POSITION PAPER

[January 2022]

Social ambition, the must for climate transition

The Social Climate Fund is an essential but insufficient tool for poor and vulnerable households to benefit from the climate transition

FEANTSA is the European Federation of National Organisations Working with the Homeless. Our work on energy poverty is based on the right to affordable adequate housing.

For FEANTSA, the European Commission Green deal and its Fit for 55 package could provide an opportunity to support poor and vulnerable households in the energy transition and in doing so address housing exclusion.

However, in their current form, these initiatives do not clearly establish the necessary instruments and safeguards to ensure benefit to poor and vulnerable households.
Leaving no one behind requires explicitly recognising and addressing the social risks constituted by climate measures in the context of housing. The European Commission must prevent its Green Deal agenda from contributing to energy poverty and housing exclusion (increased housing and energy costs). The Social Climate Fund has a decisive role to play in this direction but cannot solve it all.

1. Need for an overarching equally ambitious social and green agenda

While FEANTSA recognizes the need for ambitious measures to tackle the climate crisis, there is evidence that climate driven policies, if not carefully crafted and accompanied by ambitious social policies, can negatively and disproportionally impact poor and vulnerable households[1].
The Social Climate Fund is an essential tool to help poor and vulnerable households benefit from the climate transition. But it must go hand in hand with an overall adequate and coherent Fit for 55 package, based on social as well as climate ambition.

2. A fund to mitigate the social impact of the Green Deal

For FEANTSA, the establishment of a social climate fund is an essential element of the energy transition. However, it must not be simply about mitigating the impact of a potential ETS extension but about proactively addressing the social impact of the whole Green Deal and ensuring a genuinely just transition.

3. A long-term vision: invest in energy efficient renovation for poor and vulnerable households

A social climate fund must enable Member States to boost investment in energy efficient renovation that will improve the housing conditions of poor and vulnerable households. To do so, the Social Climate Fund must aim to cover 100% of costs attached to the energy retrofit renovation of housing units they live in (be it in social housing, on the private rental market and for poorest property owners).This is an imperative based on the right

[1] FEANTSA's report: "Renovation: staying on top of the wave", November 2020
https://www.feantsa.org/public/user/Resources/reports/Renovation_Wave_final_report.pdf

For more information contact:
clotilde.clark-foulquier@feantsa.org

to adequate housing[2] and a political necessity, as proved by the French yellow-vest movement: energy prices matter and hit the most vulnerable disproportionally. The climate transition success depends on its ability to deliver for the most vulnerable.

4. No to the ETS Extension

According to the article 9 of the TFEU "In defining and implementing its policies and activities, the Union shall take into account requirements linked to the (…) fight against social exclusion".
While 30 to 50 million Europeans were already unable to adequately heat their homes in 2019[3], evidence shows that an extension of the EU emissions trading system to road transport and buildings would increase energy expenditure EU's poorest households. According to a study commissioned by the Flemish Minister for the Environment, Zuhal Demir, the ETS extension could lead to an increase of 460 euros in energy expenditure for Flemish households[4]. Similarly, the Polish Economic Institute estimates an extension of the EU emissions trading system to road transport and buildings would mean an average annual increase in energy expenditure for the EU's poorest households of 44 % (EUR 373) for transport and 50 % (EUR 429) for housing.[5] In this context, the proposal for an ETS extension to buildings and transport is unacceptable, as it likely to lead to a further increase in energy prices, particularly in countries where a high percent of households rely on coal, therefore disproportionally affecting lowest-income households. It would be a regressive, unjust mechanism because the worst-housed have the least opportunity to reduce the carbon footprint of their homes. Hence, for Feantsa, reaching the objectives of reducing carbon emissions in the building sector should not be done through the gas emission trading scheme, but rather through the renovation of buildings, accompanied by a Social Climate Fund that is equal to the challenge.

5. Rethink the funding source, rethink the timing

The proposed total financial envelope of the Social Climate Fund is 72.2 billion over 7 years (2025-2032), so about 10.1 billion per year. This amount clearly does not offer an appropriate response to match the social fund objective. It is estimated that renovating the social housing sector alone would require an additional €13 billion[6] per year until 2050. This is without any investment into renovating the private rental sector or providing support to poor property owners.

