significantly-within-a-year.
[58] European Commission. 8 March 2022. REPowerEU: Joint European action for more affordable, secure and sustainable energy. Available at: https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1511.

for Russian gas by two thirds before the end of the year (in theory).[59] As it stands, the energy mix remains dominated by fossil fuels, as 38% of the energy consumption comes from oil, 23% from natural gas and 13% from coal. Nuclear energy accounts for only 11%.[60] Although a sharp increase, renewable energy represents a small part of the European Union's energy consumption, see figure 5.

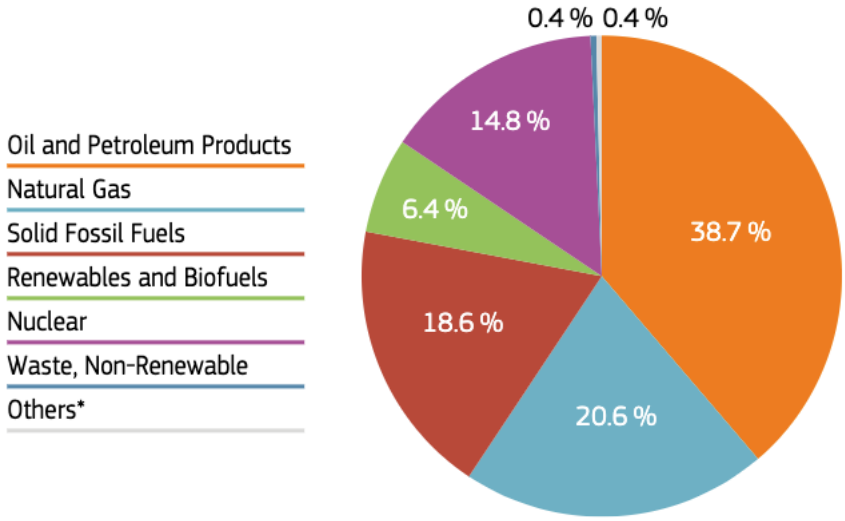


Figure 5: Energy consumption mix for the EU (data as of 2020)[61]

Therefore, the Fund will be even more crucial to ensure nobody is left behind, but 2025 might already be too late. The European Green Deal acknowledged that the need for a socially just transition must also be reflected in policies at the Union and national level. The SCF proposal argues to include investments in affordable solutions to those worst affected by carbon pricing policies and high energy prices. For example, through improved public transport, as well as measures to mitigate and address energy poverty and promote re-skilling.[62] The need to look closer at

[59] European Commission. 8 March 2022. REPowerEU: Joint European action for more affordable, secure and sustainable energy. Available at: https://ec.europa.eu/commission/presscorner/detail/en/ip_22_1511.
[60] Bloj, R. 2021. The Schuman Report on Europe, State of the Union 2021. Available at: https://www.robert-schuman.eu/en/bookshop/0263-the-schuman-report-on-europe-state-of-the-union-2021.
[61] European Commission. 2021. EU Energy in Figures. Available at: https://op.europa.eu/en/publication-detail/-/publication/41488d59-2032-11ec-bd8e-01aa75ed71a1/language-en#.
[62] European Commission. Establishing a Social Climate Fund. COM(2021) 568 final.

existing opportunities for affected stakeholders via workers, tenants, businesses, local authorities, or low-income households is needed for the engagement in the co-design and implementation of the package and the European Green Deal more broadly. To begin with, the SCF should be a primary vehicle to enable this.

Alternative solutions to rising energy costs: Government subsidies

On October 13, 2021, the European Commission announced temporary measures that the MS could implement to deal with the rising prices, also remaining within the European legislation, notably in terms of the competition policy. Among the proposed solutions, the MS could "mitigate the impact of rising prices through price caps and temporary tax reductions for vulnerable energy consumers, or vouchers and subsidies for consumers".[63] A number of examples already exist throughout the EU. In Belgium, a social energy tariff costing more than 208 million EUR was introduced during the pandemic to help 500,000 vulnerable households pay their electricity bills.[64] In Austria, a relief package of 1.7 billion EUR for almost all households was introduced on 28 January 2022, amounting to €150 in energy compensation per household.[65] Nevertheless, several studies have shown that even though energy subsidies might have a direct impact on the consumer, the indirect impact is more overlooked and difficult to address. As part of the production process, consumer goods and services rely on the energy price for its manufacturing and delivery. When energy prices go up, so does the cost of food, for example. The indirect effect of higher energy prices could therefore have a larger impact, leaving energy subsidies only a short-term solution.

In other words, while subsidies are a short-term means to combat growing energy prices, the long-term priority should be to develop and implement energy efficiency policies. Such policies seek to promote efficient consumption choices,

[63] European Commission. Tackling rising energy prices: a toolbox for action and support. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52021DC0660&from=EN.

[64] European Commission. Access to essential services for low-income people: Belgium. Available at: http://ec.europa.eu/social/main.jsp?catId=1135&langId=en.

