European Economic and Social Committee

OPINION

European Economic and Social Committee

Social Climate Fund

Proposal for a Regulation of the European Parliament and of the Council establishing a Social Climate Fund
[COM(2021) 568 final – 2021/0206 (COD)]

TEN/759

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Referral	European Parliament, 13/09/2021 Council, 20/09/2021
Legal basis	Article 91(1) point (d), Article 192(1) and Article 194(1) point (c) of the Treaty on the Functioning of the European Union
Section responsible	Transport, Energy, Infrastructure and the Information Society
Adopted in section	09/11/2021
Adopted at plenary	9/12/2021
Plenary session No	565
Outcome of vote (for/against/abstentions)	194/3/9

1. Conclusions and recommendations

1.1 The EESC welcomes the establishment of a Social Climate Fund in order to mitigate the negative social and economic impacts of the new carbon pricing and in order to provide funds to Member States to support their measures addressing the social impact of this emissions trading on financially weaker households, micro-enterprises and transport users. The EESC also recognises that with this regulation the Commission credibly demonstrates its willingness to combat energy and mobility poverty.

1.2 Nevertheless, the EESC is convinced that the Social Climate Fund will not provide sufficient financial support to responsibly face the socio-economic effects of the carbon pricing. The enormous challenge of designing an effective and fair compensation mechanism in a heterogeneous economic area comprising 27 Member States requires more far-reaching accompanying measures and resources at EU and national level. 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.

1.3 The measures and transformation steps envisaged by the Fit for 55 package will lead to massive changes and must not lose sight of the social and economic situation of the individual Member States. Otherwise, societal acceptance of these measures would be jeopardised. At Member State level, measures accompanying the package must already be discussed and implemented now. To achieve a just ecological transformation, the focus here must be on a just transition for all.

1.4 The EESC believes that the purpose of higher carbon pricing is in any case not to increase revenue, but to steer market behaviour towards low-emission technologies. There is therefore a strong argument for the Commission to provide additional financial resources. Furthermore, the time limit of 2032 does not seem conclusive.

1.5 Some of the stakeholders, including the social partners, representing both employers and employees, have been sceptical and even negative about extending emissions trading to buildings and road transport, pointing to the expected social and economic impact of an increase in heating and fuel prices on financially weaker households, medium-, small- and micro-enterprises and transport users. The danger of not taking the population along with us in the course of European climate policy and a flare-up of widespread protests, such as the "yellow vests" protests, must be prevented at all costs. In this regard, the Commission should subject its plans to a thorough examination.

1.6 The EESC regrets that the Commission did not analyse the impact of the Fit for 55 package on individual Member States, nor on different sectors. It is of the opinion that a specific impact assessment of the Social Climate Fund creation would have deserved to be carried out.

1.7 The EESC welcomes the obligation of Member States to submit a comprehensive package of measures and investments as their Social Climate Plan along with the updated version of their National Energy and Climate Plan according to the Governance Regulation. The EESC calls for the involvement of social partners, chambers of commerce, civil society, youth organisations as well as local and regional authorities in the elaboration of the national Social Climate Plans by the Member States.

1.8 The EESC is concerned that the costs of an emissions trading system for buildings and transport would outweigh the desired benefits and could lead to uncontrolled and therefore existence-threatening price spikes. The EESC is therefore generally critical about the Social Climate Fund being tied to the introduction of an ETS for buildings and transport and would welcome a specific heading in the EU budget dedicated to the social impact of the green transition. Rather, the introduction of a Social Climate Fund at EU level should be pursued in principle.

1.9 The EESC notes that efficient use of the resources from the Fund must be ensured and fraud, corruption and conflicts of interest associated with the measures supported by the fund must be prevented.

1.10 In terms of the rule of law, it welcomes the measures proposed by the Commission for an effective and efficient internal control system and the announcement to recover unduly paid or misused amounts. Furthermore, the EESC also wonders whether the EU procedure for reducing EU funds when Member States violate the rule of law will apply to the disbursement of the funds.

