

## Making sure 'Fit for 55' is fit for a just energy transition

The need to introduce measures to alleviate energy poverty and protect vulnerable consumers became an explicit policy priority in the Clean Energy for all Europeans Package (CEP).<sup>1</sup> The Commission further stepped up its ambition through its Recommendation on Energy Poverty and its staff working document as part of the Renovation Wave package. All of this fits under the umbrella of the European Green Deal strategy, which rightly recognises that failing to address social issues holistically may eventually jeopardise all efforts of reaching our climate targets in due time.

Until recently, EU and national level approaches towards ensuring a just transition under the Green Deal have remained scattered and reactive. Energy poverty, a situation in which households lack access to essential energy services like heating and cooling, can have major detrimental effects on people's welfare and wellbeing. To deliver on the Green Deal's promise to 'leave no one behind' on the road towards net-zero emissions, the Fit for 55 legislative Package aims to raise those social ambitions even further. It is now paramount to ensure social acceptance of the clean energy transition. Unfortunately, the proposal to extend the Emissions Trading System (ETS) to buildings, using the Social Climate Fund (SCF) to buffer its social impact, reaffirms a reactive, rather than a much needed proactive or strategic approach.

In itself, the SCF has significant potential to serve as a cornerstone of a just energy transition, ensuring vulnerable social groups are addressed. However, in order for this potential to be realised, the legislative negotiations between the European Parliament and the Council need to result in:

- Scrapping the extension of the ETS to buildings and transport, delinking it as a prerequisite for the creation of an SCF;
- Designing SCF not as a band-aid measure for regressive climate policy, but as a proactive and strategic instrument aimed at tackling the root causes of energy poverty and vulnerability;

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<sup>1</sup> For more information about energy poverty and protecting vulnerable consumers in the CEP, see for example the STEP project report of September 2019, "Assessment report of the provisions about energy poverty in the Clean Energy package".

- The development of effective mechanisms that can ensure public participation, transparency, and ongoing dialogue with local authorities and other stakeholders that are strategic in ensuring a just energy transition; and
- Acknowledgment and support for the role renewable and citizen energy communities can play in reaching out to, and empowering, members of socially vulnerable groups.

## **1. The SCF as a response to the ETS: A half-hearted attempt at addressing energy poverty**

By proposing to extend the ETS to transport and buildings, the Commission aims to create an economic incentive to reduce fossil fuel consumption and thus greenhouse gas emissions. However, the Commission is also well aware of the social and distributional impacts of this ETS extension, and the adverse effects it may have on the most vulnerable within Europe. Recital 10 of the proposed Social Climate Fund Regulation (SCF Regulation) recognises that vulnerable households, vulnerable micro-enterprises and vulnerable transport users spend a larger part of their incomes on energy and transport and may not always have access to affordable alternatives. Therefore, they may be disproportionately affected by the increase in the price of fossil fuels.

To address the distributional effects of extending the ETS, the Commission proposed the creation of the SCF. This Fund should support Member States to take measures, such as provision of direct income support, and investment in energy efficiency, building renovations, decarbonisation of heating and cooling, financing zero- and low-emission mobility and so on. The alleviation of energy poverty is also one of the key goals of the Energy Efficiency Directive (EED) proposal, which presents the SCF as an important tool to simultaneously address social and climate challenges, turning them into opportunities.

### **Delinking the SCF from and ETS - Scrapping the ETS**

There are a number of reasons to be concerned whether the SCF will be capable of serving as a structural measure to tackle energy poverty, as envisioned by the Commission in the EED. When looking at different elements of the Commission's proposals, it is clear that there is misalignment between different objectives:

- Sufficiency - the foreseen revenues feeding into the SCF will not be sufficient to address the distributional impact of the green transition, much less the impact of an ETS extension;

- Timing - starting only one year prior to the ETS, it leaves little room to fully prepare vulnerable households for its effects; and
- Strategic fit - it is unclear how the SCF fits into an overall strategy to address the distributional impact of the climate and energy transition

The Fund should not be designed as a reactive measure for regressive climate policy, but as a proactive measure to address structural drivers of energy poverty and vulnerability. Holding the SCF hostage to a process of fundraising through the ETS is likely to jeopardise any attempt at regaining acceptability through redistributive measures. Therefore, its creation should be decoupled from the extension of the ETS to buildings and transport.

