The EU has made a proposal for a Social Climate Fund (SCF). This is valued at €72.2 billion over the eight years from 2025 to 2032. The aim of the fund is to support European citizens should climate measures lead to higher bills or other unfair impacts. The SCF includes both compensation - meaning direct payments to citizens - and investment in climate measures such as insulating buildings.

However, the proposed SCF contains a huge contradiction. The money it will contain is supposed to come from emissions trading in transport and buildings – a system known as the Emissions Trading 2 (ETS 2). This means that the public money raised by the ETS 2 would go towards compensating for its potential negative impacts. What a Social Climate Fund and the ETS 2 money should instead be used for is investing in sustainable renewable energy, sustainable transport like cycling infrastructure and energy efficiency measures which deliver on the EU’s 2030 climate and energy targets, so the SCF itself will be a driver of change, rather than predominantly a safety net against the social risks from an ETS 2.

The Social Climate Fund should be changed to ensure it provides time and support to help citizens support and get on board with the transition to a net-zero carbon Europe.

Seven Main Takeaways

1. EU decision makers must create a SCF that actively supports transformation to climate neutrality in transport and buildings. They must overhaul the proposal so that it can unlock its full potential and be designed in a fair manner.

2. The SCF should operate at least three years (ideally more) before a carbon price from European emissions trading in road transport and buildings (ETS 2) is felt by households.

3. The SCF should use both existing emissions trading (ETS 1) revenues and 100% of revenues from the new ETS 2, among other sources.

4. The SCF should be transformational, prioritising social and climate win-win investments in the decarbonisation of transport and buildings. It should also facilitate policy reforms where necessary to accelerate the socially fair decarbonisation of transport and buildings.

5. All revenue should be channelled back through the SCF to enable the buildings and transport sectors to be transformed for everyone, everywhere in Europe. No ETS 2 revenue should go into the Innovation Fund – which is supposed to help industry decarbonise.

   a. Part of the ETS 2 revenues could be redistributed as a ‘climate bonus’ to benefit all EU residents. This would highlight the value of a carbon price for all.

   b. Social Climate Plans, which are plans that local authorities must draw up to request SCF money, should include a dedicated section to ensure the funds are distributed in a way that is proportionate to wealth. This means those groups which are the least
able to invest should receive appropriate and fair support to engage in the transition to climate neutrality. A proportion of resources should be reserved to support this.

6. Provisions on consultation, partnership and transparency in Social Climate Plans and NECPs should be strengthened. This will help ensure all affected groups can have their say in the development and implementation of these plans. Social Climate Plans should also empower communities to develop their own bespoke approaches to decarbonising transport and buildings in a socially fair way.

7. The SCF must ensure a swift and socially fair transition by excluding the financing of new fossil fuel investment. This will prevent new fossil fuel infrastructure being built which then runs for several decades.

Introduction

The European Green Deal sets out Europe’s plan to achieve climate neutrality and promises to leave no one behind in the process. The transition will be positive overall for society: bringing health benefits from reduced air pollution, creating jobs in new industries[1] and - if implemented with sufficient ambition to limit global temperature rise to 1.5 degrees - averting the worst and most costly impacts of climate change on economies and people’s lives.

On the other hand, if the social impacts of the transition are not considered and managed well in advance, some groups risk being left behind. The lowest income households face the most acute challenges to transition. They are confronted with the greatest barriers to investment to tackle inefficient energy systems, poorly insulated homes and over-reliance on polluting transport. At the same time, the poorest households are those most exposed to the negative impacts of climate change such as extreme heat and cold waves.

Six Member States - Bulgaria, Cyprus, Finland, Germany, Ireland and Malta - failed to meet their 2020 national emissions reduction targets. These national targets were how the EU was supposed to collectively meet its 2020 climate and energy targets [2]. This failure is despite the Effort Sharing Regulation setting targets according to Member State capacity to achieve them — with lower emissions reduction targets for the poorer Member States [3]. Investing in building renovation helps to reach climate targets and address social inequality, but renovation rates across the EU have remained much lower than needed to meet the EU targets. Meanwhile, emissions reduction progress in other sectors like transport has been low or even non-existent. A transition to a 100% sustainable, renewable energy based system would both help avert climate impacts and offer improved stability and resilience.

