REPORT

Social Climate Fund – Billions to Fight Energy and Transport Poverty

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Warsaw 2024

REFORM

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Publication date

August 2024

Suggested citation:

Stefańczyk, A., Śniegocki, A. and Wetmańska, Z. (2024), *Społeczny Fundusz Klimatyczny – miliardy na walkę z ubóstwem energetycznym i transportowym [Social Climate Fund – Billions to Fight Energy and Transport Poverty]*, Reform Institute, Warsaw.

Image on the cover: Ashi Sae Yang/iStock

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1. Introduction

In Poland, EU climate policy tools are seen mainly in the context of additional costs and obligations imposed on the state, companies and citizens. However, insufficient attention is still being paid to the effective use of EU solutions to finance investments that permanently reduce fuel and energy costs. An example of such a tool is the **Social Climate Fund, which aims to support the groups most vulnerable to the burden of introducing the EU Emissions Trading System 2 (ETS 2) and new standards for buildings and vehicles.**

The implementation of the ETS2 will reduce emissions by making fossil fuels used in building and road transport sectors (and small industrial installations, so far not covered by the EU ETS) less attractive pricewise by taking into account the cost of CO_2 emissions. As a consequence, zero-emission solutions will in many cases become more cost-effective. In the short term, before investments in decarbonisation technologies are made, increases in fossil fuel prices will have a negative impact on the budgets of citizens and companies, directly increasing heating and road transport costs. This could particularly affect those with limited resources to adapt to the upcoming changes, such as households in difficult financial situations, residents of energy-intensive buildings, citizens with no access to transport, or micro-enterprises.

Parallel to the implementation of the ETS2, the European Commission has proposed establishing a Social Climate Fund (SCF) to support vulnerable groups. **By providing Member States with funding from the auctioning of emission allowances under the ETS2, this fund is intended to enable the introduction and financing of support systems for society and accelerate the transition of both sectors.**

The European Commission's proposals were adopted after negotiations with the governments of the Member States and the European Parliament. A number of modifications is focusing on the early start of the Fund and the possibility of postponing the implementation of the ETS2 by one year in the event of a recurrence of the fuel crisis, and now have the status of applicable law.

The Social Climate Fund will be available from 2026, and Poland is expected to be its largest beneficiary. In the baseline scenario, EUR 11.4 billion will be allocated to Poland under the Social Climate Fund. The national contribution for the implementation of actions supported by the Fund (25% of the costs of the actions) should be added to this sum. The contribution may be covered by revenues from the sale of ETS2 allowances. **The total amount referred to is therefore more than EUR 15 billion, to be used in 2026–2032 to protect vulnerable groups and for investments in zero-emission solutions** that will permanently reduce energy poverty and transport exclusion.

The effective use of the Fund will depend on the actions of the Polish government. **By mid-2025, a reliable Social Climate Plan (SCP)** will have to be produced, on the basis of which SCF funds will be spent. In order to support this process, this publication discusses the key characteristics of the Fund and the requirements which the Plan needs to meet, as well as the key choices facing the government. The second chapter discusses the functioning of the new ETS2. The third chapter describes the key characteristics of the Social Climate Fund, and the fourth chapter approximates the requirements for the Social Climate Plan. In the fifth chapter we discuss the processes of preparation of strategic documents of the previous years, from which lessons can be learned when producing the SCP. The summary chapter contains the key conclusions of the publication and defines the most important dilemmas which will determine the effectiveness of the fund's distribution.

2. The new ETS2 – main information

Until now, the decarbonisation pace of sectors outside the EU ETS has been set by binding emission reduction targets for the particular EU States. However, experience over the past decade has shown that in many cases national actions have been insufficient: the reduction in emissions in buildings and transport was either too slow in relation to the existing 2020 target, or the envisaged reduction was achieved only as a result of the slowdown in economies caused by the COVID-19 pandemic. **The current EU emission reduction model based mainly on changes in the power sector is not sufficient to meet** the new 2030 target and the need to achieve climate neutrality in Europe by the middle of the century. It is therefore crucial to avoid the risk of further insufficient progress in energy transition in buildings and transport.