To mitigate the social impact of the transition and implement the renovation wave strategy, the fund should be increased. It should support lowest income families to face the current energy price increase, and support them in long-term investment such as energy retrofit of buildings or investment into energy efficient heating and cooling systems. This is not even mentioning the mitigation of a potential ETS 2 extension. The proposed fund is therefore too low to properly finance both green investment and social compensation and would as such fail to provide adequate support to those who need it the most.

[2] The United Nations Committee on Economic, Social and Cultural Rights has underlined that the right to adequate housing should not be interpreted narrowly and should include affordability and availability of services, such as energy for cooking, heating, lighting. https://www.ohchr.org/documents/publications/fs21_rev_1_housing_en.pdf
[3] https://institutdelors.eu/en/publications/europe-needs-a-political-strategy-to-end-energy-poverty/
[4] The Climate bureau in Louvain-la-Neuve and the German Öko argue that Flemish households energy expenditure could increase on average from 322 euros (+19%) to 460 euros (+28%) by 2030. For households with the lowest incomes, the increase would amount to 129 euros (+12%). "Whereas the extension of the ETS system would only have a limited effect on the reductions in CO2 emissions by 2030," says Zuhal Demir.
https://www.rtbf.be/article/extension-du-systeme-ets-hausse-de-460-euros-pour-les-menages-flamands-d-ici-2030-pour-un-effet-limite-sur-les-emissions-de-co2-10864550?id=10864550
[5] Impact on Households of the Inclusion of Transport and Residential Buildings in the EU ETS, Polish Economic Institute, June 2021, https://pie.net.pl/en/wlaczenie-transportu-drogowego-i-budynkow-mieszkalnych-do-eu-ets-to-dla-gospodarstw-domowych-ue27-koszt-1-112-mld-eur-w-latach-2025-2040/
[6] https://www.housingeurope.eu/resource-1471/housing-europe-s-ambition-to-renovate-4-million-affordable-homes-by-2030

Last but not least, the proposed time frame does not match the climate emergency. If the Green deal polices are to be implemented fairly and on time to reach the 2030 climate target, the Social Climate Fund must be adopted with urgency, aiming to be launch by 2023 at the latest.

6. A fund for people, not companies.

A social climate fund should be targeted to address the need of poor and vulnerable group, to support them to benefit from the climate transition. It cannot be extended to small and medium enterprises who can already benefit from other schemes, such as the Just Transition Fund.

Recommendations

A Social Climate Fund is essential, as it has the potential to start to mitigate the social impact of the green deal and ensure that the most vulnerable benefit from the transition. The current proposal is not enough and cannot be financed through ETS extension. Lowest income group spend a highest share of their income on energy prices and would be more impacted – there is a very high social risk in the ETS extension.

The European Union is already facing a social crisis with an estimated 30 to 50 million energy poor, 700,000 homeless people (an increase of 70% over the last 10 years). According to EU-SILC, the financial inability to maintain an adequate temperature in housing affected 7% of all residents of the EU28 and 18% of poor households. Eleven countries saw the proportion of poor households facing energy poverty increase significantly over the last decade, including Slovakia with 136% of poor households facing financial incapacity, Cyprus (26%), Lithuania (18%), Spain (29%), France (19%), Ireland (48%), the Netherlands (163%), Denmark (200%), Estonia (32%), Luxembourg (309%), and Finland (23%).[7] Long-term trends also show that house price indices increased by 23% and rental price indices by 16% between 2009 and 2019, across the European Union. In such a context, the implementation of the green deal is necessary but cannot be approximate in its effort to support poor and vulnerable households.

1. Other sources of funding for the SCF

An ETS extension would lead to an increase in price bringing a significant social and distributional impacts that may disproportionally affect vulnerable households who spend a larger part of their incomes on energy and transport. Such impacts on vulnerable groups will differ between Member States.
The fund is nevertheless necessary for a just climate transition. The Commission should identify other sources for it, such as:

a. Financing through the multiannual financial framework. The European Commission is already proposing a targeted amendment of the Regulation for the multiannual financial framework for the years 2021 to 2027 to accommodate an additional Union spending of an amount of EUR 23.7 billion for the period 2025-2027 for the Social Climate Fund. The spending should be extended for the 2028- 2032 framework to include financing targeted renovation that addresses energy poverty and poor housing conditions, prioritising inadequate housing units.
The Social Climate Fund, sourced in the MFF, could also be allocated as part of the structural funds, earmarked to exclusively finance long term investment for energy retrofit of buildings or investment into energy efficient heating and cooling systems of poor and vulnerable households.