Dedicated support is urgently needed to accelerate the transition in the transport and buildings sectors. However, it’s hard for people to make transformational, climate-friendly investments in these sectors – for example, investing in an electric vehicle or insulating their home - due to being tenant, demand- inelasticity, high upfront investment costs and the direct link to household expenditure. Efforts to address transport and building emissions cannot ignore these barriers to investment, nor the social challenges and opportunities linked to climate action.
The social dimension remains a weak pillar of the European Green Deal. EU-wide climate and energy targets require EU-wide solidarity. This means the EU institutions must recognise that countries, regions and people start at different points in the transition. The SCF can provide a central framework for accelerating the transition to climate neutrality across Europe, while upholding and driving progress on social goals.

In the next two sections, we propose a model and design principles to enable the SCF to support the transformational change needed to deliver deep and socially fair emissions reductions in buildings and transport. Rather than softening the blow from emissions trading in road transport and buildings (ETS 2) on the poorest, the SCF should catalyse the transition of households to cleaner and greener solutions in those sectors.

Timing and Resources

The SCF must start mobilising support as soon as possible - and at least three years before the imposition of an EU-wide carbon price on households and transport users from emissions trading in road transport and buildings

Simply extending emissions trading to buildings and road transport (ETS 2), is unlikely to resolve the lack of progress in these sectors. The current proposal foresees both compensation through direct income support and investment measures to be financed by the SCF. However, should an ETS 2 come into force just one year after the SCF, massive mitigation through compensatory payments to counteract unintended but disproportionately negative impacts on household budgets from a carbon price[^4], particularly for the lower income groups, would be needed because many households lack the means to invest in alternatives and so are essentially locked in to fossil fuels. This would diminish or even cancel out resources available for investments that actually drive decarbonisation in the transport and buildings sectors.

In addition, even if resources remained to support investments, they would be unlikely to be of a scale sufficient to meet the 2030 emissions reduction targets. Investment measures take time to have an impact on energy usage and emissions. By only supporting investments from 2025, one year before the carbon price from an ETS 2 would start affecting households, there would be little time for investment measures to be deployed that can effectively reduce the burden of the carbon price on those households with minimal capacity to invest in, or which have low access to, alternative and affordable, renovation, mobility and transport solutions.

Concretely, in the transport sector strong sectoral legislation, such as CO2 standards for cars have been very effective at increasing the production of electric cars and they will play an important part in ensuring the 2030 emissions reduction targets are met[^5]. However, households still face significant investment barriers to respond to the changes incentivised by such regulations. For example, electric cars remain considerably more expensive than...
conventional internal combustion engine cars. Without demand-side support at the household-level for investments in the transition, lack of such investments is likely to form a significant barrier to achieving the targets in full.

Enabling EU residents to reduce their future demand for fossil fuels is also the best way to ensure a socially fair transition and to free up resources for investments in transport and buildings that can deliver for both climate and social goals.

The current proposal for the SCF should therefore be revised to come into force well-before the operation of an EU-wide carbon price on households and transport users from an ETS 2. At the same time, the emphasis on investment measures over direct income support should be strengthened.

The SCF should be financed by a range of sources

Use a proportion of revenues from the existing emissions trading system (ETS 1)
The annual ETS 1 revenues have more than doubled since 2019 thanks to a rising carbon price. Using a substantial proportion of that increase for the SCF would not affect existing uses of revenue from the ETS 1.

Using revenue from the ETS 1 in the SCF would recognise the urgency to direct substantial resources to the decarbonisation of the buildings and transport sectors. The European Commission estimated that around €350 billion in additional energy system investment will be needed annually until 2030 to meet the EU’s updated 2030 climate target of -55% emissions versus 1990 levels. Of this, approximately €130 billion is foreseen in the transport sector and €110 billion in the buildings sector.

Finally, the ETS Directive includes a mandate for ETS 1 revenues to be spent (among others) on decarbonising transport and buildings. Under article 10(3) (h) and (f) of the ETS Directive, revenue classed as spent on climate action can include “measures intended to improve energy efficiency, district heating systems and insulation, or to provide financial support in order to address social aspects in lower- and middle-income households.”, as well as, “to encourage a shift to low-emission and public forms of transport”. Funnelling the revenue from ETS 1 for investments in transport and buildings would also increase the quality of revenue spending for climate objectives by Member States, which WWF has found to be poor [6].

