Ten measures for National Social Climate Plans

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Ten measures for National Social Climate Plans

This policy brief proposes ten policies for inclusion in the National Social Climate Plans (NSCPs) to accompany carbon pricing in heating and transport (ETS2). NSCPs can serve as blueprints for social measures in our transition away from fossil fuels. Measures included in NSCPs can also be funded by ETS2 revenues allocated to EU governments outside of the Social Climate Fund.

While the National Social Climate Plans are often seen only as opportunities to spend revenues from carbon pricing, we present three measures that promote social and climate progress at no fiscal cost. The table below categorises the ten measures proposed across the transport, heating, and renovation sectors.

	Sector	Cost	Type
1. Support renters and incite owners to insulate & change heating			
2. Set end dates for sales of new fossil technologies			
3. Fossil fuel subsidies reform			
4. Promote renewables for vulnerable households			
5. Reduce the (visible) price of electrified transport			
6. Reduce the (visible) price of electrified heating			
7. Upfront subsidies for building renovation			
8. Training heating installers and construction workers			
9. District-wide heat planning and regulations			
10. Direct payments to households			

The first column indicates whether a measure acts on renovation (), heating () or transport (), The second column indicates whether a measure has no fiscal cost () or whether it is costly (), The third column categorises the measures into regulation (), mechanisms influencing prices (), subsidies (), human resources () and compensation ().

1. Support renters and incite owners to insulate & change heating

In many EU countries, the large majority of low-income households live in rented accommodation. Here, carbon pricing does not create sufficient incentives for owners to invest in renovation and heating decarbonisation, as ETS2 costs fall on renters by default. Two measures in NSCPs can help:

First, the costs of carbon pricing can be shared between property owners and tenants. In Germany, the CO_2 Cost Sharing Act modulates the split of carbon price costs between tenants and owners based on a property's energy performance. In low-efficiency buildings, property owners must cover up to 95% of the CO_2 costs, whereas in efficient properties, tenants bear most of the cost. Combined with socially targeted support for vulnerable property owners, this policy could unlock investment and reduce emissions while protecting vulnerable households.

Second, rent increases can depend on energy efficiency: In Belgium, the ability of owners to raise rents with inflation was limited for poorly insulated buildings, and completely banned for the lowest-rated buildings during the 2022 energy crisis. Implementing similar rules both protects energy-poor households and incentivises landlords to renovate their properties.

2. Set end dates for sales of new fossil technologies

The sale of new fossil technologies with long lifespans slows down efforts to replace existing fossil technologies with readily available electrified alternatives. New gas boilers and internal combustion car engines also lock people into rising energy prices. Clear end dates for the sale of these technologies – internal combustion engines and gas boilers in particular – can reduce the risk of investment in developing and producing electric vehicles (EVs), heat pumps etc., thereby reducing their cost for consumers.

3. Fossil fuel subsidies reform

Raising prices for fossil fuels with a carbon price whilst continuing to subsidise fossil fuels makes little sense. Fossil fuel subsidies distort the price signal created by ETS2 and waste funds that could benefit decarbonisation. Ending existing fossil fuel subsidies should be a priority for other NSCP policies to be effective. A number of provisions across the EU have been identified as fossil fuel subsidies and the EU has in theory agreed to phase these out. EU countries should swiftly prepare exit strategies, giving households the opportunity to anticipate and mitigate the negative effects of subsidy removals (see here).

The relation between gas and electricity prices is particularly relevant. EU countries could reduce taxes, levies, and non-energy charges on electricity while phasing out fossil fuel subsidies in a revenue-neutral way. This would accelerate the transition to clean heating by reducing heat pump operating costs. Alternatively, funds could be used to finance more social climate programmes.

4. Promote renewables for vulnerable households

Local renewable energy projects have the potential to significantly reduce low-income households' reliance on fossil energy. In Italy, the *Reddito Energetico* (Energy Income) installs free solar panels for low-income households. Support for individual renewable energy systems is particularly relevant in Central and Eastern Europe, where both home ownership and energy poverty rates are above the EU average. Some schemes target the more challenging multi-unit homes.

