BRIEFING PAPER

Institute for European Environmental Policy UK

THE EU SOCIAL CLIMATE FUND

Green Transition, Energy & Transport Poverty and Lessons for the UK

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Introduction

As part of the EU's "Green Deal" to reach the goal of climate neutrality by 2050, a new Emissions Trading System (ETS2) will be introduced in 2027, covering carbon emissions from road transport, buildings and small industries. While an important part of the EU's plan to curb emissions, it will likely impact energy and transport prices, as the costs borne by energy and fuel suppliers are passed on to consumers. Projections vary, but fuel prices could rise by between €0.11 and €0.50 per litre by 2030 due to the ETS2, with wide implications for domestic budgets.[1]

Accordingly, the Social Climate Fund (SCF) has been created to commence in 2026 to cushion the impacts of ETS2 on the most vulnerable groups.[2] While the SCF alone cannot be relied upon to curb energy and transport poverty, if leveraged wisely it can be used to promote green investments with long-term socioeconomic benefits, with lessons for the UK.

Energy and transport poverty: intertwined issues

Energy poverty is a complex area and can be defined and measured in different ways. Depending on the indicator used, between 8% and 16% of the EU population are facing energy poverty. The SCF defines energy poverty as a household's lack of access to essential energy services, such as heating, hot water, cooling, lighting and energy to power appliances. It generally arises from high energy expenditures relative to household budget, low incomes, and poor energy efficiency of buildings.[3] In 2023, more than one in ten people in Europe could not keep their home warm.[4]

Meanwhile, transport poverty refers to lack of access to transport, typically due to issues of affordability, availability, reliability or safety. It remains a barrier to social and economic inclusion across Europe, and, like energy poverty, disproportionately affects vulnerable groups such as those with low incomes or limited mobility.[5] While transport poverty can also be difficult to measure, data from 2014 suggest that 2.4% of people in the EU could not afford to use public transport.[6]

1 *European Parliament (2025). Briefing: ETS 2 – Status and Concerns. https://www.europarl.europa.eu/RegData/etudes/BRIE/2025/772878/EPRS_BRI(2025)772878_EN.pdf*

2 *European Commission (undated). 'Social Climate Fund'. https://climate.ec.europa.eu/eu-action/carbon-markets/social-climate-fund_en* [Accessed 13/10/25]

3 *Joint Research Centre (2025). 'Who's Energy Poor in the EU? It's More Complex Than It Seems' https://joint-research-centre.ec.europa.eu/jrc-news-and-updates/whos-energy-poor-eu-its-more-complex-it-seems-2024-09-25_en* [Accessed 15/10/25]

4 *European Commission (undated). 'Social Climate Fund: Employment, Social Affairs and Inclusion'. https://employment-social-affairs.ec.europa.eu/policies-and-activities/funding/social-climate-fund_en* [Accessed 13/10/25]

5 *POLIS (undated) – 'Transport Poverty'. https://www.polisnetwork.eu/topic/transport-poverty/* [Accessed 16/10/25]

6 *Carbon Market Watch (2024) 'FAQs – Social Climate Fund' https://carbonmarketwatch.org/2024/07/01/faq-social-climate-fund/* [Accessed 13/10/25]

Role of the Social Climate Fund

The SCF is only intended to mitigate new and additional poverty risks arising from ETS2 itself, but wise investment could contribute to broader, long-term benefits.

Between 2026 and 2032, the SCF will provide up to €65 billion in targeted support for lower income groups and micro-enterprises, financed through the auctioning of 50 million allowances under the ETS,[7] plus at least 150 million allowances from ETS2. Member States must co-finance 25% of initiatives funded through the SCF (for which they can use their share of ETS revenues that the EU allocates back to them), creating total funding amounting to €86.7 billion.[8]

The money can be spent in three ways:[9]

1. Up to 2.5% for undertaking public consultation, communications activities, conducting studies or providing technical assistance and capacity building for implementing bodies.
2. Up to 37.5% on temporary, direct income support for vulnerable households, designed to ease the transition while more structural investments are being implemented.
3. The majority of the fund is for green investments to increase the affordability and accessibility of products and services delivering emission reductions. These can include, for example, energy-saving renovations, decarbonisation of heating and cooling systems, incentivisation of zero/low carbon vehicles, and investment in affordable, green public transport.