1.11 The EESC requests more clarification regarding the financing of the Fund. The proposal foresees that the financing will be based on a volatile EU ETS market. Therefore, the EESC does not understand why a fixed amount of EUR 72.2 billion is proposed. The volatility in prices will determine the budget of the Fund. This stresses, inter alia, a necessity for a more stable funding. The EESC proposes to introduce partial financial flexibility in the Fund depending on the actual price development of the allowances (in which the allocation could be increased along with the increasing price).

1.12 When considering the distribution of the Fund among Member States, the EESC stresses that the carbon pricing might have a different impact on individual Member States and it can be also contradictory to national measures already in place, as highlighted by the Irish Parliament in its reasoned opinion on subsidiarity.

1.13 The EESC welcomes the approach by which gender equality and equal opportunities for all, as well as the mainstreaming of these objectives and also questions regarding accessibility for persons with disabilities, are pursued and promoted when developing and implementing the National Plans to ensure that no one is left behind. The planned carbon pricing particularly affects women, as they make up 85% of single parents. In single-parent families, the risk of child poverty is especially high.

1.14 The EESC knows very well that the Social Climate Fund represents a medium-term reaction to the problem of compensation of higher costs of the green transition to the vulnerable entities. However, the current situation in energy price development requires an immediate solution. The EESC welcomes the Communication from the Commission, which provides Member States with a "toolbox" to address the immediate impact of the current increase in wholesale prices for natural gas and electricity and to strengthen the resilience to future price shocks. Short-term national measures include emergency income support for households, aid for businesses and targeted tax cuts. In order to align the help with the toolbox, the EESC suggests to broaden the scope of the Social Climate Fund to vulnerable small and medium-sized enterprises. This reaction is compatible with the mission of the Social Climate Fund and respects the relevant EU rules.

1.15 The EESC calls on the Member States to support the development and provision of affordable zero- and low-emission mobility and transport services. The EESC considers the provision of public passenger transport services, within the limits of legal possibilities, to be the backbone of sustainable and affordable mobility.

2. Summary of the Commission document

2.1 Based on the European Green Deal strategy, in its Communication of September 2020, the Commission called for "Stepping up Europe's 2030 climate ambition"[1], proposed to make the European Union's climate targets more ambitious and presented a plan to raise the binding target for the reduction of net emissions to at least 55% by 2030. On 11 December 2020, the European Council endorsed this target, emphasising the importance of considering fairness and solidarity aspects and leaving no one behind, and on 25 May 2021 it reaffirmed these conclusions and asked the European Commission to put forward its legislative package together with an in-depth examination of the environmental, economic and social impact at Member State level.

2.2 In order to implement the European Climate Law and the Conclusions of the European Council, on 14 July 2021, the Commission proposed the Fit for 55 package which reviews some pieces of the climate and energy legislation currently in force and proposes new initiatives. The Fit for 55 package, NextGenerationEU and the Multiannual Financial Framework for the period 2021-2027 will help deliver the twofold transformation – ecological and digital – that Europe is striving for.

2.3 According to the Commission, the more ambitious climate target of the European Union also means that contributions from all sectors must be increased. Within the framework of the revision of Directive 2003/87/EC[2] ("the ETS Directive"), it therefore proposed emissions trading for buildings and road transport. In order to address the social and distributional impacts of emissions trading for the two new sectors, buildings and road transport, on the financially most vulnerable, the Commission proposed as part of the Fit for 55 package the regulation establishing a Social Climate Fund.

2.4 In the period 2025 to 2032, the Social Climate Fund is intended to mitigate the impact of the new carbon pricing and to provide funding to Member States in order to support their measures to address the social impact of this emissions trading on financially vulnerable households, micro-enterprises and transport users.

1 COM(2020) 562 final.

2 Directive 2003/87/EC of the European Parliament and of the Council of 13 October 2003 establishing a scheme for greenhouse gas emission allowance trading within the Community (OJ L 275, 25.10.2003, p. 32).

2.5 Support is to be provided primarily through temporary income support, as well as measures and investments in order to reduce dependence on fossil fuels by increasing the energy efficiency of buildings, greater decarbonisation of heating and cooling of buildings, also by integrating energy from renewable sources, and improving access to zero- and low-emission mobility and corresponding means of transport. At least 50% of the financial resources required for the requested measures are to be provided by the Member States themselves.