[7] EU SILC – quoted in Fondation Abbé Pierre – FEANTSA Sixth overview of housing exclusion 2021
https://www.feantsa.org/public/user/Resources/reports/2021/6th_Overview_of_Housing_Exclusion_in_Europe_2021_EN.pdf

b. Financing through a contribution from the "winners" of the renovation wave, the industries that will benefit from the green deal, on the model of the financial transaction tax, based on a % of benefit generated through to the Renovation wave.

c. A security from the European Union towards banks so as to facilitate loans for low and middle-income households to get zero or low interest private funding through on bill financing, equity loans, revolving funds. This could be shaped for instance on the model of the the Targeted Long Term Refinancing Programme (TLTRO), a program of the European Central Bank (ECB) to lend money to banks at a -1% interest rate, as proposed by some experts[8]. This is an opportunity as it would be in line with the ECB's objective to increase its lending to the real economy.

d. ETS1: According to the Jacques Delors Institute[9], 15% of revenues from the ETS1 (around €6 billion per year) could be directed to the Social Climate Fund under the upcoming revision of the ETS Directive, as the price of carbon in the ETS1 recently reached 60€ per ton and is not expected to drop.

e. Next Generation EU: as proposed by the European Commission on 22nd December 2021, some new sources of revenues could be used to become EU own revenues to repay the EU recovery plan. The carbon border adjustment mechanism and the additional corporate tax revenue (that EU member states will receive following this October's OECD tax deal) could also have a dedicated percentage to fund a European Social Climate Fund. More precisely, FEANTSA recommends tapping into the reform of the international corporate taxation framework so that the additional corporate tax revenue that EU member states will receive following this October's OECD tax deal, could be dedicated to the Social Climate Fund when the corporation is also benefiting from the Green Deal agenda (for instance through the Renovation wave).[10]

f. Waiver of contributions: Member States that would provide a national dedicated fund to cover at 100% of the cost of renovation of poor and vulnerable households could claim a waiver of contribution to the EU budget of an equal amount.

2. A true impact analysis is essential

No separate impact assessment has been performed for the social climate fund. It was analysed as a part of the Fit for 55 package. In this context, how can the European Commission ensure that the proposed Social Climate Fund would compensate the impact of an ETS extension? It is up to the European Commission, if it is to push for such an extension, to demonstrate how it will impact the most vulnerable and how will this impact be mitigated thanks to the Social Climate Fund. A more complete impact analysis of the impact of an ETS extension,

[8] https://www.euractiv.com/section/energy/opinion/how-the-european-central-bank-can-unleash-the-building-renovation-wave/
[9] https://institutdelors.eu/wp-content/uploads/2021/10/PB_211006_A-Social-Climate-Fund-for-a-fair-energy-transition_Defard.pdf
[10] Following on the 8th October 2021 OECD/G20 two-pillar solution to tackle tax avoidance, 130 countries agreed (Pillar One of the agreement) to reallocate the right to tax a share of so-called residual profits from the world's largest multinational enterprises to participating countries worldwide. The Commission proposed on 22/12/21 an own resource equivalent to 15% of the share of the residual profits of in-scope companies that are reallocated to EU Member States. FEANTSA propose that the companies benefiting from the green deal (for instance through the renovation wave) will see their share of the tax to fund the Social Climate Fund.

and of the Fit for 55 package, specifically on poor and vulnerable households is necessary.

3. Focus on long-term investment, through a coherent package

Following on the Finnish Parliament opposition to the social climate fund[11], it is important to carefully craft the fund so that it will be acceptable and accessible for Member States to easily tap into to support poor and vulnerable households affected by the implementation of European Union's climate policies. According to the Finnish Parliament, the proposed fund would touch upon a national competence of social policy as it proposes a model under which the EU acts alongside Member States as a provider of direct social benefits by paying direct income support to households from the EU budget.

Direct income support is essential, particularly in a context of rising energy prices. However, FEANTSA is concerned by a model that would enable Member States to shy away from their responsibility to provide social protection. Moreover, the European Commission is to support and complement Member States in their effort of social protection. In the current case, the European Commission responsibility is to design its policies to prevent a rise in energy and housing price, not to deliver income support.

[11] https://www.eduskunta.fi/FI/vaski/Lausunto/Sivut/SuVL_5+2021.aspx