eurelectric
powering people

A Social Climate Fund for a -55% ambition

Eurelectric position paper

November 2021

Eurelectric represents the interests of the electricity industry in Europe. Our work covers all major issues affecting our sector. Our members represent the electricity industry in over 30 European countries.

We cover the entire industry from electricity generation and markets to distribution networks and customer issues. We also have affiliates active on several other continents and business associates from a wide variety of sectors with a direct interest in the electricity industry.

We stand for

The vision of the European power sector is to enable and sustain:
- A vibrant competitive European economy, reliably powered by clean, carbon-neutral energy
- A smart, energy efficient and truly sustainable society for all citizens of Europe

We are committed to lead a cost-effective energy transition by:

investing in clean power generation and transition-enabling solutions, to reduce emissions and actively pursue efforts to become carbon-neutral well before mid-century, taking into account different starting points and commercial availability of key transition technologies;

transforming the energy system to make it more responsive, resilient and efficient. This includes increased use of renewable energy, digitalisation, demand side response and reinforcement of grids so they can function as platforms and enablers for customers, cities and communities;

accelerating the energy transition in other economic sectors by offering competitive electricity as a transformation tool for transport, heating and industry;

embedding sustainability in all parts of our value chain and take measures to support the transformation of existing assets towards a zero carbon society;

innovating to discover the cutting-edge business models and develop the breakthrough technologies that are indispensable to allow our industry to lead this transition.

Dépôt légal: D/2021/12.105/42

WG Social Sustainability
Electrification and Sustainability Committee

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KEY MESSAGES

- **We welcome the Fund.** We appreciate the fact that the European Commission has introduced distributional effect considerations throughout the ‘Fit for 55 Package’. We welcome the idea of creating a stand-alone fund like the Social Climate Fund that aims at channelling resources to targeted households via a lump-sum and/or via projects supporting electrification, like energy efficiency, integration of renewables or electric-based transport solutions.

- **The ambition of the fund requires a bigger financial envelope.** With the current scope of the Fund, additional resources will be needed if the aim is not only that of supporting families through the years in which they will be the most exposed to price increases but also to help them bear the initial cost of switching to electric-based solutions for heating, transport, or cooking. Additional financing should not come from taxes and levies on the power sector nor from taking away resources from established programmes to support decarbonisation and electrification in the MFF.

- **The Fund is an important element of the Package and the Just Transition Framework.** The Fund is one of the essential instruments proposed for this mitigation, aiming at ensuring that citizens are supportive of the energy transition.

- **The articulation of lump sum and electrification-based projects.** We would like to propose that in the technical guidance to support Member States during implementation the Commission provides clarity on how to best articulate the combination of lump sums and support to the projects.

- **Essential to focus on electrification.** We particularly welcome the focus on electric-based projects, which is key to the Electric Decade. The higher decarbonisation ambition that is articulated across different proposals of the package, especially in end-use sectors like heating and cooling and transport needs to go hand in hand with support for lower income households.

- **Governance respectful of the subsidiarity principle.** We welcome the fact that the governance of the Fund is similar to the Just Transition Fund. The architecture of the initiative is set at EU level, but it is ultimately up to Member States to articulate the plans and related measures sponsored by the Fund, as the main competence on social policies lies with them, in accordance with the principle of subsidiarity.

A much-needed fund to support the most vulnerable through the transition

Climate policies are likely to impact the low-income population harder in the short term unless they are accompanied by targeted mitigation measures (E-quality: shaping an inclusive energy transition[1], Eurelectric, 2020). The most vulnerable households are particularly hit because the share of their disposable income dedicated to necessary daily activities like travelling to work, cooking, or heating and cooling their house is higher compared to others.

It is crucial to acknowledge these distributional effects and mitigate them via targeted and coordinated European and national policymaking for an ambitious climate vision to succeed.

In our study we identified four main policy areas that can completely offset regressive impacts on the lowest-income parts of the population. These are: a) planned and adequately financed long-term retraining programmes, b) compensation funds, in the form of lump-sum transfers or tax reductions, c) energy efficiency support schemes to improve standard of living and reduce energy use and costs, d) finance subsidies for low-carbon technologies, incl. renewables in a progressive way.

We particularly welcome the fact that the European Commission has introduced distributional effects considerations throughout the 'Fit for 55 Package', both in the impact assessments and in more than one legislative proposal. We welcome the idea of creating a stand-alone fund like the Social Climate Fund that aims at channelling resources to targeted households via lump-sums and/or projects supporting electrification, like energy efficiency, integration of renewables or electric-based transport solutions.

The ambition of the fund requires a bigger financial envelope

The Fund is based on the principle of recycling revenues generated via carbon pricing for buildings and transport to shield EU citizens most exposed to the additional costs this entails. The principle corresponds to what we concluded in the E-quality study.

