

## 【欧州】 【Common】

Common - Fit for 55 package: The European Parliament and the Council of the European Union's Member States governments reach provisional agreement on the Social Climate Fund

Andrea Antolini Former Researcher JTTRI

### 【概要 : Summary】

Based on the European Green Deal's long-term goal of reaching climate neutrality in the EU and a 90% reduction of GHG emissions in the transport sector by 2050, the European Climate Law introduces an intermediate target of reducing net GHG emissions by at least 55% by 2030, compared to 1990 levels. Accordingly, several pieces of legislation had to be revised to put them into line with this new 2030 target. On 14 July 2021, the European Commission presented the "Fit for 55" package of revisions of legislations.

One of the European Commission proposals aims at reforming the EU-ETS and to include the road transport sector into the EU-ETS to cover the CO<sub>2</sub> emissions of the existing fleet of vehicles. These CO<sub>2</sub> emissions from road transport fuels will be covered by a new, self-standing EU-ETS for GHG emissions of road transport, buildings, and fuels of other sectors.

However, to avoid the negative impact of high increases in the carbon price on vulnerable households and micro businesses, among others, and to address any social impacts that could arise from the introduction of the new EU-ETS II, the European Commission is proposing to introduce a new fund to mitigate the negative impacts of the EU-ETS II on vulnerable groups of society.

This new Social Climate Fund is a specific mechanism to start in 2026, one year ahead of the introduction of carbon pricing for the buildings and road transport sectors, to mitigate the costs for those most exposed to fossil fuel price increases. The Social Climate Fund provides Member States with funding to support households, transport users, and micro-enterprises with measures and investments in energy efficiency and renovation of buildings, clean heating and cooling, and integration of renewable energy. It will also provide direct income support for vulnerable households and help financing zero- and low-emission mobility in these groups.

On 18 December 2022, the European Parliament and the Council of the European Union reached a provisional agreement on introducing the Social Climate Fund.

### 【記事 : Article】

#### 1. Background of the introduction of a Social Climate Fund

To achieve the 2050 climate neutrality, the European Climate Law (Regulation (EU) 2021/1119) sets the intermediate target of reducing net GHG emissions by at least 55% by 2030, compared to 1990 levels. To achieve this target by 2030, the European Commission presented 13 legislative

proposals for the revision of several laws in the “Fit for 55” Package on 14 July 2021.

The Commission also proposed to introduce a new self-standing EU-ETS to cover the CO<sub>2</sub> emissions of fuels used in road transport and buildings. To avoid any social impact of the measures connected to the new EU-ETS II and to contain negative impacts of excessive increases in the carbon price to vulnerable parts of the society, the European Commission proposes a specific mechanism, the Social Climate Fund, to mitigate any social challenges that vulnerable groups in society may face because of the new EU-ETS II (COM (2021) 556 final). The Social Climate Fund will finance the relevant Member States’ plans to address social aspects of the new EU-ETS II for road transport users among others (European Commission 2021a, European Commission 2021b).

## 2. The introduction of the EU-ETS II and how to address its social impacts

As part of the “Fit for 55” package, the European Commission proposed the revision of the EU-ETS and the extension of the emission trading to the building and road transport sectors, as these sectors are not covered by the currently existing EU-ETS (COM (2021) 551 final). Under the Commission proposal, a separate new emission trading system, EU-ETS II, should be introduced for the building and road transport sectors, to achieve a reduction of the GHG emissions of the vehicle fleet already on the roads, among others. The EU-ETS II should be introduced through a separate but adjacent emissions trading to avoid any disturbance of the well-functioning emissions trading system (EU-ETS I) for stationary installations and aviation should be avoided (COM (2021) 551 final). A coupling of both systems (EU-ETS I and EU-ETS II) would be considered in the future, but an assessment is not envisaged before 2030 (Umweltbundesamt 2021, COM (2021) 551 final). Under this self-standing EU-ETS II, regulated entities of fuel distributors would

need to report the amount of the fuels placed on the market starting from 2024 and from 2026, they would have to surrender a corresponding number of allowances (European Parliament 2022a, European Commission 2021d). All allowances would be auctioned, and none would be provided for free. The cap on emissions would be set in 2026 and it would be gradually decreased to reach a 43% reduction of GHG emissions in 2030 compared to 2005 levels for these sectors (European Parliament 2022a).