In July 2021, the European Commission presented a package of legislative proposals known as *Fit for 55*. This package is a comprehensive reform of the EU climate policy ensuring that the EU 55% emission reduction target for the European economy is met by 2030. Regulatory changes cover all sectors of the economy, including far-reaching implications for the transport and building sectors: new zero-emission standards, but also incorporation of these standards into the new emissions trading system (ETS2) in order to support the reduction in emissions in these sectors by 43% by 2030 (compared to 2005 levels).

The introduction of the new ETS2 was one of the key elements of the *Fit for 55* package proposed by the European Commission. Following several months of negotiations involving the European Parliament and representatives of Member States governments in the Council of the EU, the final shape of this tool was developed at the end of 2022 and subsequently formally adopted. **Since May 2023, provisions concerning the ETS2 have been part of the applicable law of the European Union**[1].

As part of the negotiations on the final form of the reform, it was clarified that in addition to individual heating in residential and non-residential buildings and road transport, the ETS2 would also cover small installations in the power and industry sector, which have hitherto remained outside the EU ETS[2].

The ETS2 is expected to enter into force in 2027. The final version of the updated ETS Directive also contains a provision addressing concerns about the implementation of the new system during a crisis. In case of very high prices in the gas or oil market in the first half of 2026, the start of the ETS2 will be postponed by one year, until 2028. Importantly, these prices are defined at levels unlikely to be reached under conditions other than a severe fuel crisis:

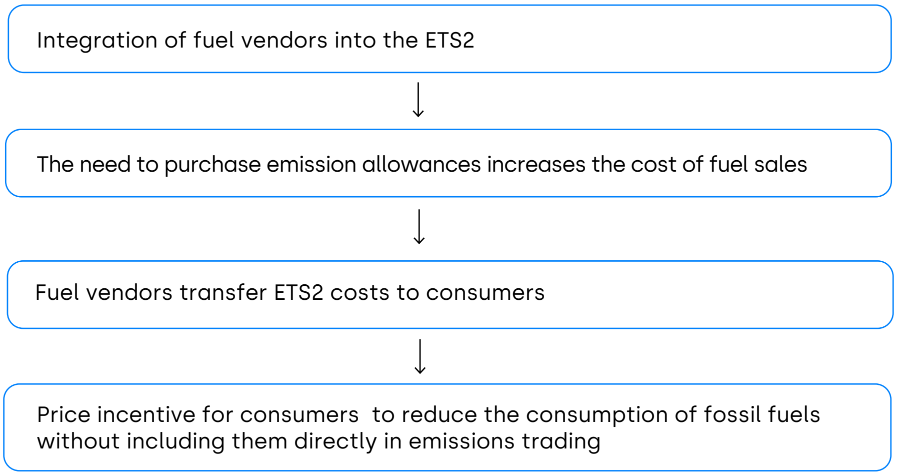
- an average price of TTF gas exceeding, in the first half of 2026, the average level for that index observed in February and March 2022.
- an average price of Brent crude oil exceeding, in the first half of 2026, twice the average level of this index for the years 2021–2025.

1 The current text of the ETS Directive, including the provisions concerning the ETS2, is available here.

2 However, the ETS2 will not cover buildings and means of transport used in the agricultural sector.

Upon entry into force of the ETS2, companies selling fuels (e.g. Orlen, coal vendors) will incur additional costs resulting from the need to purchase allowances for CO_2 emissions from combustion of the fuels sold. This will increase the costs of conducting business for these companies, and they will have to increase the prices offered to consumers. Thus, a price incentive for consumers to reduce the consumption of fossil fuels without including them directly in emissions trading will be established. However, this shift of the financial burden to all citizens means that the most vulnerable consumers, who also use carbon sources most often, will bear a disproportionate share of the burden caused by these changes.