2.6 The National Energy and Climate Plans (NECP) set out how Member States intend to address energy efficiency, renewable energies and the reduction of greenhouse gas emissions, and how they are already dealing with energy poverty within current legislation. The Commission monitors and reports on progress as part of the State of the Energy Union Report. Member States should propose a comprehensive package of measures and investments to be financed by the Fund and submit it as their Social Climate Plan, together with the updated version of their National Energy and Climate Plans in accordance with the Governance Regulation.

2.7 Member States should report to the Commission in their biennial progress reports on the implementation of the National Energy and Climate Plans in accordance with the Governance Regulation on the progress in implementing the measures and investments within their Social Climate Plans.

2.8 The implementation of the Fund through the Member States' Social Climate Plans is also consistent with the policies and measures supported by other EU instruments to promote a socially just transition. These include the European Pillar of Social Rights Action Plan[3], the aim of which is a socially compatible and just ecological transformation for all Europeans, the European Social Fund Plus (ESF+), the just transition plans under Regulation (EU) 2021/1056, Member States' long-term strategies for the renovation of buildings under Directive 2010/31/EU of the European Parliament and the Council[4], and the Energy Poverty Observatory, which supports Member States' efforts to reduce and monitor energy poverty as well as related policy mixes in accordance with the Commission Recommendation on energy poverty[5].

2.9 The majority of the revenues from the new emissions trading will go to Member States' national budgets and should, according to the Commission's idea, be used for climate-related purposes, such as addressing the social impact of the new emissions trading. Member States are encouraged to use these revenues, as well as additional funds from other programmes of the European Union, for measures that support the socially compatible decarbonisation of sectors.

2.10 The total financial endowment of the Fund for the period 2025-32 amounts to EUR 72.2 billion at current prices. The Commission will shortly present a proposal for a targeted revision of the Regulation of the Multiannual Financial Framework for 2021-2027 in order to include additional expenditures of the European Union to the amount of EUR 23.7 billion for the period

3 Approved by the European Council on 24 and 25 June 2021.

4 Directive 2010/31/EU of the European Parliament and of the Council of 19 May 2010 on the energy performance of buildings (OJ L 153, 18.6.2010, p. 13).

5 Commission Recommendation (EU) 2020/1563 of 14 October 2020 on energy poverty C/2020/9600 (OJ L 357, 27.10.2020, p. 35).

2025-2027. These funds should be made available ahead of schedule in order to initiate and accompany the smooth introduction of the new ETS.

2.11 In principle, due to its direct link to the new ETS, the financial endowment of the Fund should correspond to 25% of the revenues expected from the inclusion of buildings and road transport in the scope of the ETS Directive.

2.12 The annual distribution of the commitments of the funds should be aligned in accordance with the objectives of the Fund. This results in a profile of early allocation of funds in line with the Fund's objective to mitigate the impact of the extended scope of the ETS Directive on financially weaker households, micro-enterprises and transport users. In order to anticipate the consequences of the extension, support is already available from 2025.

2.13 The Porto Declaration of 8 May 2021 confirmed the European Council's commitment to work towards a social Europe and its determination to further intensify the implementation of the European Pillar of Social Rights at EU and national level, with due respect for the respective competences and the principles of subsidiarity and proportionality.

2.14 The implementation of the Fund should be in line with the principle of sound financial management, including effective prevention and prosecution of fraud, such as tax fraud, tax evasion, corruption and conflicts of interest.

3. General comments of the EESC

3.1 The European Economic and Social Committee (EESC) supports the important steps taken to achieve the goals of climate neutrality and climate resilience by 2050 pursued by the European Green Deal (EGD). It recognises the Commission's awareness that the climate crisis and energy transition are not purely technical and structural challenges, but also social, economic and distributional ones. The EESC welcomes the establishment of a Social Climate Fund, as proposed in the present Regulation, in order to mitigate the negative social and economic impacts of the new carbon pricing and to provide funds to Member States to support their measures addressing the social impact of this emissions trading on financially weaker households, micro-enterprises and transport users. The EESC also recognises that with this Regulation the Commission credibly demonstrates its willingness to combat energy and mobility poverty.