However, the EU-ETS II and the coverage of road transport and buildings has risen concerns regarding the impact of rising prices of road transport and heating fuels on vulnerable households, micro-enterprises, and transport users in the short run. Energy poverty alone could affect up to 34 million people in the European Union today (COM(2021) 550 final).

Therefore, to address the social and distributional impacts on the most vulnerable arising from the EU-ETS II, a Social Climate Fund is created to financially supporting people and businesses most impacted by the introduction of the new EU-ETS for buildings, road transport and fuels for additional sectors (European Parliament 2022a). In fact, the Chapter IVa of the proposal to revise the EU-ETS (COM (2021) 551 final) covers emissions trading for buildings and road transport and Article 30d 5 (b) explicitly calls on the Member States to use a part of their revenues generated by the auctioning of allowances to address the social aspects of the impacts to introduce the EU-ETS II (COM (2021) 551 final).

Accordingly, the Social Climate Fund is proposed to provide dedicated funding to EU Member States to help citizens finance investments in energy efficiency, new heating and cooling systems, and cleaner mobility (Council of the EU 2022a, European Commission 2021a).

### 3. The European Commission's proposal on establishing a Social Climate Fund

Under the new EU-ETS for buildings, road transport and fuels for additional sectors, fuel supplying companies will need to buy allowances for the GHG emissions caused by their businesses. However, the increase in the price for fossil fuels will have significant social and distributional impacts that may disproportionately affect vulnerable households, vulnerable micro-enterprises and vulnerable transport users who spend a larger part of their incomes on energy and transport and who, in certain regions, do not have access to alternative, affordable mobility and transport solutions (COM(2021) 568 final).

Therefore, to secure a fair distribution of the costs of the transition towards climate neutrality, the European Commission proposed the new Social Climate Fund as part of the “Fit for 55” package in the “Proposal for a Regulation of the European Parliament and of the Council establishing a Social Climate Fund” COM/2021/568 final (European Commission 2021a, COM (2021) 568 final). The Social Climate Fund should provide funding to Member States to support measures and investments in increased energy efficiency of buildings, decarbonisation of heating and cooling of buildings, including the integration of energy from renewable sources, and granting improved access to zero- and low-emission mobility and transport (European Commission n.d., Council of the EU 2022b). Pending the impact of those investments on reducing costs and emissions, the Fund will also be able to finance temporary direct income support for vulnerable households (European Commission n.d.).

The size of the Social Climate Fund will correspond to a dedicated share of the revenues from the auctioning of emission allowances under the new EU-ETS II system for buildings and road transport. (European Commission n.d.). The Social Climate Fund should provide funding to Member States to support their policies to address the

social impacts of such emissions trading under the EU-ETS II on vulnerable households, vulnerable micro-enterprises, and vulnerable transport users (COM(2021) 568 final). This support should be achieved notably through temporary income support and measures and investments intended to reduce in the medium to long term the reliance on fossil fuels.

The Social Climate fund is earmarked for the use for measures and investments for increase in the energy efficiency of buildings, building renovation, the decarbonisation of heating and cooling in buildings, and the uptake of zero and low emission mobility and transport (Council of the EU 2022b, European Commission 2021c). The revenues are also earmarked for measures providing temporary and limited direct income support (COM(2021) 568 final).

The total financial envelope of the Social Climate Fund for the 2025–32 period will be EUR 72.2 billion in current prices, taken from the auctioning revenues, using an amount equivalent to, in principle, 25% of the expected revenues of the new EU-ETS II for building and road transport fuels (COM(2021) 568 final, Umweltbundesamt 2021). According to the COM (2021) 568 final, the financial envelope for the implementation of the Fund for the period 2025–2027 shall be EUR 23.7 billion in current prices (COM(2021) 568 final). Furthermore, revenues of another 150 million emission allowances are earmarked for the existing EU Innovation Fund, which is already fed by the existing EU ETS (EU-ETS 1) (Umweltbundesamt 2021, European Commission 2021a). The remaining revenues go to the Member States and should be used for climate or socially relevant spending purposes, especially in the buildings or road transport sectors.

The EU Member States can use the revenues of the new EU-ETS II assigned to the Social Climate Fund to help vulnerable households, micro enterprises, and vulnerable transport users, starting from 2026 to 2032 (Council of the EU 2022b).