Diagram 1. The ETS2 mechanism and impact on consumers

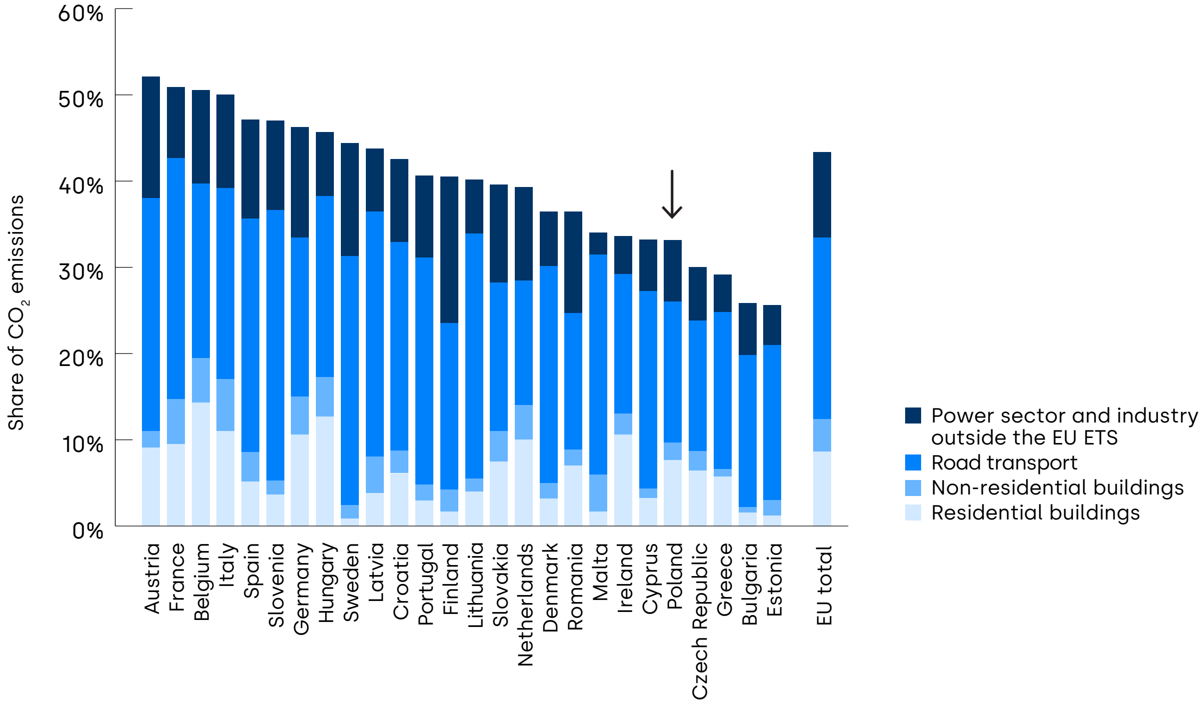


Source: Reform Institute

In Poland, the emissions that will be covered by the ETS2 are approximately 34% of emissions from the entire economy, half of which are attributable to road transport. Therefore, the establishment of a new CO_2 emission fee system will help reduce emissions from the Polish economy to a lesser extent than in other EU countries, where the ETS2 will cover approx. 44% of currently reported greenhouse gas emissions.

In terms of emissions from construction and transport from households *per capita*, Poland is still below the EU average, although only slightly. A comparison of the structure of these emissions with other EU countries shows that Polish households are heated with relatively emission-intensive heating (based mostly on hard coal), although they use relatively few transport fuels. Therefore, **the ETS2 will have the greatest impact on Polish households through changing the heating costs of buildings, in particular those using hard coal.**