All ETS 2 revenue should be channelled into the SCF, in complement to ETS 1 revenue
Asking households to bear the full price of carbon trading but promising only a fraction of the support available to help them make the transition to alternatives is unreasonable. Considering past bad experiences of revenue spending in ETS 1 [6], we recommend channelling 100% of revenue of ETS 2 into the SCF so as to guarantee the appropriate spending of revenues in the transformation of buildings and mobility.

The potential impact for a socially fair transformation of using 100% of the ETS 2 revenues and a substantial proportion of the increased ETS 1 revenues to finance the SCF is considerable. For example, using 25% of the revenue from the currently auctioned ETS 1 allowances in the SCF, could mean around €7.5 billion/year across the EU Member States [7]. This could be used...
to leverage significant private investment if delivered through the right instruments. It is welcome that Member States are empowered to allocate a proportion of other EU fund allocations, such as from the European Social Fund+ to the fund. Topped up with 100% of the ETS 2 revenues, assuming a carbon price of 60 euros/tonne in the ETS 2, this could be worth over €58 billion/year; over six times the average annual value of the current SCF proposal.

Maximising revenue sources for an impactful SCF

Under the current proposal, the value of the SCF remains fixed even if ETS 2 revenues increase due to a higher carbon price. In order to ensure that 100% of the value of the ETS 2 revenues - as well as a proportion of ETS 1 revenues - is directed into the SCF, a direct link between the value of ETS revenues and the SCF should be established. Because everyone is exposed to the carbon price, the value of the financial flows entering the SCF for redistribution to society should increase proportionally with any increase in revenues from a higher carbon price. This could be achieved by applying a similar model to that used by the Modernisation Fund in which a proportion of allowances are directly auctioned to feed into the fund.

Beyond using ETS revenues, the SCF should leverage additional revenue sources to support the objective of decarbonising transport and buildings in a socially fair way. Further national level financing for the SCF could be encouraged under the SCF, recognising the barriers to high levels of co-financing. It is welcome that Member States may channel a proportion of shared management funds (such as ERDF and ESF+\(^8\)) through the SCF, increasing streamlining and efficiency of EU funding; but this should not take money away from those regions that need it most.

Finally, in order to facilitate transformative planning, the SCF may also require safeguards to ensure that a baseline allocation can be provided to Member States. This could be provided via a floor price in the ETS 2 if introduced, or a floor revenue guaranteed by the EU budget.

The above model for timing and resourcing is represented by the diagram below:
To deliver on its full potential, WWF calls on EU decision makers to ensure the SCF is:

**Transformational**

To be transformational, the SCF must be adequately resourced. Section 2 outlines how WWF foresees financing of the fund using both ETS 1 and ETS 2 revenues.

The SCF should **prioritise win-win investment measures** to redistribute revenues fairly and unlock socially fair decarbonisation of the transport and buildings sectors. This is particularly important before the introduction of the ETS 2. Investment measures can enable households to switch to clean alternatives and so pre-emptively shield themselves from the introduction of a carbon price.

Going beyond investments, the SCF should incentivise the introduction of **policy and regulatory reforms under the Social Climate Plans**, in line with the National Energy and Climate Plans. This would follow the model set by the Recovery and Resilience Plans.

Such reforms should improve the conditions for a socially fair transformation, for instance by addressing the regulatory barriers or disincentives for landlords to invest in energy efficiency improvements, or by helping people to overcome barriers to accessing existing home renovation support [9].

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**A Social Climate Fund that delivers by itself**
Fair
Fairness for EU households means that 100% of the revenues from the ETS 2 should be channeled back to EU residents who bear the cost of the carbon price in transport and buildings sectors. **None of the ETS 2 revenues should be allocated to the Innovation Fund** for the decarbonisation of industry. Likewise, **free allocation must end in the ETS 1**. It is not justifiable that individual households should bear the full cost of a carbon price, while industry pollutes for free. Simultaneously, industrial decarbonisation should be accelerated by the use of formerly freely allocated allowances (worth €16.6 billion in 2019) via the Innovation Fund.

The SCF should be available to support all groups in society to transition. High upfront investment costs are too steep for many if not most individual households and present a barrier to transformative decarbonisation in the transport and buildings sectors. **It is important that the SCF is enabled to deliver measures that provide win-win benefits for social and climate goals across society**, as decarbonisation is needed across the entirety of all sectors.