## 4. European Parliament and Council of the European Union reach provisional agreement on setting up the Social Climate Fund

### 4.1. The European Parliament's amendments

On 22 June 2022, the European Parliament announced to have adopted by 479 votes to 103, with 48 abstentions, amendments to the proposal for a Regulation of the European Parliament and of the Council establishing a Social Climate Fund (European Parliament 2022b). The proposal aims to establish a Social Climate Fund to provide Member States with funding to address the social consequences of the introduction of the EU-ETS II. The European Parliament adopted several amendments, specifying the purpose, scope, and objectives.

The main amendments adopted in the European Parliament's plenary are related to specifying the target group of the measures and investments supported by the Fund. It should benefit vulnerable households, micro-enterprises and transport users who are particularly affected by the impact of the transition to climate neutrality, including carbon pricing. The European Parliament pointed out the impact on households in energy poverty and citizens in mobility poverty, in particular those living in rural, island, peripheral, mountainous, remote, and less accessible areas or in less developed regions or territories, including less developed peri-urban areas, the outermost regions, and carbon-intensive regions with high unemployment (European Parliament 2022b).

The European Parliament also introduced a definition of "mobility poverty", referring to households with high transport costs or limited access to affordable public or alternative modes of transport needed to meet basic socio-economic needs (European Parliament 2022b).

According to the Parliament, the EU Member States should consider the costs of measures providing temporary direct income support, including reduced taxes and charges on electricity, as a

transitional measure for vulnerable households and transport users affected by energy and mobility poverty (European Parliament 2022b). The support would be limited to a maximum of 40% of the total estimated cost of each national plan for the period 2024–2027 and would be phased out by the end of 2032 according to the European Parliament (2022b). The Social Climate Fund's payment of support shall be conditional upon achieving the milestones and targets for measures and investments set out in the Member States' measures and investments plans (COM (2021) 568 final).

Regarding the budget, the financial envelope for the implementation of the Fund for the period until 2027 should be at least EUR 11.14 billion in current prices, according to the European Parliament (2022b). The financial envelope for the implementation of the Fund for the period 2028–2032 would be established after a revision of the Regulation.

To ensure that the aid provided for in the plans can be effectively implemented from the first years after the entry into force of the Social Climate Fund, the Commission should be able to pre-finance up to 13% of the Member States' financial contribution based on an application submitted by a Member State together with the Social Climate Plan (European Parliament 2022b). Moreover, the Parliament also made amendments including a focus on the socio-economic challenges faced by islands and outermost regions, among others. The Member States should also promote the role of renewable energy communities and citizen energy communities and consider them as eligible beneficiaries of the Fund, according to the European Parliament (2022b). The amendments also include a reminder that the Fund should only support activities and beneficiaries that respect applicable EU and national law on social and labour rights, among others (European Parliament 2022b).

#### 4.2. The Council's general approach on the Social Climate Fund

On 29 June 2022, the Council of the European Union reached a general approach on the GHG emission reduction proposals and their social impacts, including the Social Climate Fund (Council of the EU 2022c). Based on the provisions, each EU Member State can submit to the European Commission a social climate plan, containing measures and investments to address the impact of carbon pricing on vulnerable citizens and the Social Climate Fund will provide financial support. Thereby, the EU Member States' measures and investments towards achieving climate neutrality can be financed by using the Social Climate Fund (Council of the EU 2022c).

The Council agreed that the fund would be part of the EU budget and should be fed by external assigned revenues up to a maximum amount of 59 billion (Council of the EU 2022c). This would allow the fund to benefit from a series of guarantees linked to the European budget, without reopening the EU's multiannual financial framework (Council of the EU 2022c).

The fund would be established over the period 2027-2032, to coincide with the entry into force of the EU-ETS II, with retroactive eligibility of expenditure from 1 January 2026. The Council wants to apply a ceiling of 35% of the estimated total costs of social climate plans to the possibility for Member States to offer temporary direct income support (Council of the EU 2022c)

The Council agreed that the fund would benefit all Member States and kept the allocation method proposed by the Commission. Regarding the Social Climate Fund's management method, the Council decided to support a direct performance management combined with elements of shared management. It therefore decided to offer the Member States the possibility of receiving technical assistance for the implementation of the plan's measures (Council of the EU 2022c)

#### 4.3. The main aspects of the Parliament's and the Council's provisional agreement

On 18 December 2022, the Council of the European Union announced to have found a provisional agreement with the European Parliament on the new, separate emissions trading system EU-ETS II for the buildings and road transport sector and fuels for additional sectors, as well as on the establishment of the Social Climate Fund.