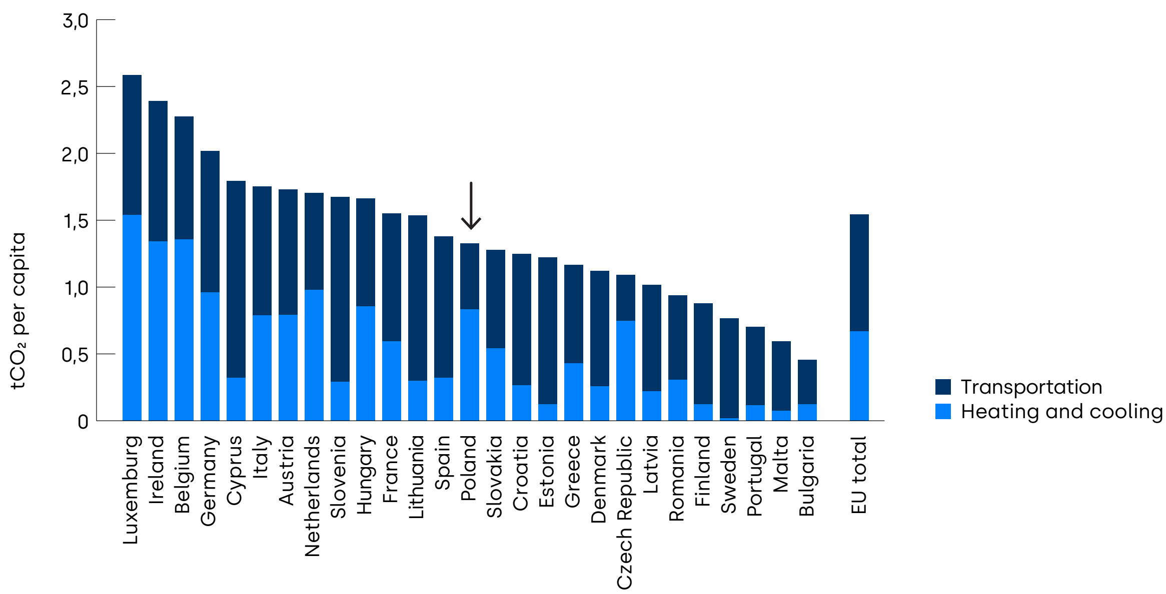
Chart 1. Share of CO_2 emissions from sectors covered by the ETS2 in total EU greenhouse gas emissions in 2021



Comment: the chart does not include Luxembourg, for which the share of road transport in emissions exceeds 50%, and total emissions of ETS2 – 80%.

Source: Reform Institute calculations on the basis of Eurostat data

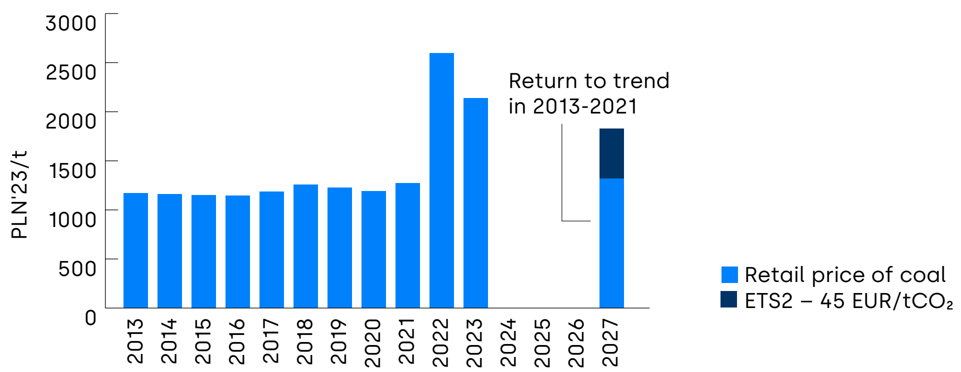
Chart 2. Direct household emissions in the EU in 2021