This also means that other sources of funding for the SCF would need to be explored. Some potential options to fill the gap between now and the next Multiannual Financial Framework (MFF) could include cohesion funds, a second round of recovery and resilience funding, or a mix of the two. These other funding streams are not only necessary to make delinking possible, but also to strengthen the SCF's sustainability over time so that it can play a meaningful role throughout the energy transition. For example, a Housing Europe report states that renovations for the social housing sector alone across Europe would need [at least €13 billion annually until 2050.<sup>2</sup>](#)

## 2. Designing the SCF so that it gets to the right people

As a stand-alone tool, the idea of an SCF may be considered long overdue. If properly designed, with strong provisions on citizen empowerment and inclusive governance, the SCF could play an important role in filling some of the current investment gaps in renovation, energy efficiency and (collective) renewables schemes, particularly for the most vulnerable.

### The SCF as a tool to empower citizens

The SCF should aim to empower citizens to participate in the energy transition. Such an objective should be reflected in Article 1 of the SCF Regulation. This objective should be supported by concrete provisions that support active participation in the development and implementation of national actions supported by the Fund. Below are some proposals on how to help achieve this objective.

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<sup>2</sup> Housing Europe Report of November 2020, "Public, Cooperative & Social Housing Providers' ambition by 2030"

## Designing and implementing the SCF with the right people

The Commission proposal indicates that in order to receive funds from the SCF, Member States have to develop Social Climate Plans (SCPs). These plans need to contain measures and investments to buffer the social impact of the ETS for people in vulnerable situations. We welcome the fact that Article 4 (1) (j) of the SCF Regulation refers to Article 10 of Regulation (EU) 2018/1999 in addressing the content of the SCPs. This means it recognises the importance of public consultations for preparation of the plans. However, stronger language is needed to ensure inclusive participation of local actors and intermediaries throughout both the design and implementation of those Plans. This is key to both setting and effectively meeting objectives in line with the needs of those living in vulnerable situations.

A first step in providing clarity in this process would be to require Member States to develop their SCPs using a template. A template establishes a certain level of uniformity amongst different national plans, increasing transparency, lowering the administrative burden for national policy makers, and allowing for easier comparison. Importantly, it also enhances certainty for stakeholders about opportunities to get involved in the decision making and where to provide input.

Secondly, participation and engagement of lower policy levels in the development and implementation of SCPs should be ensured. To this end, Article 10 of the Regulation (EU) 2018/1999, which mentions “effective opportunities to participate”, should be further specified so that Member States have better clarity about who they should engage, and how. An effective social dialogue can only be achieved when participation is transparent, simplified and tailored to the circumstances of those most affected by the distributional impacts of the green transition, taking into account common challenges such as time constraints, lack of digital skills, lack of access to digital tools, language barriers, mobility poverty and so on. The SCPs should provide some detail about how Member States aim to tackle such issues. These challenges not only apply for people living in vulnerable situations, but also to organisations working on this issue, which are often small and lack capacity to engage in lengthy decision-making processes. Furthermore, such dialogue necessitates an active role of local authorities and other local actors working on the ground.

Lastly, clear and easy to access information, targeted technical support and outreach programmes are needed to reinforce actors and actions on the ground to engage with the decision-making process. Empowering citizens to take ownership of processes centred around social justice is key to ensure social acceptability and successful implementation of resulting policies and regulations.

## Acknowledging the role of energy communities

Community energy initiatives can play a meaningful role in addressing social justice issues and empowering low-income and vulnerable households. Currently, there are a number of initiatives led by energy communities that focus on solidarity and addressing energy poverty.<sup>3</sup> However, in order to reach this potential, community energy initiatives need policy support. The SCF represents an opportunity to leverage energy communities to address socially disadvantaged groups. Unfortunately, the Commission's SCF proposal does not mention community energy initiatives.

Article 6 of the SCF Regulation outlines which measures and investments are eligible for inclusion in the SCPs. Paragraph 2 should be amended to specifically include support for community energy initiatives tackling energy poverty. As highlighted in the Article 22 of Directive 2018/2001 (the Renewable Energy Directive), Member States are already required to put in place enabling frameworks to promote the development of Renewable Energy Communities (RECs), which include making sure participation is accessible to low-income and vulnerable households. By including support for renewable energy communities to help low-income and vulnerable households, the SCF can help support delivery of renewable energy objectives as well as inclusiveness of social groups that are unlikely to be able to participate in the energy transition.