Whilst the first two categories are important for smooth and fair implementation and transition, it is the third category of investments that have longer-term potential.

Relevance and lessons for the UK

The UK does not have an SCF but has acknowledged the need for complementary policies to address the social impacts of the UK ETS, as well as of the wider transition to net-zero. The UK also faces significant issues with energy and transport poverty, requiring strategic policy and investment.

A 2023 report by the Social Market Foundation found that transport forms the single highest cost for millions of households in the UK, pushing 8% of the population into poverty.[10]

The picture of energy poverty in the UK is unclear, partly due to outdated metrics. The government assesses energy poverty in terms of "fuel poverty", but its own Commission on Fuel Poverty concluded that this system "should be reviewed as it no longer captures the full

7 *The ETS refers to the EU's original Emissions Trading System, launched in 2005. This covers emissions from power generation and energy-intensive industries. ETS 2 refers to the EU's new system, covering emissions from buildings, road transport, and other sectors, to become operational in 2027.*

8 *Ibid.*

9 *Ibid.*

10 *Social Market Foundation (2023). Getting the Measure of Transport Policy,* ***https://www.smf.co.uk/publications/transport-poverty-hidden-crisis/#***

range of households facing unaffordable bills".[11] Further, as assessment of fuel poverty is a devolved matter, the four nations of the UK adopt different methodologies for its calculation, making direct comparison difficult. The charity National Energy Action (NEA) estimates that over 6 million UK households are in fuel poverty, which it defines as spending more than 10% of household income on basic home heating requirements.[12]

Whether the UK should consider a similar initiative to the SCF, earmarking environmental taxation or ETS revenue into a fund to invest in alleviating energy and transport poverty, manage investment through another funding model, or continue with a more piecemeal policy framework, there are potential lessons from the EU both in terms of the strengths and shortcomings of the SCF. The UK Government employs existing schemes intended to help alleviate energy and transport poverty, including the Warm Home Discount, electric vehicle subsidies, and funding to local authorities to reduce public transport fares, so the potential of a SCF to complement or combine with such extant policies would have to be considered in a UK context.

The UK and the EU officially agreed at the UK-EU Summit in May 2025 to work towards linking their respective ETS, making it timely to consider whether the UK may also wish to establish an SCF or equivalent in step with the EU.

Examples of good practice

The European Commission has provided detailed guidance on good practice for cost-effective measures and investments.[13] This advice includes:

- Effective interventions to reduce energy poverty should address root causes such as high energy costs relative to income, inefficient residential or lacking efficient energy infrastructure and appliances, and the socio-economic and environmental context. Addressing root causes could include building renovations, enhancing access to energy-efficient dwellings, or improving public transport access in marginalised areas.
- Inclusive targeting needs to address the different needs of different vulnerable groups (e.g. vulnerable households, vulnerable transport users, vulnerable micro-enterprises), including people with disabilities, single parent families and those in special circumstances, to maximise the impact of interventions.
- In some circumstances, it can be vital that the SCF provides its support as soon as possible before the effects of the long-term sustainable measures are felt. This could include providing quick, direct assistance such as financial support for energy bills or immediate improvements to living conditions.

