

Will the Fund fund enough?

A conversation with stakeholders on the suitable allocation of the Social Climate Fund and expected impacts of the ETS2 on transport poverty in EU Member States

Hengalová Rebeka, MSc

Research Fellow of the Green Europe Programme
EUROPEUM Institute for European Policy

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Introduction

Transport poverty is an under-researched topic, despite its ongoing presence in many European countries.¹ It is often defined as a combination of factors such as low income, high transport fuel expenditure, inaccessible and unaffordable private and public transport, especially affecting households in remote or less-developed territories, and resulting in diminished access to social and economic opportunities.²

Many EU citizens rely on personally owned cars with increasing fuel costs or on unreliable public transport. While efforts are already underway in some Member States to improve the transport options and their accessibility, availability, and reliability, transport poverty persists and endangers between 10 and 25 % of households across the EU.³ To this end, the upcoming Social Climate Fund⁴ aims to prevent the increase of transport poor households and alleviate the struggles of those already in poverty by providing funding and structural support for infrastructure investments and targeted income support. However, it is still unclear which measures should be financed through this Fund, how it will be allocated, and to what extent is the Fund sufficient to meet its objective. These questions guide this policy brief, aiming to contextualise the capacities and objectives of the Fund.

In this policy brief, I will outline the upcoming Emission Trading System (ETS) extension to road transport and heating of households (ETS2)⁵ as this policy is directly tied to the disbursement of the Social Climate Fund (SCF or Fund). Next, I will outline the presumed impact of the ETS2 on the prices of heating and transport fuels, along with the mechanism of the Fund's allocation and suitable measures and investments financed by the Fund. Moreover, I will supplement the data with the opinions of interviewed policymakers and experts from European institutions, think tanks, Czech state representatives, and universities that helped contextualise the reality in which the SCF is to be implemented.⁶ In conclusion, I will summarise the current status quo and provide recommendations for the upcoming years of transposition, implementation and successful usage of the ETS2 and SCF policies.

¹ Verhorst, Fu, and Van Lierop, 'Definitions Matter'.

² Verhorst, Fu, and Van Lierop; 'Regulation (EU) 2023/955'.

³ Eden et al., 'Putting the ETS2 and Social Climate Fund to Work: Impacts, Considerations, and Opportunities for European Member States', 23 graph 5.

⁴ 'Regulation (EU) 2023/955'; Eden et al., 'Putting the ETS2 and Social Climate Fund to Work: Impacts, Considerations, and Opportunities for European Member States'; Ministry of Environment, 'Sociální Klimatický Fond [Social Climate Fund]'.

⁵ European Commission, 'ETS2: Buildings, Road Transport and Additional Sectors'.

⁶ Thirteen respondents were interviewed semi-formally, reporting on-background and wishing to remain anonymous. See Table 1 in the Annex for coded information.

What is ETS2 and how does the SCF complement it?

One of the significant files of the European Green Deal's Fit for 55 package⁷ is the extension of the Emission Trading System to road transport and local heating. The ETS is one of the cornerstones of EU climate policy. Established in 2005, it covers more than 10,000 businesses in the energy and heat production and aviation sectors across the EU.⁸ **The ETS embodies the polluter pays principle, whereby activities contributing to greenhouse gas emissions have to acquire an emission allowance to continue operating.**⁹ The funds generated from the purchase of these allowances contribute to financing climate-conscious and climate change-mitigation measures.

The extension of the ETS was approved in early 2023¹⁰ with an expected implementation date in 2027 (or potentially 2028, should significant price spikes occur in the energy markets). ETS2 will cover sectors that directly affect European households as it focuses on reducing emissions from local heating of buildings¹¹ and road transport, which constitute 12 and 20 % of the EU's overall GHG emissions, respectively.¹² Road transport is among the most challenging sectors to decarbonise as emissions have been rising or stagnating in recent decades, compared to emission reductions achieved in other EU sectors.¹³

Thus, from January 2027, the suppliers of heating and transport fuels, namely natural gas, coal, gasoline and petrol, will be required to pay for emission allowances to cover the climate impact of their goods. **It is anticipated, and considered necessary, that the price increases trickle down to the end consumers, i.e., households and individuals.**¹⁴ This approach aims to support the objective of the ETS2 to curb the use of transport and heating fuels and thus reduce the emissions of these sectors. **As the prices of ETS2-covered goods will increase, the EU continues its commitment to a just transition by providing structural and financial support to those unable to absorb these increases. Thus, an inseparable part of the ETS2 system is the Social Climate Fund.** Established as a regulation¹⁵, its objective is to minimise the impacts of the ETS2 implementation on energy-poor households and transport-poor users. Member States must devise National Social Climate Plans (NSCP) outlining how they intend to address and mitigate the impacts of the ETS2 on households and small enterprises to gain access to the SCF.