However, special attention must be paid to enabling those households with low access to, or capacity to invest in, alternative and affordable, renovation, mobility and transport solutions to unlock the full benefits of the transition to climate neutrality in transport and buildings. **Social Climate Plans should include a section on how these households are supported by the measures** under the SCF foreseen by the Member State and that a **proportion of the Member State’s allocation set aside** specifically to deliver support to these groups.

Finally, once the ETS 2 begins operating, it could also be envisaged that a proportion of a Member States’ allocation could be set aside for direct redistribution back to citizens. A ‘climate bonus’ could provide a clear signal, if properly communicated, of the benefit of climate action to citizens. A lump sum payment at the same level for all citizens may also be preferable for its simplicity and its inherent progressiveness: constituting a relatively larger bonus compared to household income for lower income households.

However, direct financial transfers should be evaluated against potentially more effective and socially progressive measures for achieving decarbonisation in transport and buildings with the same revenue. Investments should be the main financially supported measure under the SCF. An upcoming study on the use of ETS 2 revenues and the distributional impacts by WWF Germany, Germanwatch, CAN-Europe and Klima Allianz has found that - under the current proposal - approximately 25% of the revenues from the ETS 2 would be required to offset the increased energy costs implied by a carbon price in transport and buildings for the 40% lowest income groups. The current proposal only foresees 25% of the ETS 2 revenues going into the SCF.

Redistribution, facilitated by the SCF, between Member States is also important. Common EU targets require solidarity between Member States: without recognising that Member States, as well as individuals, have different capacities to invest in the transition, as well as facing different challenges, we will risk undermining our common goals.

Inclusive
The Commission recognises the value of addressing socially fair transitions and has put this into practice through the development of Territorial Just Transition Plans in fossil fuel-
dependent regions. As the entire economy shifts, a proactive, informed and holistic approach across society is likewise needed.

In this context, the Social Climate Plans (SCPs) are a step in the right direction. The earlier a transition is planned and milestones set, the lower the costs thanks to sooner investor certainty. Plans also provide a vision of the way forward, giving people confidence that they can actively take part in the transition and that they will not be left behind.

However, the current model for development of the SCPs is inadequate. The success of the transition will depend to a large extent on whether it receives wide support from the general public. In turn, this will depend on whether the transition is perceived to be fair and to respect the rights, needs and values of those it affects.

It is vital that plans are developed with high levels of transparency and engagement from the public. The plan template (in Article 4.1.j) indicates that the process of consultation should be conducted in accordance with the same process as for developing the National Energy and Climate Plans. However, evidence suggests that the process of developing NECPs has not been fully inclusive in all Member States. Further provisions are therefore needed to ensure that both NECPs and SCPs are developed in full respect of best partnership, openness and inclusiveness practices.

The risk that plans are not developed with the meaningful participation of stakeholders could be reduced further by assuring that the Commission will verify the adequacy of consultation, participation and inclusion before approving of the SCPs. This could be achieved by introducing assessment criteria under Article 15. Strengthening provisions and providing guidance to enable and encourage the capacity building of stakeholders, especially those with fewest resources, to participate in development (and implementation) of the plans would also go some way to improving openness and inclusivity.

All stakeholder groups must also be engaged in the monitoring and implementation of the SCPs. While detail on the arrangements for the effective monitoring and implementation of the plan in the Member State is required in the SCPs, the provision should be strengthened further to include a requirement for detail on composition of the motoring committee and assurances that all stakeholder groups are represented: notably including local authorities and representatives, as well as civil society.

Finally, local level challenges require local level leadership and projects. In order to promote inclusiveness and unlock the benefits of bespoke, local level solutions to the specific challenges faced by communities in the ground, emphasis should be placed on engaging local level authorities and enabling citizen-led projects under the SCPs.

The SCF must empower those most affected by the transition, but with the fewest resources, to engage in and influence it. This could be via a dedicated section in the SCPs - or even a dedicated proportion of the fund - to be set aside for Community Led Local Development projects, as well as through the provision of dedicated outreach and technical assistance for smaller groups and enterprises.
Sustainable
The achievement of social goals cannot be used as an excuse to delay the transition needed to avert catastrophic climate change. Social wellbeing and prosperity ultimately relies on healthy natural resources and ecosystems, while the negative impacts of climate change – from increased extreme weather events, to rising sea levels and wildfires – hit the poorest hardest as they are the least able to adapt to them.[1][2]

Sustainable investments that actively deliver on climate action are therefore a vital component of an effective SCF. The SCF must exclude any investment in new fossil fuels. It needs to encourage investments which drive forward the transition to climate neutrality and include a ‘do no significant harm’ requirement.