Recognition of energy communities in Article 6 should be reinforced in Article 8, which provides Member States with guidance on how to effectively reach vulnerable households with the measures and investments funded by the SCF. Energy communities can function as effective intermediaries, as they, and in particular cooperatives, have a clear concern for community and show great potential as a mechanism for participative and collective decision-making, problem-solving and action. As such, they not only strengthen social cohesion, but also stimulate local employment and boost the local economy. They often work closely together with local authorities and other small and medium enterprises (SME's), and also set up initiatives together to reach out to low-income and vulnerable households. The projects involved in the [Horizon 2020 project CEES \(Community Energy for Energy Solidarity\)](#) showcase inspiring best practices of how such citizen-led initiatives enact social justice.

### **3. The need for an overarching strategy for addressing the distributional impacts of the energy and climate transition**

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<sup>3</sup> See for example the REScoop Plus project <http://www.rescoop-ee.eu/energy-solidarity> or the CEES project <https://www.energysolidarity.eu/>

While the EED integrates the SCF as a structural response to energy poverty, its creation is merely proposed as a band-aid measure response to an ETS extension. This misalignment is indicative of the EU's and Member States' lack of a holistic strategy for tackling energy poverty. There is a need for a concrete way forward to ensure coherence and social safeguards in the entire policy landscape at both EU and Member State level.

## Fitting into a wider ecosystem

To date, EU and Member State efforts to address distributional impacts of the energy and climate transition have remained scattered. This has led to a lack of clarity around the strategic role and value of the SCF. How do all existing and proposed measures to 'ensure a just transition' connect to each other? The Commission's initiative for a Council Recommendation on ensuring a fair transition towards climate neutrality is a step in the right direction to envision and create meaningful connections. It recognises the need for comprehensive policy efforts and is designed to complement the Green Deal's efforts to take everyone on board, by providing policy guidance to Member States on how to address employment and social aspects of the transition. But it is questionable whether recommendations or encouragements are enough to address the urgency of the need for coherence and social safeguards.

To sum up, it is clear that the SCF and the Council Recommendation as currently proposed will not be sufficient to ensure a coherent approach to ensure an inclusive and participatory approach at all levels. There is a pressing need for more ambitious efforts to connect social and climate policies, and to create a more holistic strategy for addressing these issues.

## A right to clean and affordable energy

A more explicit framing of the right to clean and affordable energy for all as a human right and as precondition to a life of dignity may be a step in the right direction. This builds on Principle 20 of the European Pillar of Social Rights, which states that everyone has a right to essential services of good quality, including energy. The Porto Declaration pledged to deepen this pillar at EU and national level.

To act on this pledge, social justice and citizen empowerment should be at the core of every proposal and Directive that is currently on the table. Strengthening these provisions with rights-based concepts calls upon more active policy action, a State's

duty to act on these rights and other actors to intervene when these rights are not respected.<sup>4</sup>

## Evidence based just transition policies

Both at EU and Member State level, climate policies should address justice issues by design – not by reaction, striving to create evidence based just transition policies. We support the Commission's efforts in the proposed Council Recommendation to further develop and mainstream the use of employment, social and distributional impact assessments as part of climate, energy and environmental policy. However, such methodologies should apply to both national and EU policy making and ideally even go beyond the Fit for 55 Package, taking into account gender, racial and other intersecting grounds of discrimination. Moreover, such measures should be binding for Member States to implement and not just an invitation for them to consider.

Beyond the impact assessment itself, there should be a clear path forward when significant distributional impacts are identified in a particular policy proposal. This should lead to a decision making process that prioritises policy options that avoid the need to create additional mitigating measures. If applied in the ETS extension, such an assessment would have concluded that alternatives to the ETS should have been adopted, reducing the need for band-aid measures, such as the SCF. We reiterate the importance of procedural justice to avoid working in silos and ending up with social impacts that may jeopardise the efficiency and effectiveness of the green transition.

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<sup>4</sup> Shyu, C. W. (2021). A framework for 'right to energy' to meet UN SDG7: Policy implications to meet basic human energy needs, eradicate energy poverty, enhance energy justice, and uphold energy democracy. *Energy Research and Social Science*, 79(June), 102199.