While the co-legislators agreed that the new ETS II system will apply to distributors that supply fuels to the buildings, road transport and certain other sectors they also agreed that Member States can temporarily exempt suppliers from surrendering allowances until December 2030, if they are subject to a carbon tax at national level, if its level is equivalent to or higher than the auction price for allowances in the new EU-ETS II (Council of the EU 2022a). Furthermore, there will be a simplified monitoring reporting and verification requirements for small fuel suppliers. If energy prices will be exceptionally high, the start of the new EU-ETS II will be delayed until 2028. Once the system has started if the price of allowances exceeds €45 over a certain period, additional allowances will be released.

Furthermore, the new Social Climate Fund is established to cover the period 2026-2032, to cope with the price impacts of the EU-ETS II on the vulnerable segment of the society, which is at risk of energy or mobility poverty (Council of the EU 2022a).

The European Parliament and the Council agreed that it would be eligible to use the Social Climate Fund for expenditures from 1 January 2026 onwards, based on auctioning of 50 million allowances in 2026 to allow for support at the start of the fund ('frontloading'), to precede and accompany a smooth introduction of the new EU-ETS II., while the EU-ETS II system would provide for financing of the Social Climate Fund as of 2027, as a part of the revenues from the

auctioning of allowances under the EU-ETS II will go to the Social Climate Fund (Council of the EU 2022a).

Each Member State would submit to the Commission a “social climate plan” on measures and investments to address and minimise the impact of the carbon pricing on vulnerable citizens and micro-enterprises (Council of the EU 2022a). Such measures could include increasing the energy efficiency of buildings, the renovation of buildings, the decarbonisation of heating and cooling in buildings and the uptake of zero-emission and low-emission mobility and transport, and measures providing direct income support in a temporary and limited manner (Council of the EU 2022a). The Council and Parliament decided to apply a ceiling of 37.5% of the estimated total costs of social climate plans for the Member States to offer temporary direct income support. The agreement on the EU-ETS and the Social Climate Fund is expected to allow the EU to meet its climate objectives within the main sectors of the economy, while making sure that the most vulnerable citizens and micro-enterprises are effectively supported in the climate transition (Council of the EU 2022a).

The political agreement reached on 18 December 2022 is still provisional and pending formal agreement by the Parliament and then by the Council. Once adopted, the legislation on the Social Climate Fund will be published in the EU’s Official Journal and enter into force (Council of the EU 2022a).

## 5. Conclusion

To delivering on the EU’s commitments and targets under the Paris Agreement, and the European Green Deal, the EU has set an ambitious target for reducing net GHG emissions by at least 55% by 2030 compared to 1990. Accordingly, the “Fit for 55” package contains proposals for the revision of several laws to reaching the 55% GHG emission reduction target by 2030. While it is

important to tackle also the GHG emissions in road transport and building sectors, the introduction of the EU-ETS II could cause energy and mobility poverty in some vulnerable groups of the society. Therefore, it is important that these vulnerable groups of citizens and businesses are not negatively impacted by the measures to decarbonise industry, mobility, and buildings by the new EU-ETS II.

Accordingly, the Social Climate Fund is part of the “Fit for 55” package to address the social impacts of the extension of emissions trading to road transport and buildings in the EU-ETS II. The Social Climate Fund will provide funding to Member States for introducing measures and investment to support the most vulnerable citizens and micro-enterprises, most affected or at risk of energy or mobility poverty.

The Social Climate Fund is therefore an instrument to provide funding to Member States to support vulnerable groups with measures and investments and temporary income support. These measures could include granting of improved access to zero- and low-emission mobility and transport as well as measures to increase energy efficiency of buildings, decarbonisation of heating and cooling of buildings, including the integration of renewable energy sources towards the year 2032.

The political agreement reached between the European Parliament and the Council of the European Union on introducing a Social Climate Fund is provisional and pending formal endorsement by the Parliament and then by the Council. Thereafter, the final version of the legislative text will be published in the EU’s Official Journal and enter into force.