Moreover, in order to be truly transformative, the SCPs should require Member States to outline how planned investment will deliver on both climate and social objectives. For example, electric heat pumps (or renewable district heating in urban areas) are the cheapest green heating options for consumers. Hydrogen boilers and hybrid heat pumps (hydrogen/electric) meanwhile are the most expensive options and hydrogen will be more expensive than gas is today[1][3].
Summary

WWF recommends that the SCF proposal is overhauled so that it can drive the socially fair transformation in transport and buildings sectors for the benefit of the whole of society. The operation of the SCF should be delivered over two phases: the first coming well-before the operation of a carbon price from the ETS 2. During the first phase, particular emphasis should be placed on investment measures benefiting households with low access to or capacity to invest in alternative and affordable, renovation, mobility and transport solutions, in order to reduce the impact of a future carbon price on these lower income groups. This phase should also include the introduction of relevant policy reforms. During the second phase, emphasis will still be needed on ensuring that the lowest income groups do not suffer an insurmountable cost from carbon pricing for their essential heating and transport needs. Reflecting the much increased budget, the extent of the investment gap and the fact that all households bear the cost from the ETS 2, redistribution to the whole of society should be delivered by the social climate plans.

Important questions remain regarding the most effective operation of the SCF and many of these require further dedicated analysis of the challenges, opportunities and impacts of proposed measures. These include:

- The interaction between SCF and other policies and instruments (such as the regulation on CO₂ emission performance standards for cars and the directive on energy efficiency) to support the renovation of buildings and uptake of clean mobility modes
- The risk that carbon pricing pushes households into energy poverty, and the potential of targeted investments for low income households to mitigate this risk over time
- The role of regulatory reform to incentivise housing renovation rate increases versus the likely impact of ETS 2
- The non-financial barriers to investment in renovation and alternative transport between different Member States, regions and income groups
- The potential for public investments to trigger further decarbonisation investments in the housing and transport sectors - and the effectiveness of different models of public investment for triggering positive social and climate outcomes

We call on the Commission to fill in these knowledge gaps in order to ensure a smooth and effective implementation of a transformative and socially fair European Social Climate Fund.
References

1. Cambridge Institute for Sustainability Leadership, April 2020, "Working towards a climate neutral Europe: Jobs and skills in a changing world". The European Climate Foundation, 2019 report “Fossil Free Energy systems in Europe are feasible by 2050” report shows that in pathways with a high-level of renewables, electrification and deep building efficiency renovation, up to 1.8 million additional jobs can be created. This compares to just 1.3 million in a net zero pathway dominated by green gases and Hydrogen.


4. Bulgaria, Romania and Lithuania have the lowest required reductions.

5. See: European Climate Foundation and Cambridge Econometrics, May 2021, “Exploring the trade-offs in different paths to reduce transport and heating emissions in Europe” They estimate that a carbon price of €180 would be needed to meet carbon goals without additional policy measures.

6. WWF, June 2021, “Decarbonising European transport and heating fuels - Is the EU ETS the right tool?”

7. At current expected total annual revenue levels of around €30 billion (assuming a price of €60 /tonne CO2). This amount will not be sufficient alone to address the full scale of the challenge and must be complemented by other measures, but does contribute significantly. The use of ETS revenues in this way would also fulfil the Commission’s indicated Renovation Wave commitment to explore using ETS revenues (and other EU budget resources) to fund national energy efficiency and savings schemes targeting lower income populations. Housing Europe estimates that €13 billion in additional investment will be required each year until 2050 to renovate the social housing sector alone.


9. Including in line with the recommendations in Right to Energy Coalition’s November 2021 paper, “Tackling energy poverty: Ensuring the Renovation Wave delivers to households who need it most”.

10. Meaningful public participation when all options are still open in environmental decision-making is not only integral to achieving social consensus over the far-reaching effects of the clean transition; it is also an international commitment taken by the EU and its Member States under the Aarhus Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters.


12. For example, avoided air pollution could prevent over 400000 premature deaths annually in Europe. Source: Air Quality in Europe 2020 Report (European Environment Agency)

13. BEUC, November 2021, “Goodbye to gas: why your next boiler should be a heat pump”