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Make the Social Climate Fund a game changer to tackle energy poverty

Alternative financing is needed to achieve greater ambition

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"The pre-war situation with abundant, cheap fossil fuels is not coming back [..] the next winters –not just this one– will be difficult", declared Vice-President of the European Commission Frans Timmermans during the press conference on an emergency intervention to address high energy prices on 14th September 2022. Over the course of just one year, the energy landscape dramatically changed. Global oil prices increased by 200%, coal prices by 400% and EU gas prices by up to 1000%.

Soaring energy prices fuel a cost of living crisis that hits the lowest income households harder. Before summer, a study from the Mercator research institute estimated that some 50 million Europeans were at risk of facing additional costs of up to 50% of their total pre-crisis expenditure in 2022. The summer drought pushed electricity prices to new heights.

So far, Member States have mostly responded by deploying emergency price control mechanisms to protect consumers from the sudden price spike (tax cuts, climate bonuses, energy or heat cheques). Price compensation measures for low to middle-income citizens will remain critical as long as citizens do not have easy access to affordable clean alternatives. But with energy prices likely to remain high for some time, **government's also need to accelerate investments in low-carbon housing and mobility to**

prepare for the next winters by addressing the root cause of the crisis- our dependence on fossil fuels.

Today, we are paying the price of our delayed action in the field of the energy transition. The combined emergency spending of Germany, Italy, Spain and France already come close to 250b€ in just one year. This is equivalent to the amount of public and private investment needed to trigger mass deployment of deep energy renovation across the EU. While short term protective measures are necessary to face the emergency of the cost-of-living crisis, they should be combined with long-term investments on deep renovations.

With 50 million of people already experiencing energy poverty in Europe in 2020, and no clear picture on how the current energy price hike will impact lowest and middle-income groups this winter, it is urgent to act. **There is a clear gap in the current EU climate policy architecture, green finance and income support for the most vulnerable.** From a climate action and social justice perspective, it makes sense to first support those who are the most impacted by the energy price crisis but lack resources to move away from fossil fuel dependency. However, so far, public funds for deep energy renovations have been too scarce, have rarely benefited the poorest, and have failed to actively reach out to people who need it.

The Social Climate Fund proposed by the European Commission in July 2021 **is an historic opportunity to address the financing gap** of the building and mobility transition for low- and middle-income Europeans. The Social Climate Fund is a financing tool which would support the energy transition of vulnerable households through direct income support and green investments. It would therefore contribute to alleviate inequalities within and among EU Member States. Indeed, the clearest net beneficiaries of the Social Climate Fund would be Central and Eastern Member States where lowest-income Europeans are disproportionately represented, and where energy poverty is most acute. The Social Climate Fund was initially designed to address the social impacts that would arise from a new EU carbon price on building and road transport emissions, and would be financed by this new system. However, the EU carbon price on buildings and road transport is an unfair and socially regressive measure that represents a considerable social and political threat. The current energy crisis shows that with or without this new measure, more EU solidarity is already needed both on income compensation, green housing and mobility investments for the most vulnerable.

However, the amount currently under discussion for the Social Climate Fund does not meet the challenge of a just transition. For example, just renovating the social housing sector would require an additional €13 billion investment per year until 2050, without considering the private rental sector or poor homeowners. On the other hand, the Commission proposes around €10 billion per year for the Social Climate Fund over 2025-2032 to finance both income support and green investments, in housing and mobility sectors. Even considering that the Social Climate Fund will not be the only financing stream for just transition measures, the proposed amount falls short of what is currently needed.

Alternative sources of financing can and must be explored to increase the size of the Social Climate Fund. As highlighted by the Jacques Delors Institute, the EU could tap into the additional revenues generated by the stark carbon price increase on the existing EU carbon market (from around 30€ per ton of CO_2 in January 2021, to 70€ at the time of writing). In its last report on alternative financing sources, FEANTSA analyses the lessons that can be learnt from EU Member States (Ireland, France, and Czech Republic) using EU carbon market revenues to fund housing renovations for low-income households. The Social Climate Fund could amplify these existing programs and help implement similar programs in other EU countries. Other sources of revenue can be created as part of a fairer taxation system. To finance a just transition, levying a carbon price on all Europeans is only one option among many others.

EU Member States must seize the opportunity of the on-going negotiations over the Social Climate Fund to send a strong signal in favour of the just transition to all EU citizens. Decoupling the Social Climate Fund from a new EU carbon price that would worsen the living conditions of the most vulnerable is necessary to make it an ambitious incentive for a just transition, rather than just a compensation mechanism for negative social impact. **Increasing the Social Climate Fund's size and ambition would contribute to alleviating the climate, social and energy security crisis, while strengthening EU solidarity.**

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FEANTSA is the European Federation of National Organisations Working with the Homeless. We are the only European NGO focusing exclusively on the fight against homelessness. Our ultimate goal is an end to homelessness in Europe. Our experience of building renovation is that of the social services providers who are themselves facing the need to renovate shelters and housing, and of the low-income households who face the challenge of inadequate housing condition and/or pressure of rising rents and gentrification.

Jacques Delors Institute is a European think tank founded by Jacques Delors in 1996 at the end of his presidency of the European Commission. Our aim is to produce analyses and proposals for European decision-makers and citizens, as well as to contribute to debates on the European Union. To better define the content and actions for an energy transition at the service of all Europeans, the Jacques Delors Energy Centre provides decision-makers with insights into the challenges of the energy transition and formulates policy recommendations to be implemented by public authorities.

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