⁷ EPRS, 'Fit for 55 Package'.

⁸ These businesses operate in the EU and EEA and are connected to the Swiss ETS. Stoefs, 'EU ETS 1: Začátečníkův Průvodce Systémem EU pro Obchodování s Emisemi [A Beginner's Guide to the EU's Emissions Trading System]'.

⁹ European Commission, 'Ensuring That Polluters Pay - Toolkit'.

¹⁰ European Commission, 'ETS2: Buildings, Road Transport and Additional Sectors'.

¹¹ Electricity production is already covered in the original ETS, therefore, ETS2 will cover heating with natural gas and coal. Wood is considered a renewable resource and is thus excluded from ETS2. For discussion on the sustainability of wood, see for example: WWF, 'EU Bioenergy Policy: Debunking the Myths on Forest Biomass'.

¹² Eden et al., 'Putting the ETS2 and Social Climate Fund to Work: Impacts, Considerations, and Opportunities for European Member States'.

¹³ Transport & Environment, 'Europe's Transport Sector Set to Make up Almost Half of the Continent's Emissions in 2030'.

¹⁴ Bird, Scott, and Galantini, 'Frequently Asked Questions: Social Climate Fund'.

¹⁵ EUR-Lex, 'Social Climate Fund'.

Where does the SCF funding come from?

The SCF shall redistribute the emission trading revenues to low-income and most vulnerable households, which will make up 75 % of the Fund. In addition to revenues from ETS2, EU Member States are required to contribute at least 25 % of the Fund from their own national emission trading revenues. While the emission trading revenues vary based on the number of emissions traded in the relevant sectors and thus can differentiate throughout time, the final and maximum sum contributed from revenues into the Fund is capped at 65 billion euros. Additionally, Member States are expected to contribute at least 21,7 billion euros, bringing the total Fund to 86,7 billion euros. See the graphical explanation of the financing sources of the SCF below.¹⁶



What is already being done about transport poverty?

Several solutions have been successfully implemented abroad that Member States (MS) can take inspiration from when drafting the NSCPs. Austria's climate bonus redistributes 100% of the revenues from transport (and other) emissions charges to its citizens, giving them the opportunity to evaluate whether to increase their transport budget or to use the money differently.¹⁷ Since the start of 2024, France has offered the option of social leasing of state-owned electric cars. This gives low-income families, in particular, the opportunity to reduce their

¹⁶ For this paragraph, the source is Eden et al., 'Putting the ETS2 and Social Climate Fund to Work: Impacts, Considerations, and Opportunities for European Member States'.

¹⁷ Citizens Climate Europe, 'Austria's Klimabonus'.

transport costs and emissions without bearing the upfront costs of purchasing an electric car.¹⁸ In several European cities, public transport is completely free, addressing transport poverty by providing an alternative to private cars, at least in areas with sufficient public transport services.¹⁹ British cities offer electric bikes and motorbikes for hire, enabling physically fit citizens to travel especially shorter distances between remote peripheries and areas with access to better transport, work or education opportunities.²⁰

Conversation with stakeholders: main factors to consider for a successful implementation

Communication about the desirability of the ETS2 and SCF: Now is better than later

One of the outstanding issues of ETS2 is its public image. As a climate policy directly affecting households, it faces much scrutiny regarding its necessity, impact and implementation. The governments of EU MS seem hesitant to transpose the legislation in its entirety, as evidenced by the number of initiated infringement proceedings by the European Commission in the summer of 2024.²¹ While communicating this policy is understandably challenging, it is not impossible. The interviewed experts all agreed on highlighting the opportunities the emission trading revenues will bring. **Indeed, the money paid by polluters will have to be allocated to climate-conscious efforts and measures²² thus creating structural support which need not rely on the temporary support of a current government.**

Furthermore, the need for a timely intervention in the transition should be communicated extensively. Generating revenues from emissions and allocating them effectively will help mitigate further climate change and associated damages, as opposed to inaction followed by climate changes, natural disasters and more severe societal upheavals. One expert²³ views ETS2 as a tool with the potential to increase social fairness. Similarly, another interviewee expressed that as 100 % of ETS revenues must be used for climate-conscious investments, there should be a clear indication of what will be financed by the revenues and, thus, what the citizens of MS will get in return for emission trading.²⁴ **Therefore, the SCF should always be communicated alongside the ETS2 as it is a clearly designed redistribution tool, allowing vulnerable strata of society to partake in the transition.**²⁵ From this perspective, the household transition from climate-harming goods to climate-friendly, sustainable and ultimately more affordable goods and practices should be widely understood. As one expert remarked, the sooner we transition, the sooner the bills will be cheaper.²⁶

Lastly and relatedly, the feeling of ownership over this endeavour should be supported. If individuals, communities, businesses and governments contribute to the common goal

¹⁸ Todts, 'Inventing the €100 a Month Electric Car'.