11 *Committee on Fuel Poverty (UK Government) (2024) Can Fuel Poverty Be Ended?* ***https://www.gov.uk/government/publications/committee-on-fuel-poverty-annual-report-2024***

12 *National Energy Action (2025) 'Energy Crisis',* ***https://www.nea.org.uk/energy-crisis/*** [Accessed 16/10/25]

13 *European Commission (2024). Support for the Implementation of the Social Climate Fund: Note on Good Practices for Cost-Effective Measures and Investments,* ***https://op.europa.eu/en/publication-detail/-/publication/af68b4c7-3508-11ef-b441-01aa75ed71a1/language-en*** [Accessed 15/10/25]

The Commission has also suggested specific concepts for appropriate schemes. For example, its Automotive Action Plan describes social leasing schemes for zero-emission vehicles, targeted at vulnerable transport users.[14] The Commission also recommends improving transport services in low-income areas, improving their connectivity to city centres, and introducing voucher programs for public transport along with zero-emission on-demand services.[15] To aid effective targeting of disadvantaged areas, the European Union's Joint Research Centre has launched the Transport Poverty Hub, an online platform providing high-resolution maps that help visually identify areas with well-developed and underdeveloped transport networks.

Lessons from criticisms of the SCF

One of the key criticisms of the SCF ahead of its implementation concerns inadequate engagement of local and regional governments and communities.[16] An approach that is too top-down from central government can miss contextual nuances of local areas, undermining effective alleviation of energy and transport poverty. Regional and local community engagement are therefore essential.

Another criticism of the SCF that is acutely relevant to the UK, given concerns over the effectiveness of fuel poverty as a measure of true energy poverty, concerns the definition and identification of vulnerable groups. Bankwatch, a European NGO monitoring international financial institutions, has remarked: "In defining vulnerability, national social climate plans must go beyond narrow income-based thresholds and adopt composite indicators that better reflect the lived realities of households. These should include factors such as the proportion of income spent on energy, the energy efficiency of households, the type of heating fuels used, access to public transport, and the financial capacity to adopt sustainable alternatives".[17] Appropriate identification and targeting of those in greatest need of assistance should underpin any effective social climate scheme.

Beyond earmarking: further green finance potential

There is also potential for the EU to go further in leveraging its ETS and ETS2 revenues to promote the clean transition, whilst also alleviating energy and transport poverty in the longer term. For example, a cross-party group of Members of the European Parliament embraced a proposal by green NGOs in a letter to the Commission that it should consider a "frontloading" of future revenues from ETS2 by establishing an EU lending facility with the involvement of the European Investment Bank in order to start earlier investment in green transport and heating.[18]

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14 *EU Urban Mobility Observatory (European Commission) (May 2025). Recommendations for Member States to Help Tackle Transport Poverty and Promote Fair, Sustainable Mobility. https://urban-mobility-observatory.transport.ec.europa.eu/news-events/news/recommendations-member-states-help-tackle-transport-poverty-and-promote-fair-sustainable-mobility-2025-05-22_en#*

15 *Ibid.*

16 *Local Alliance (June 2025). Policy Brief: Social Climate Fund, https://eurocities.eu/wp-content/uploads/2025/06/Local-Alliance-policy-brief-SCF-06-2025.pdf*

17 *Bankwatch (June 2025). Climbing Together: Is the Social Climate Fund Working for Those Who Need it Most? https://bankwatch.org/wp-content/uploads/2025/06/2025_06_Climbing-together_Is-the-Social-Climate-Fund-working-for-those-who-need-it-most.pdf*

18 *Quantum Commodity Intelligence (2025) 'MEPS Call for Lending Facility to Prepare for ETS2 Launch' https://www.qcintel.com/carbon/article/meps-call-for-lending-facility-to-prepare-for-ets2-launch-50165.html [Accessed 16/10/25]*

Developments in the EU could provide interesting comparisons and lessons in the continued development of the National Wealth Fund (NWF) in the UK, which replaced the UK Infrastructure Bank in 2024. The NWF uses public money to stimulate private investment in priority sectors, including clean energy and transport.

As UK Government is reviewing the impact of its existing green levies on energy and their effect on households, review of alternative or complementary approaches is timely. The leveraging of future revenues from green levies or the ETS can potentially provide greater investment potential in the short term to drive green transition and better support vulnerable groups. As the UK looks to promote green investment, meet its climate goals, and help those struggling with energy and transport needs, it could stand to learn from the SCF and ongoing developments in Europe.

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