3.2 Nevertheless, the EESC is convinced that the Social Climate Fund will not provide sufficient financial support to responsibly address the socio-economic effects of the carbon pricing. The enormous challenge of designing an effective and fair compensation mechanism in a heterogeneous economic area comprising 27 Member States requires more far-reaching accompanying measures and resources at EU and national level. 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. At the same time, the introduction of a Social Climate Fund must be seen in the context of the entire Fit for 55 package.

3.3 The EESC points out that the envisaged climate measures and their impacts may further exacerbate already existing inequalities. The EESC calls on the Commission, the Council and the Parliament to place the principle of a just transition at the centre of their measures to mitigate climate change.

3.4 The measures and transformation steps envisaged by the Fit for 55 package will lead to massive changes and must not lose sight of the social and economic situation of the individual Member States. Otherwise, societal acceptance of these measures would be jeopardised. At Member State level, measures accompanying the package must already be discussed and implemented now. To achieve a just ecological transformation, the focus here must be on a just transition for all.

3.5 The volume of the Fund will amount to EUR 72.2 billion between 2025 and 2032, using 25 per cent of ETS revenues from the transport and buildings sectors. Compared to the challenges posed by such an extension of the ETS, this is a very small amount. The EESC believes that the purpose of higher carbon pricing is in any case not to increase revenue, but to steer market behaviour towards low-emission technologies. There is therefore a strong argument for providing additional financial resources on the part of the Commission and the Member States. Furthermore, the time limit of 2032 does not seem conclusive.

3.6 Some stakeholders, including the social partners, representing employers and employees, have been sceptical and even negative about extending emissions trading to buildings and road transport, pointing to the expected social and economic impacts of an increase in heating and fuel prices on financially weaker households, medium-, small- and micro-enterprises and transport users. The danger of not taking the population along with us in the course of European climate policy and a flare-up of widespread protests, such as the "yellow vests" protests, must be prevented at all costs. In this regard, the Commission should subject its plans to a thorough examination.

3.7 The EESC regrets that the Commission did not analyse the impact of the Fit for 55 package on individual Member States, nor on different sectors. It is of the opinion that a specific impact assessment of the Social Climate Fund creation would have deserved to be carried out.

3.8 Low-income households already face different difficulties in the current system, for which, in addition to short-term support, long-term and thus sustainable solutions are needed. In the EESC's view, the EU needs robust funding at EU level that will mitigate the socio-economic impact of the climate measures and ensure a just transition. Therefore, the introduction of a social climate fund at EU level is also fundamentally necessary in the EESC's view and should not be tied to the introduction of an ETS on the buildings and transport sectors. In particular, based on a study by the European Climate Foundation[6], according to which "an expanded ETS alone would not deliver the substantial emission reductions needed in road transport and buildings".

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6 European Climate Foundation Decarbonising European transport and heating fuels – Is the EU ETS the right tool? https://europeanclimate.org/wp-content/uploads/2020/06/01-07-2020-decarbonising-european-transport-and-heating-fuels-full-report.pdf.

3.9 Although the EESC welcomes the establishment of the proposed Social Climate Fund in principle, it points out that its financing depends on the introduction of an emissions trading system for buildings and transport (Article 26). Housing and mobility are basic needs and their provision is therefore part of services of general interest. The EESC is concerned that the costs of an emissions trading system for buildings and transport would outweigh the desired benefits and could lead to uncontrolled and therefore existence-threatening price spikes. The EESC is therefore generally critical about the Social Climate Fund being tied to the introduction of an ETS for buildings and transport and would welcome a specific heading in the EU budget dedicated to the social impact of the green transition. Rather, the introduction of a Social Climate Fund at EU level should be pursued in principle.