Source: Internal study of the Reform Institute on the basis of Eurostat data

It is hard coal that will become the most expensive fossil fuel, due to both its higher emissivity and lower initial price compared to natural gas and oil derivative fuels. The implementation of the ETS2 in 2027 will mean an increase in the price of coal for households of PLN 500/t. However, this increase overlaps with a wider market context: gradual normalisation of the coal market situation after the 2022 shock and an overall rapid price increase across the economy with stabilisation of nominal exchange rates. At the time of publication of the European Commission's proposal for the ETS2 in July 2021, additional CO_2 emission costs of EUR 45/tCO_2 would have meant an expected coal price increase of more than 60%, which would have been unprecedented at that time. However, the currently expected scale of increase for similar assumptions regarding the price of allowances is less than 40%. Moreover, in the scenario of a further gradual return of the coal market to the pre-crisis situation, the actual retail price of this raw material in 2027 may be below the currently recorded levels. Thus, the implementation of the ETS2 in Poland, even in the most critical area, will cause much less of a shock than the fuel crisis of 2022, while generating additional funds for protective actions and investments in long-term solutions.

Chart 3. Real retail prices of hard coal in Poland in 2013–2023 and the estimated impact of the ETS2 in 2027.



Comment: real prices taking into account the CPI, reference year – 2023

Source: Reform Institute calculations on the basis of GUS (Statistics Poland) data

Therefore, the implementation of the ETS2 implies many opportunities for accelerating decarbonisation of Polish economy, but also social and economic challenges. Reasons for the latter include the fact that the ETS2 indirectly places a disproportionate burden of the increase in costs on vulnerable social groups – in Poland, in particular those who are exposed to energy poverty. In order to mitigate the negative consequences, the reform package implementing the ETS2 also includes the establishment of a new Social Climate Fund.

3. Social Climate Fund

The establishment of the Social Climate Fund (SCF) is an integral part of changes introducing the ETS2. **The objective of the Fund is to mitigate the impact of the ETS2 on the most vulnerable entities by redistributing the funds generated by the sale of emission allowances.** This is a direct financial response to the economic and social changes that may be caused by the expansion of CO_2 emission fees to include new sectors, in particular road transport and heating.

The proposal for a Regulation establishing a Social Climate Fund was published by the European Commission in July 2021, together with other elements of the *Fit for 55* package. Following negotiations aimed at reconciling the positions of representatives of the governments of the Member States and of European parliamentarians, a consensus as to the final text of the Regulation was reached in December 2022. It was formally approved by the European Parliament and the Council of the EU at the end of April 2023. The adopted text was published in the Official Journal of the EU on May 16, 2023[3]. Below we describe the most important elements of the Regulation.

3 The text of the Regulation establishing a Social Climate Fund is available here.

3.1. Time frames and scale of the Fund

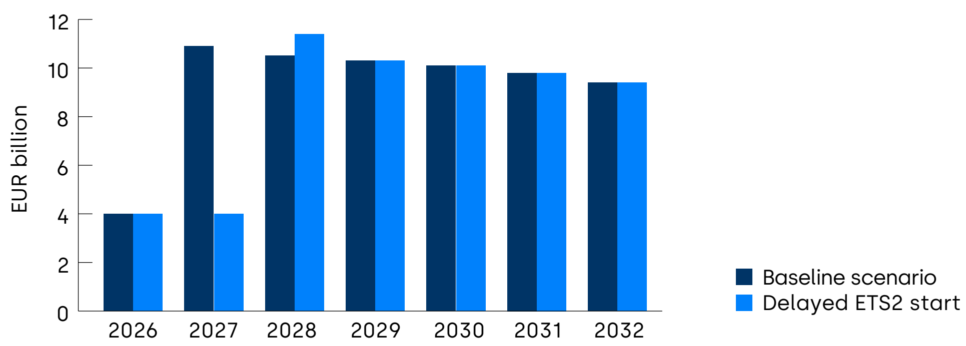
The Fund is expected to operate between **2026 and 2032**. The SCF financial design allows it to start one year before the first ETS2 auctions planned for 2027. The Fund will be implemented through the EU Multiannual Financial Framework (budget), assuming that disbursements under the Fund are fully covered by revenues from the sale of emission allowances. When the SCF starts operating, these will be funds from the EU ETS (sale of 50 million allowances) and in subsequent years from the ETS2.