The regulation proposes an amount of €72.2 bn for 7 years (2025-2032) matched by an equivalent amount from Member States up to a total of €144.bn, or €20.6 bn a year on average. Although the fund is frontloaded, this corresponds on average to about €230 for each EU citizen in the 20% lowest income bracket each year, for a total of about €1600 throughout the 7-year period.

In our study we calculated an annual sum of €260 for all households, regardless of their income, would allow the disposable income of badly-off households to increase by 4.2% thanks to recycling revenues from key decarbonisation policies, including carbon pricing and fossil fuel taxes.

The regulation is in line with our theoretical findings and is in principle fit for mitigating the price impact that households will face with the introduction of a stand-alone ETS for buildings and transport. However, with the current scope of the Fund, additional resources will be needed if the aim is not only that of supporting families through the years in which

[1] Study realized with the scientific contribution of Enel Foundation with analysis carried out by Cambridge Econometrics and Guidehouse, June 2020. https://www.eurelectric.org/e-quality/

they will be the most exposed to price increase but also to help them bear the initial cost of switching to electric-based solutions for heating, transport, or cooking. Moreover, the top-up from Member States should not come from additional taxes or levies on the power sector or on the electricity bill.

The Fund needs to increase, potentially by reserving a higher amount from the new ETS for it.

Last but not least, it is proposed that the Fund is partially founded via the Multiannual Financial Framework. It is important to underline that this solution should consider the difficulties in finding a reasonably fast agreement on the whole MFF, which may not be compatible with the timeline of the SCF Regulation. Most importantly, financial support for the Social Climate Fund should not subtract resources from other programmes within the MFF which are already allocated to activities favouring electrification, decarbonisation or to cohesion policies. It should be in principle compatible as well with the way national resources are allocated to support decarbonisation.

The Fund is an important element of the Package and for the Just Transition framework

It is important to underline that the Social Climate Fund is an important component of the 'Fit for 55 Package' and upcoming legislative negotiations should consider the interlinkages between the higher climate and energy ambition and the need for it to be mitigated via more than one instrument. The Fund is one of the essential instruments proposed for this mitigation, without which the overall ambition of the Package is at stake. Moreover, the Social Climate Fund is a welcome tool that adds to the existing framework to finance the just transition - alongside the Just Transition Mechanism (EUR 70 bn in 2021-2027) and the ETS Modernization Fund (EUR 14 bn in 2025-2032) - this time with the merit of having a special focus on households.

As expressed in our paper '[Making the EU ETS fit for 55](#)' (May 2021), we are in favour of new carbon pricing systems for other sectors as long as they are initially separated from the current EU ETS in order to not disrupt the existing system. The Social Climate Fund regulation proposes to use a part (25%) of the revenues raised via the selling of the allowances in the new ETS system for buildings and transport to be included in the financial envelope.

The articulation of lumps sums and electrification-based projects

The proposal leaves the choice to Member States on channelling the financial support via two main types of initiatives: support aiming at the reduction of vulnerability situations (via lump sums) and/or aiming at promoting projects on energy efficiency, zero and low-carbon mobility, integration of renewables and reduction of GHG emissions.

We would like to propose that in the technical guidance to support Member States in the implementation the Commission provides clarity on how to best articulate the combination of lump sums and support to the projects.

As a way of example, if the project includes financial support to allow a low-income household to afford an electric car, the lump sum should be articulated in a way that it allows the family to be compensated for the increase in fossil fuels that they will still face for a temporary period before becoming the owners of the car. Member States and national or local authorities may benefit from accessing best practices from existing schemes at European or international level, as we analysed in the E-quality study.

Essential to focus on electrification

We particularly welcome the focus on electric-based projects, which is key in the Electric Decade. This is another expression of the recognition of the role of electricity and the introduction of electrification as a golden thread across the package.

The higher decarbonisation ambition that is articulated across different proposals of the package, especially in end-use sectors like heating and cooling and transport needs to go hand in hand with support for lower income households.

Governance respectful of the subsidiarity principle

We welcome the fact that the governance of the Fund is similar to the Just Transition Fund. The architecture of the initiative is set at EU level, but it is ultimately up to Member States to articulate the plans and the related measures to be sponsored by the Fund, as the main competence on social policies lies to them, in accordance with the principle of subsidiarity.

The power sector stands ready to share its experience and expertise to support national, regional, and local authorities in the development of the plans and measures for the switching to electric-based solutions.

As a final remark, we would like to underline that linking the scope of the activities eligible for the Fund to the principles of the EU Taxonomy regulation may be premature as essential implementing legislation is still under preparation.

Eurelectric pursues in all its activities the application of the following sustainable development values:

Economic Development

- Growth, added-value, efficiency

Environmental Leadership

- Commitment, innovation, pro-activeness

Social Responsibility

- Transparency, ethics, accountability

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EU Transparency Register number: 4271427696-87