3.10 The Fund provides for social compensation payments on the one hand, and incentives for electric vehicles, as well as investments in the charging infrastructure and the decarbonisation of buildings, on the other hand. However, the needs of low-income households should be taken into account and measures linked to electrification of mobility should be all-embracing and future-looking, allowing low-income households the use of e-urban mobility or of new business models such as carsharing. The EESC points out that the promotion of zero- and low-emission mobility should not only concentrate on electromobility, but that, where appropriate, other alternative and low-cost fuels such as biofuels should also be promoted. The EESC also points out the need to promote low-emission solutions when, for financial or technical reasons, zero-emission alternatives are not possible. In this context, the EESC points out that low-income households should as a matter of priority replace their old, polluting cars with more fuel-efficient vehicles, which requires a thorough re-regulation of the European used car market. It is important that these aspects of a just transition are taken into account by Member States when drawing up their Social Climate Plans and by the Commission when assessing them.

3.11 When considering the distribution of the Fund among Member States, the Commission has sought a formula that takes into account population size (including the proportion of rural areas), per capita gross national income, the proportion of vulnerable households and households' emissions from fuel combustion. The EESC fears that this will still not be sufficient to take account of inequalities within and between countries. A relatively poor Member State with lower inequality within a country could end up benefiting less than a rich Member State with high inequality.

3.12 Member States must submit, along with their National Energy and Climate Plans, Social Climate Plans by 2024 identifying vulnerable groups and measures. In this context, the major differences in commitment and institutional capacities raise the question of whether this will work. The major differences in the way Member States addressed just transition in the various National Energy and Climate Plans may give a foretaste of what to expect. The EESC therefore calls for the involvement of social partners, chambers of commerce, civil society, youth organisations as well as local and regional authorities in the elaboration of the national Social Climate Plans by the Member States.

3.13 The EESC recognises that with this Regulation, as in a number of other documents, such as the Communication and Recommendation on energy poverty (C2020, 9600 final) or the Renovation

Wave published in winter (COM(2020) 662 final, SWD(2020) 550 final), the Commission is again placing great emphasis on combating energy poverty. Nevertheless, further efforts are necessary.

3.14 The Energy Poverty Observatory estimates that a total of more than 50 million households in the European Union are affected by energy poverty. Based on the findings of the European Energy Poverty Observatory and the newly surveyed European Energy Poverty Index, a European action plan to eradicate energy poverty should be developed in cooperation with stakeholders, including consumer organisations and NGOs working to combat poverty, such as the European Anti-Poverty Network, to ensure that public action increasingly targets the underlying causes of energy poverty.

3.15 Accordingly, concrete measures against energy poverty are needed at both national and European level. These include better access to subsidies for thermal renovations or the replacement of heating systems for energy-poor households, binding basic supply models and general protective provisions for consumers in the energy sector.

3.16 In this context, the EESC draws attention to Principle 20 of the European Pillar of Social Rights, which states: "Everyone has the right to access essential services of good quality, including water, sanitation, energy, transport, financial services and digital communications. Support for access to such services shall be available for those in need."

3.17 The EESC notes that efficient use of the resources from the Fund must be ensured and fraud, corruption and conflicts of interest associated with the measures supported by the fund must be prevented. In terms of the rule of law, it welcomes the measures proposed by the Commission for an effective and efficient internal control system and the announcement to recover unduly paid or misused amounts.

3.18 The EESC recommends that the Social Climate Fund be a systemic instrument, comprehensive with the other vehicles to compensate for the increasing costs of the green transition to the EU and the Member States, which substantially contributes to reach the sustainability targets.

3.19 The EESC requests more clarification regarding the financing of the Fund. The proposal foresees that the financing will be based on a volatile EU ETS market. Therefore, the EESC does not understand why a fixed amount of EUR 72.2 billion is proposed. The volatility in prices will determine the budget of the Fund. This stresses, inter alia, a necessity for a more stable funding. The EESC proposes to introduce partial financial flexibility in the Fund depending on the actual price development of the allowances (in which the allocation could increase along with the increasing price).