Also, providing vulnerable households access to energy communities with renewable production can reduce energy bills as well as create synergies with other electric infrastructure such as EV charging facilities. More ideas on how to promote renewables for vulnerable households can be found here.

5. Reduce the (visible) price of electrified transport

EVs are appropriate for the vast majority of transport needs currently covered by internal combustion engines. EVs' running costs are also usually lower, while the more visible purchasing costs of EVs are higher. The French Social Leasing programme has shown how reducing upfront costs of EVs can benefit vulnerable households alongside the middle class, although more should be done to benefit the poorest.

A second route to electrify transport uses public transport. The German Deutschlandticket, a cheap unlimited transport pass for local and regional trains, was found to have a significant potential to reduce journeys by car. The ticket price should be further reduced for low-income households.

6. Reduce the (visible) price of electrified heating

Most buildings could reduce their energy costs through (high or mid-temperature) heat pumps. By providing grants or zero-interest loans, the SCF can provide 100% upfront cost relief for vulnerable households who are not always specifically targeted by existing programmes. If combined with solar thermal, PV, or storage technologies, electrifying heating can create economic and climate benefits without putting too much strain on the electricity grid.

Running costs can also be reduced by lower VAT rates for heat pumps, reducing the electricity price for heat pumps – at least for vulnerable consumers – and offering time-of-use tariffs that enable savings by operating heat pumps in a grid-friendly way.

7. Upfront subsidies for building renovation

The Italian *Superbonus* scheme, with its financial mechanism removing upfront costs, was very successful in activating investments for lower-income households. The key to success was transforming a 10-year tax credit into a concrete upfront subsidy paid directly by a contractor or supplier. Similar systems can help leverage SCF funds – prioritising the most vulnerable regions can help ensure effective use of limited funds.

Providing upfront subsidies through collaborative models such as Community Land Trusts (CLTs) can ensure subsidised renovations do not negatively affect the affordability of housing. The *Upcycling Trust* model covers the cost of energy efficiency renovations for low-income households. The renovated homes become part of the CLT, ensuring certain social criteria for sale or rental.

8. Training heating installers and construction workers

The need for urgently insulating the EU's building stock and replacing heating systems generates many opportunities for work. To ensure trained staff are available, EU governments should establish modular, dynamic vocational training courses to fill skills gaps among professionals, especially in regions with many vulnerable households. The SCF can complement skills provisions in the Energy Efficiency Directive, the Energy Performance of Buildings Directive, and the Renewable Energy Directive III. Aligning these efforts with other funding streams, such as the Just Transition Fund, can increase social acceptance for climate policies among vulnerable communities.

Training can create opportunities for vulnerable households as well as supporting others to make the transition. In Romania, the *RenewAcad* programme trains current and former miners in the skills required to install wind and solar-PV installations.

9. District heating, planning and regulation

Identifying and expanding district heating systems in areas with vulnerable households could be particularly effective in supporting the decarbonisation of buildings at scale. In Denmark, around two-thirds of homes are already connected to district heating, which is planned to be run on 100% renewable energy by 2030. Support for the deployment of district heating should be complemented by strong communication from municipalities on the advantages of connecting to district heating systems, and can be combined with coordinated phasing out of fossil gas infrastructure. Effective price regulation of this natural monopoly is crucial.

10. Direct payments to households

Take-up of subsidies and support measures for vulnerable households has historically been very low. Prices other than fossil fuels may also rise as a result of carbon pricing in heating and transport, as directly affected businesses are expected to pass on increased costs to consumers via higher prices. Direct payments provide a degree of insurance against high ETS2 prices and constitute a particularly transparent use of revenues.

Some of the recommendations included in this paper will require mid-term investments. Direct payments, which can make up 37.5% of a Social Climate Plan's budget, are a vital tool to provide immediate relief for vulnerable households and microenterprises affected by the carbon price until longer-term investments become effective.


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