The total amount of funds available under the Fund for the period 2026–2032 will be EUR 65 billion in the baseline scenario. This amount may be reduced in two ways:

- delaying the start of the ETS2 by one year (start in 2028), if high prices in the energy market continue. The SCF funds will then be reduced to EUR 54.6 billion,
- prices of allowances in the ETS2 continue to be very low (more than four times lower than the European Commission's assumptions) – then revenues from the sale of allowances from the ETS2 will be lower than the financial needs of the Fund. The SCF Regulation provides for this possibility, as the amounts allocated to the Fund are maximum values, reduced in the event of a shortage of revenues from the ETS2.

The likelihood of the above scenarios is low, and in both cases the reduction in the funds available under the SCF is also accompanied by lower price pressure from the ETS2. **Therefore, in the next part of the document below, we focus on the baseline scenario: start of the ETS2 in 2027 and availability of the full SCF budget.**

Chart 4. Funds available under the SCF at EU-wide level from 2026 to 2032



Source: study of the Reform Institute on the basis of the SCF Regulation and the ETS Directive

In accordance with the initial proposals of the European Commission, the volume of the Fund was to correspond to approximately 25% of the total revenues from the ETS2, which were to be widely redistributed. Ultimately, after reducing the scale of the Fund and expanding the scope of the ETS2 during negotiations involving the European Parliament and the Council of the EU, approximately 16% of the revenues from the sale of ETS2 allowances will be allocated to the Fund. Despite the smaller scale, in relative terms of the Fund, the final provisions retain the distribution method, which is beneficial among others for **Poland, the largest beneficiary of the SCF, which will obtain EUR 11.4 billion (18% of the total amount).** When calculating the distribution of funds from the Fund, the Regulation takes into account not only data on population, income levels and emissions, but also indicators measuring the scale of energy and transport poverty, in particular those at risk of poverty living in rural areas and the proportion of households at risk of poverty who face problems paying bills on time. This algorithm is beneficial for Central and Eastern European countries, including Poland, where the share of the Fund is approximately twice as high as the share of emissions from the ETS2 sectors. For this reason, they will receive approximately twice as much money from the Fund as the revenues they will lose from the sale of ETS2 allowances to the Fund. Greece is also an important beneficiary, where, due to the scale of the poverty caused by the multiannual crisis being taken into account, the SCF funds allocated are more than threefold the funds that would be allocated if only emissions in the ETS2 sectors were considered. The largest net payer under the Fund will be Germany, which, together with other countries in Northwestern Europe, will receive low disbursements relative to the scale of their emissions.

Table 1. Share of ETS2 and SCF burdens and benefits for selected EU countries

	Share in emissions of ETS2 sectors in 2021	Participation in the Social Climate Fund	SCF allocation – baseline scenario, EUR billion
Poland	9%	18%	11.4
Romania	3%	9%	6.0
Other Central and Eastern Europe countries	9%	17%	11.2
Germany	23%	8%	5.3
France	14%	11%	7.3
Italy	14%	11%	7.0
Spain	9%	11%	6.8
Netherlands	4.4%	1.1%	0.7
Greece	1.5%	5.5%	3.6
EU	100%	100%	65.0