## References

COM(2021) 550 final: Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. ‘Fit

for 55': delivering the EU's 2030 Climate Target on the way to climate neutrality. In: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52021DC0550>, 14. 7. 2021, accessed 3 January 2023

COM (2021) 551 final: Proposal for a Directive of the European Parliament and of the Council amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union, Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading scheme and Regulation (EU) 2015/757. COM(2021) 551 final. In: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:52021PC0551>, accessed 3 January 2023

COM (2021) 556 final: Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL amending Regulation (EU) 2019/631 as regards strengthening the CO2 emission performance standards for new passenger cars and new light commercial vehicles in line with the Union's increased climate ambition, accessed 3 January 2022

COM(2021) 568 final: Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing a Social Climate Fund. COM/2021/568 final. In: <https://eur-lex.europa.eu/legal-content/en/TXT/?uri=CELEX%3A52021PC0568>, 14. 7. 2021, accessed 3 January 2023

Council of the EU (2022a): "Fit for 55 ": Council and Parliament reach provisional deal on EU emissions trading system and the Social Climate Fund. In: <https://www.consilium.europa.eu/en/press/press-releases/2022/12/18/fit-for-55-council-and-parliament-reach-provisional-deal-on-eu-emissions-trading-system-and-the-social-climate-fund/>, 18 December 2022, accessed 3 January 2022

Council of the EU (2022b): Infographic - Fit for 55: a fund to support the most affected citizens and businesses. In:

<https://www.consilium.europa.eu/en/infographics/fit-for-55-social-climate-fund/>, 20 December 2022, accessed 3 January 2022

Council of the EU (2022c): Fit for 55 package: Council reaches general approaches relating to emissions reductions and their social impacts. In: <https://www.consilium.europa.eu/en/press/press-releases/2022/06/29/fit-for-55-council-reaches-general-approaches-relating-to-emissions-reductions-and-removals-and-their-social-impacts/>, 29 June 2022, accessed 3 January 2022

European Commission (n.d.): Social Climate Fund. In: [https://climate.ec.europa.eu/eu-action/european-green-deal/delivering-european-green-deal/social-climate-fund\\_en#next-steps](https://climate.ec.europa.eu/eu-action/european-green-deal/delivering-european-green-deal/social-climate-fund_en#next-steps), no date, accessed 3 January 2023

European Commission (2021a): European Green Deal: Commission proposes transformation of EU economy and society to meet climate ambitions. In: [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_21\\_3541](https://ec.europa.eu/commission/presscorner/detail/en/IP_21_3541), 14 July 2021, accessed 3 January 2023

European Commission (2021b): Questions and Answers - Emissions Trading - Putting a Price on carbon. In: [https://ec.europa.eu/commission/presscorner/detail/en/QANDA\\_21\\_3542](https://ec.europa.eu/commission/presscorner/detail/en/QANDA_21_3542), 14 July 2021 accessed 3 January 2023

European Commission (2021c): Social and distributional aspects Factsheets. In: [https://ec.europa.eu/commission/presscorner/detail/en/fs\\_21\\_3677](https://ec.europa.eu/commission/presscorner/detail/en/fs_21_3677), 14 July 2021, accessed 3 January 2023

European Commission (2021d): Questions and Answers - Emissions Trading - Putting a Price on carbon. In: [https://ec.europa.eu/commission/presscorner/detail/en/qanda\\_21\\_3542](https://ec.europa.eu/commission/presscorner/detail/en/qanda_21_3542), 14 July 2021, accessed 19 December 2022

European Parliament (2022a): Revision of the EU emission trading system (ETS). In "A European Green Deal". Legislative Train Schedule. In: <https://www.europarl.europa.eu/legislative->

[train/package-fit-for-55/file-revision-of-the-eu-emission-trading-system-\(ets\)](https://oeil.secure.europarl.europa.eu/oeil/popups/summary.do?id=1708653&t=e&l=en), 15. 12. 2022,

accessed 3 January 2023

European Parliament (2022b): Social Climate Fund. 2021/0206(COD) - 22/06/2022. In:

<https://oeil.secure.europarl.europa.eu/oeil/popups/summary.do?id=1708653&t=e&l=en>, 22/06/2022,

accessed 3 January 2023

Regulation (EU) 2021/1119: Regulation (EU) 2021/1119 of the European Parliament and of the Council of 30 June 2021 establishing the framework for achieving climate neutrality and amending Regulations (EC) No 401/2009 and (EU) 2018/1999 ( ‘European Climate Law’ ).

PE/27/2021/REV/1. In: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R1119>, OJ L 243, 9. 7. 2021, p. 1-17, accessed 3 January 2023

Umweltbundesamt (German Environment Agency) (2021): Introduction of an emissions trading system for buildings and road transport in the EU. In: [https://foes.de/publikationen/2022/2022-01\\_FOES\\_Factsheet\\_EU\\_ETS2\\_engl.pdf](https://foes.de/publikationen/2022/2022-01_FOES_Factsheet_EU_ETS2_engl.pdf), 1 September 2021, accessed 3 January 2022