¹⁹ Guardian, 'The Guardian View on Fare-Free Public Transport: Good for People as Well as the Planet'.

²⁰ For example 'Wheels to Work'.

²¹ European Commission, 'Commission Takes Action to Ensure Complete and Timely Transposition of EU Directives'.

²² 'Green Solidarity: Guiding Principles for a Truly Just Social Climate Fund'.

²³ Interview 3

²⁴ Interview 4

²⁵ Interviews 4 and 8

²⁶ Interview 13

(widely recognized as achieving climate neutrality by 2050),²⁷ the transition will happen faster, bringing in the benefits: renewable energy, a healthier environment, new jobs, and more.²⁸ Communication of the ETS2 should also acknowledge that many households and businesses have already contributed through the initial ETS system.²⁹ The enlargement to ETS2 thus levels the playing field.³⁰

Capacities of the SCF: What can be done with it and what are its shortcomings?

Provided that all MS have transposed the ETS2 into their legislation and subsequently submitted the NSCP, they will gain access to the SCF. **The creation of the Fund is welcomed by all interviewed experts, as it provides structured support to vulnerable households, who often bear the costs of climate change unfairly while contributing to it the least. It also sends an important political signal that social aspects are a paramount part of the climate policy spectrum.**

That being said, several interviewed experts expressed concerns about the adequacy of the available funding to tackle the identified issues.³¹ As previously mentioned, the SCF comprises two components, the capped ETS2 revenues and non-capped MS contributions. However, it is unlikely that MS will increase their contributions to the Fund, as the final agreement reduced the initial proposed contribution rate from 50 %.³² The ETS2 revenues can also be allocated more flexibly than the SCF funding, allowing the MS to decide what investments and measures are most needed in the given location and context.

The ETS2 revenues, however, could increase significantly, particularly if decarbonisation efforts progress slowly. Allowing the Fund to benefit from the increased emission allowance pricing would, on the one hand, eliminate some level of stability currently derived from the capped amount of 86,7 billion euros. Akin to the ETS system, the Fund's final amount of money would fluctuate with the emission allowance market developments. On the other hand, many interviewed experts advocated for the potential increase of the ETS-financed part of the Fund as there would be an even greater need for support to vulnerable households in the event of increased prices of allowances.

In general, the amount of money allocated to the Fund is considered insufficient to tackle the issues of transport and energy poverty. Besides advocating for increased funding for the SCF already now and for the duration of its disbursement (2026-2032), the interviewed experts also stressed the importance of renewing the Fund afterwards. Many expressed that this initial phase of the SCF is to be considered a pilot project, even referring to 2026 as a learning year. Indeed, as visible in the process of setting up the structure and administrative capacities for the Just Transition Fund,³³ such efforts take a lot of time and knowledge. In this regard, it would be advantageous to build up knowledge capacities and schemes of distribution

²⁷ European Commission, '2050 Long-Term Strategy'.

²⁸ Interview 8

²⁹ Stoefs, 'EU ETS 1: Začátečníkův Průvodce Systémem EU pro Obchodování s Emisemi [A Beginner's Guide to the EU's Emissions Trading System]'.

³⁰ Interviews 2 and 8

³¹ Interviews 2, 4, 6, 7, 9 and 10

³² Bird, Scott, and Galantini, 'Frequently Asked Questions: Social Climate Fund'.

³³ Votavová, 'Umí Český Stát Čerpat Fond Spravedlivé Transformace? Analýza Kapacit Na Národní Úrovni [Can the Czech State Draw on the Just Transition Fund? National Capacity Analysis]'.

of the Fund in this initial period with the view of continuing beyond 2032.

Besides not losing the hard-won know-how, running an SCF 2.0 would allow MS to continue addressing the issue of transport poverty. The Fund now provides an opportunity to collect critical data, identify key areas of need, support affected households, and ultimately prevent further increases in transport poverty.

Where should we spend the SCF: direct income support or investments?

