

Social Climate Fund (SCF)

Ensuring a socially just transition

One year after the European Commission's landmark climate package, 'Fit for 55', it is now in the hands of the European Parliament (EP). We look at what is at stake for the European Green Deal and Europe's climate ambitions, as the lead committees of the EP vote to adopt key Fit for 55 proposals.

Context

The Social Climate Fund (SCF) was the surprise element of the Fit for 55 package. Faced with a lot of opposition against the introduction of a new carbon market for road transport and buildings (the so-called ETS2), the Commission proposed a new Fund as a way to redistribute ETS2 revenues both between and within member states.

Under this new ETS2, fuel suppliers like Total and Shell would need to buy pollution permits for each liter of fuel they put on the market. They would then pass on these costs to the end-consumer, leading to increased prices for car refueling and home heating. Without effective revenue recycling, this would have regressive effects. Low-income households don't have the means to shift technologies to avoid carbon pricing, as that would entail upfront investment costs.

The SCF is transformative in the sense that it would give Europe tools to steer and guard a just transition in the member states. But the Commission proposal also has significant shortcomings, some of which have been addressed by the lead ENVI/EMPL negotiators.

What is at stake as EU Parliamentary Committees vote on the Fit for 55 climate package?

What's good? What's bad?

While the SCF ensures inter-EU solidarity by redistributing revenues from richer to poorer member states, the Commission did not link the size of the SCF to the ETS2's price level. So if carbon prices go higher than those modeled by the Commission, the SCF budget would not increase proportionately and inter-EU solidarity would fall short of what's fair. The lead ENVI/EMPL negotiators are proposing to fix this flaw and tie the SCF's budget to the ETS2 price. In addition, the compromise amendments on the ETS2 itself ensure all ETS2 revenues will need to be spent in accordance with the SCF criteria.

The proposal also strengthens scrutiny over and monitoring of the Social Climate Plans and includes a definition on mobility poverty.

On the flip side, the lead negotiators are proposing to restrict the use of SCF resources for direct income support and don't allow member states to offset the entire carbon price impact for the very

Fit for 55 Committee Votes

lowest incomes. There's also no clear ban on projects that fund fossil fuels.

How should the proposals be improved?

1. **Exclusion of fossil fuel projects:** there should be clear language prohibiting the use of SCF money for any projects involving fossil fuels. The language preventing support for low-emission vehicles is still too vague and soft, even if it now references the taxonomy.
2. **Mandatory direct income support:** to prevent a backlash against the EU as a result of the implementation of carbon pricing, it is essential that we get the redistribution of ETS2 revenues right. Implementing direct income support under the SCF should therefore be made mandatory, at least for the very lowest incomes. As the situation and need for support is so different across
- member states, a one size fits all maximum spending ceiling for financial compensation does not work. Rather, we propose that the Commission maps the need for compensation in each member state and that countries have to argue the impacts of their chosen spending split between compensation and investments.
3. **Mobility poverty:** member states' biennial progress reports should be as encompassing on mobility poverty as they are proposed to be on energy poverty. Countries need to submit detailed information on how they define, implement and monitor mobility poverty.

Next steps to deliver on Europe's climate goals

The ambition of Europe's Green Deal will be determined over the coming weeks as the Fit for 55 package process goes from European Parliament Committees for a Plenary vote in Parliament, and then to Trilogue negotiations with the European Council and European Commission. At any stage, Europe's ambition to decarbonise transport could be strengthened or weakened. It is critical that we maintain high levels of ambition and not allow Fit for 55 to be watered down.

The next steps for the Social Climate Fund will be a vote in the European Parliament plenary during the week of June 6th, with trilogues expected to start once national governments agree on their position, possibly at the Environment Council on 28 June.

T&E Comment

“To make the transition work, Europe and its member states need to support the lowest-income households in their shift to zero-emission technologies. The Social Climate Fund would mandate such planmaking from each member state and redistribute resources between member states. The Parliament’s lead negotiators are proposing significant improvements to the planning and monitoring of the Social Climate Plans and tie the size of the Fund to the carbon price level, thereby ensuring intra-EU solidarity. But investments will take time and Europe needs to help low-income households to pay their energy bills in the meantime. MEPs are proposing to restrict member states’ budgets to effectively do this, thereby jeopardizing broad support for carbon pricing. They also leave the door open for fossil fuel projects to be funded through the Social Climate Fund.”

Further information

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