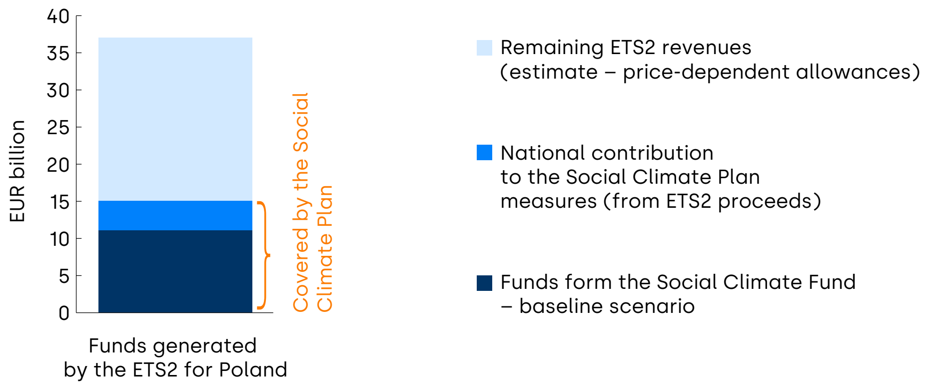
Comment: baseline scenario – introduction of the ETS2 without delay by one year due to high fuel prices; emissions from ETS2 sectors include combustion of fuels in residential and non-residential buildings, road transport, and the industry and power sector (fewer emissions currently covered by the EU ETS).

Source: Reform Institute calculations on the basis of Eurostat data, Regulation establishing a Social Climate Fund

The funds from the Social Climate Fund should be spent on the basis of the Social Climate Plan (SCP – more information in chapter 4 of the report), which will additionally cover at least **25% of the contribution** financed from national funds. Thus, the total amount of actions co-financed by the SCF across the Union will be over EUR 86.7 billion.

Assuming the implementation of the ETS2 from 2027 and the price forecasts of allowances used by the European Commission, **Poland will receive approximately EUR 37 billion**, of which EUR 11.4 billion (approximately 30% of the total amount) will be through the SCF. The funds that Poland will obtain directly from the sale of ETS2 allowances will amount to approximately EUR 25.5 billion. **Revenues from the ETS2 are a natural source of financing for the SCF supplementary contribution** (EUR 3.8 billion). After deducting the amount of its contribution, the remaining revenues from the sale of ETS2 allowances by Poland in 2027–2032 will amount to approximately EUR 22 billion.

Chart 5. Total funds from the ETS2 available to Poland in 2026–2032



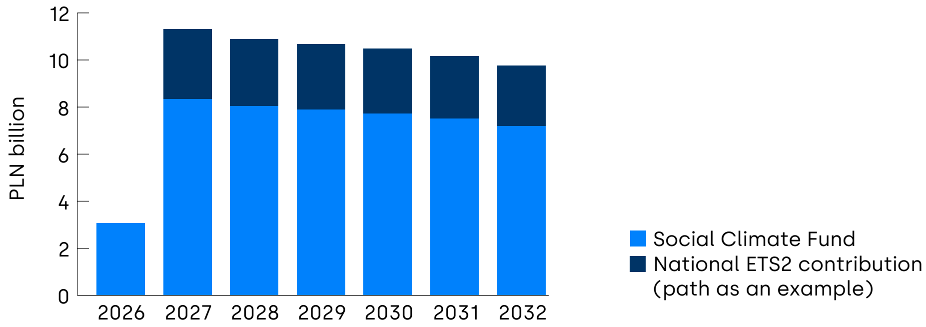
Comment: the assumed average price of ETS2 allowances was based on EC estimates from the proposal of the Regulation establishing a Social Climate Fund; the assumed volume of allowances was based on the final text of the Regulation establishing a Social Climate Fund (lower level of SCF allocation, broader sector scope of ETS2). Baseline scenario – start of the ETS2 in 2027.

Source: Reform Institute estimates on the basis of the Regulation establishing a Social Climate Fund, estimates made by the European Commission, and Eurostat data

The funds covered by the Social Climate Plan will amount to approximately PLN 3 billion in 2026, and then they will oscillate around PLN 10 billion per year between 2027 and 2032. Overall, **the scale of the SCP** (EUR 15.2 billion) exceeds the **grant component of the NRP with regard to energy and mobility** (EUR 14.3 billion, including the REPowerEU chapter).