One of the main challenges in addressing transport poverty through the SCF is determining the distribution criteria that define how a household or an individual qualifies to receive any kind of support.³⁴ The aforementioned examples of transport poverty alleviation present both ideas for longer-term investments as well as direct income support (namely the case of the Austrian Klimabonus). The interviewed experts diverge in opinions on the optimal use of the Fund whilst adhering to the indicated use whereby a maximum of 37,5 % of the Fund is to be allocated as direct income support, and the rest (or the entire Fund) is to be used for investments.³⁵

On the one hand, compensation in the form of direct income support is considered a suitable short-term solution for vulnerable households. It acknowledges that individuals have different needs and allows the aid to be spent freely, supporting a sense of agency. **According to some interviewees, direct aid is also politically desirable to some governments, especially considering the neutral or negative publicity the ETS2 scheme has been getting.**³⁶ The Fund is also deemed too small by some experts to make a significant impact by investing in longer-term solutions such as an extension of public transport or social leasing of electric vehicles.³⁷

On the other hand, distributing the Fund as income support does not remove the source of pollution (e.g., the old car that costs more and more each year) and is not a structural aid to vulnerable households. In line with the objectives of the ETS2 and SCF, vulnerable households should be supported in transitioning away from emission-intensive, fossil fuel-dependent practices that continue to drive up costs. **Therefore, the majority of the Fund should be invested in solutions that eliminate these practices and allow vulnerable households to permanently step out of the cycle of fossil fuel usage and emission allowance payment, further eliminating the limited household budget.**³⁸ Congruently, this view also supports the renewal of the SCF beyond 2032, as not all necessary investments, such as supporting the costs of public transport, can be implemented in a single phase.³⁹

³⁴ The allocation key for transport poverty assistance and other aspects of transport poverty, especially in Czechia, will be further explored in future papers. See the EUROPEUM website for more information.

³⁵ Davidová, 'Jak Předcházet Energetické a Dopravní Chudobě v ČR Pomocí Sociálního Klimatického Fondu [How to Prevent Energy and Transport Poverty in CZ with the Social Climate Fund]'.

³⁶ Interviews 1, 6, 9 and 10

³⁷ Interviews 1, 8 and 9

³⁸ Interviews 2, 3, 9 and 10

³⁹ Interviews 1, 4, 8, 9 and 10

In conclusion, where do we go from here?

There is a plethora of ways in which the ETS2 revenues and SCF financing can support decarbonisation among lower-income strata, accounting for differing needs of communities, regions and countries. When addressed in a timely manner, these initiatives can both serve the green and just transition. Conversely, a lack of support in decarbonisation and in absorption of price increases can have long-lasting negative consequences for large sections of the population endangered by energy and transport poverty.

As the interviewed experts note, there is still much to learn. In this way, the Fund and its allocation rules should significantly improve the understanding of transport and energy poverty among EU households.

While it will still take some time before MS draft and finalise the NSCPs, which are due in June 2025, a few recommendations have already emerged from the literature and expert interviews.

- The NSCP should **prioritise long-term measures and investments that will eliminate vulnerabilities associated with fossil fuel-dependent practices**, prevent further deepening and spreading of transport poverty and, by financing climate-conscious and sustainable measures, will improve the general environment in the given country.
- The NSCP should reflect the local needs of vulnerable households, account for the specificities of a given region and country and be administered based on precise targeting. **Diluting the support among many actors, rather than sufficiently supporting those in need, will decrease the impact the Fund can have.**
- Preparation of the NSCP should involve collaboration with social actors, integrating existing social policies and climate-oriented measures. A good climate policy is inherently social as there can be no transition if it is not just and socially fair.
- Governments should **approach the concerns of citizens regarding ETS2 and SCF head-on**, showing concern for the wellbeing of the population and steering the narrative around climate policies in a fair, fact-based and non-disruptive manner.
- Collectively, all involved stakeholders should aim to expand the SCF beyond the first run until 2032, as the tackled issues will not be solved by then, but there will be fertile economic, administrative and societal ground to continue to address them.

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Annex

Table 1: List of interviewees

Interviewed expert	Institution	Date of interview	Location of interview
Interview 1	Policy think tank	July 2024	Brussels
Interview 2	Policy think tank	July 2024	online
Interview 3	EU Institution	July 2024	Brussels
Interview 4	Policy think tank	July 2024	Brussels
Interview 5	University	July 2024	Brussels
Interview 6	Policy think tank	July 2024	Brussels
Interview 7	EU Institution	July 2024	Brussels
Interview 8	Policy think tank	July 2024	Brussels
Interview 9	Policy think tank	July 2024	Brussels
Interview 10	Policy think tank	July 2024	Brussels
Interview 11	CZ Institution	July 2024	Brussels
Interview 12	EU Institution	July 2024	online
Interview 13	Policy think tank	July 2024	Brussels