3.20 The massive increase in wholesale prices for natural gas and electricity is leading to massive financial burdens for consumers. The EESC knows very well that the Social Climate Fund represents a medium-term reaction to the problem of compensation of higher costs of the green transition to the vulnerable entities. However, the current situation in energy price development requires an immediate solution. The EESC welcomes the Communication from the Commission, which provides Member States with a "toolbox" to address the immediate impact of the current increase in wholesale prices for natural gas and electricity and to strengthen the resilience to future price shocks. Short-term national measures include emergency income support for households, aid for businesses and targeted tax cuts. In order to align the help with the toolbox, the EESC suggests to broaden the scope of the Social Climate Fund to vulnerable small and medium-sized enterprises. The EESC supports the Commission in its plans to support investments in renewable energies and energy efficiency, to examine possible measures in the field of energy storage and gas reserves procurement, and to assess the current electricity market design.

4. **Specific comments**

4.1 The EESC welcomes the approach that gender equality and equal opportunities for all, as well as the mainstreaming of these objectives and also questions regarding accessibility for persons with disabilities, are pursued and promoted when developing and implementing the National Plans to ensure that no one is left behind. After all, the planned carbon pricing particularly affects women, as they make up 85% of single parents. In single-parent families, the risk of child poverty is especially high. In this context, the EESC renews its call on the European Commission to initiate as soon as possible a revision of the decision on services of general economic interest (SGEI) in relation to the target group of social housing and to make clear that housing policy must not be limited to the sole objective of helping persons close to the poverty line, but must provide adequate, accessible and long-term affordable housing for all citizens affected by the European housing crisis, in particular homeless persons, young couples, single parents or families with many children, workers and the middle class in general7.

4.2 The rise in fossil fuel prices can disproportionately affect financially weaker households, micro-enterprises and transport users who spend a greater proportion of their income on energy and transport, who in certain regions do not have alternative affordable mobility and transport options and who may lack the financial capacity to invest in the reduction of fossil fuel consumption. The EESC therefore welcomes that the focus of the Commission's proposal is on the needs of vulnerable households, vulnerable micro-enterprises and vulnerable transport users, including the granting of free access to public transport or adjusted tariffs, the promotion of a sustainable mobility on demand and common mobility services. Also, Member States are invited to support the development and provision of affordable zero- and low-emission mobility and transport services. The EESC considers the provision of public passenger transport services, within the limits of legal possibilities, to be the backbone of sustainable and affordable mobility. In this sense, increased compensation for public service obligations that better meet ecological and social requirements is necessary, and this in turn requires national governments, regions and municipalities to provide financial support and create financial instruments.

4.3 In the Fit for 55 package, the Commission provides for, among other things, the inclusion of road transport in the EU emissions trading, which means that in the medium term, the costs of conventional motorised private transport will rise, provided it is powered by fossil fuels. The Commission is aware that this will lead to disadvantages for certain groups of the population. In

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7 TEN/707 – Universal access to housing that is decent, sustainable and affordable over the long-term. (OJ C 429, 11.12.2020, p. 93)

this context, it addresses the issue of mobility poverty, points out the need for compensation in the Climate Change Fund[8] and makes initial proposals on how this should be designed. However, the Commission does not provide an estimate of how many persons could be affected by this throughout the EU, nor does it provide a definition or a set of indicators for specifying mobility poverty.

4.4 A study on mobility and re-entry into employment in rural areas (Mobility4Job[9]) found that only 50 per cent of unemployed persons had a car at their disposal at any time, while the population average was 80 per cent. As in the Costs project, it shows that households react to falls in income, among other things, by saving their private vehicle. This means that mobility limitations only become visible at a later point in time, for example when looking for a job, when relevant mobility alternatives are not available and potential working locations cannot be reached. The purely percentual share of mobility costs in income is therefore not a sufficient indicator of whether and to what extent there is a limitation in mobility options. Mobility poverty is a consequence of the combination of several variables: first and foremost income and the compulsion to own a car if no alternative mobility options are available.

Brussels, 9 December 2021

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The president of the European Economic and Social Committee

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8 COM(2021) 568.

9 Unterwegs zwischen Erwerbs- und Familienarbeit (54) - Portal der Arbeiterkammern und des ÖGB Verlags

(On the Road Between Gainful Employment and Family Work (54) – Portal of the Chambers of Labour and the ÖGB Publishing House).