[65] Sgaravatti, G., et al. National policies to shield consumers from rising energy prices. Bruegel. Available at: https://www.bruegel.org/publications/datasets/national-policies-to-shield-consumers-from-rising-energy-prices/.

and to increase the quality and energy efficiency of housing construction (and retrofits) with financial subsidies and regulatory efficiency standards.[66]

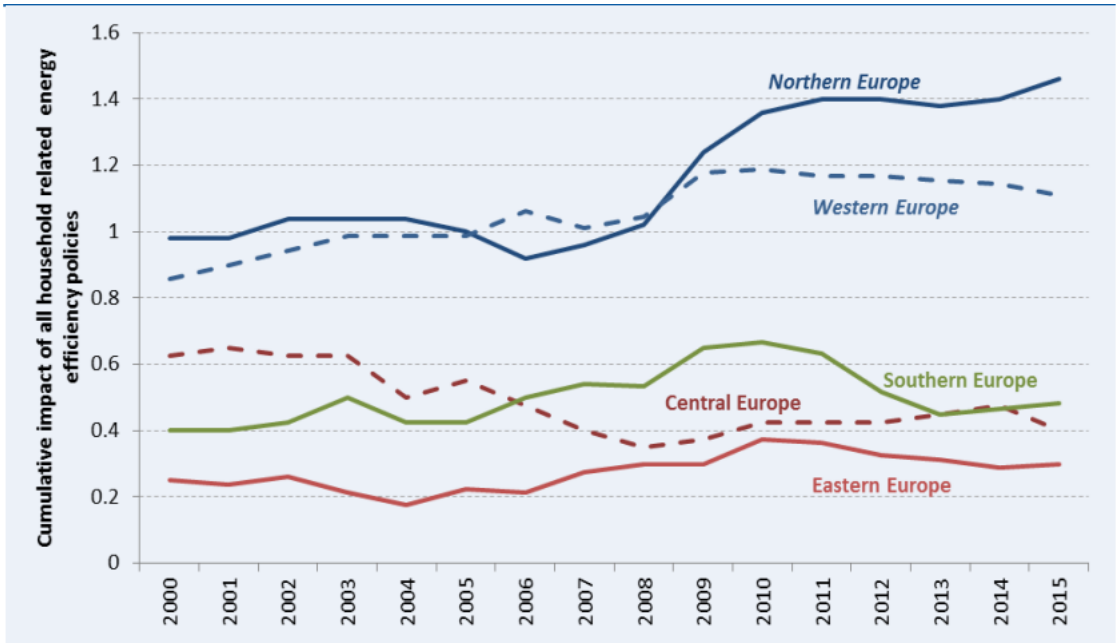


Figure 6: Cumulative regional impact scores for household energy efficiency policies[67]

According to a study by the Council of Europe Development Bank (2021), Figure 6 shows that in three out of five countries, the level of funding devoted to housing and social exclusion spending increased from 2000 to 2015.[68] However, most of these increases occurred in Northern Europe, where governments already have higher expenditures. In Western Europe, average spending levels have stagnated since the 2008 financial crisis but remained well above the 0.6%-of-GDP average. In contrast, countries in Southern, Central, and Eastern Europe has fallen way below average levels in spending on housing and social exclusion. Such regions include countries with the highest energy poverty rates already. As mentioned above, geographical differences and different prioritizations by governments plays a key part in energy poverty. Governments should do their part in utilising funds from the SCF to support green investment projects by first and foremost

[66] Council of Europe Development Bank. 2019. Available at: https://coebank.org/media/documents/CEB_Study_Energy_Poverty_in_Europe.pdf.
[67] *Ibid.*
[68] *Ibid.*

enabling a more welcoming environment for investment. Subsidies can implement more climate change related projects. However, climate funds can play a larger role in supporting governments into social protection-related programmes and aligning social security objectives with national climate strategies. This, in turn, can aid a MS capacity to address the social and indirect costs of energy vulnerability in the future.

The Way Forward

The importance of local governments and stakeholders on managing the SCF correctly:

Giving an active role to regional and local authorities will play a vital part for the success of the SCF as explicitly stated in its Article 15. Local authorities' proximity to citizens and local businesses presents a unique opportunity for proper management and use of the SCF. In the implementation and monitoring of fair transition policies and empower and enable people, civil society and stakeholders to directly participate in policy design and implementation of the Fund. The SCF is an opportunity for the EU to support Member States in this regard.

Local authorities and municipalities need to be more coordinated on improving regional infrastructure and green investment with stakeholders. Regional authorities should feel empowered to deliver wider local action to reduce emissions and prepare citizens in their areas towards the transition. Local municipalities should have the ability to zone in on vulnerable communities who need funds. Developing an accountable reporting system would also be crucial.

Support low-income households with income from the SCF

The EU ETS II carries the risk of intensifying already existing financial problems of low-income households if not designed appropriately, especially in lower-income MS. Within the framework of the EU ETS II, this could be avoided in three different ways according to Art. 17 of the SCF:

1. Redistribute revenues from EU ETS II to households with low incomes

2. Support low-income households in reducing their CO2 emissions via infrastructure development

3. Limit carbon prices

The issue of energy poverty is today and waiting any longer could have larger socio-economic consequences down the road. Today, subsidies are needed to build a shield and mitigate the costs of tomorrow, beginning with access to high quality low-carbon infrastructure, such as charging points, appropriate multi-modal public transportation and safe bike lanes, decarbonized district heating and cooling networks, whose development depends on public investment. Building today helps keep the costs down for tomorrow and preserve the generational contract upon which our societies – and future generations – depend.

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