It will also be important **to plan the use of potentially higher revenues from the ETS2 not covered by the SCP.** An additional challenge in this case will be the uncertainty about the scale of funds available in this respect, which depends on the prices of allowances in the system. In addition, as in the case of the current EU ETS, **countries that reduce emissions more slowly than the rest of the EU will experience a gradual deterioration in the balance of their share in the ETS2**, as the volume of allowances they sell will decrease at a rate determined by the contraction of the EU-wide allowances (cap element in the cap and trade system) rather than the demand for allowances reported by national entities. Therefore, it is particularly important to use all the funds from the ETS2 in order to effectively reduce emissions in the sectors covered by the system – otherwise Poland may become a "net payer" of the system in the 2030s, even despite the large initial support under the SCF.

Chart 6. Funds covered by the Social Climate Plan in 2026–2032



Comment: it was assumed that the contribution would begin to be due at the start of the ETS2 in 2027, and that the relationship between the contribution and the funds from the SCF would continue to be constant, so that the contribution accounted for 25% of the total amount in 2026–2032.

Source: Reform Institute calculations on the basis of the Regulation establishing a Social Climate Fund

3.2. Beneficiaries of the Fund

The potential beneficiaries of actions financed by the Social Climate Fund are:

- **vulnerable households,** i.e. those who suffer from energy poverty or who are significantly affected by the integration of heating into the ETS2 and do not have the funds to renovate the building they occupy,
- **vulnerable transport users** – individuals and households experiencing transport poverty, as well as those who are significantly affected by the integration of the road transport sector into the ETS2 and do not have the funds to buy zero- and low-emission vehicles or to switch to alternative sustainable modes of transport, including public transport,
- **vulnerable micro-enterprises** – those who are heavily affected by the start of the ETS2 and do not have the funds either to renovate their building or to purchase zero- and low-carbon vehicles, or to switch to alternative sustainable modes of transport, including public transport.

The Regulation establishing a Social Climate Fund also provides framework definitions of energy poverty and transport poverty:

- **Energy poverty** means a household's lack of access to essential energy services that underpin a decent standard of living and health, including adequate warmth, cooling, lighting, and energy to power appliances, in the relevant national context, existing social policy and other relevant policies.
- **Transport poverty** means individuals' and households' inability to meet or difficulty in meeting the costs of private or public transport, or their lack of or limited access to transport needed for their access to essential socioeconomic services and activities, taking into account the national and spatial context.

It is therefore important when determining the Fund beneficiaries to clarify the framework definitions of energy poverty and transport poverty in order to adapt them to the national context and to assess the impact of implementation of the ETS2 on potentially vulnerable households and micro-enterprises.

4. Social Climate Plan

4.1. The purpose of the Social Climate Plan

The Social Climate Fund will be managed by the European Commission. In order to benefit from the Fund, Member States will have to prepare Social Climate Plans[4] and submit them to the European Commission by mid-2025. **Member States will have access to the funds allocated to them from the SCF once the objectives and milestones set out in the SCP have been achieved.**

The Social Climate Plan should primarily serve two objectives:

1. Providing vulnerable entities with funds for **investments permanently increasing their resilience to the increase in the costs of using fossil fuels**, by:
   - improving energy efficiency,
   - decarbonising heating and cooling systems,
   - increasing zero- and low-emission vehicles, increased mobility.
2. **Mitigating the effects of increasing fossil fuel prices** on vulnerable entities, thus countering transport and energy poverty **during the transition period** until the investments under point 1 are completed.

Detailed guidelines for the Plans can be found in Annex V of the Regulation on establishing a Social Climate Fund[5]. Below we discuss the most important provisions.

4.2. General principles for the preparation of Plans

Similarly to the logic used by the European Commission in its NRP guidelines, **the reforms and investments envisaged** under the SCP are to be implemented and executed in parallel. The main general guidelines for the content of the SCP include recommendations on:

- including in the document an estimate of the increase in prices of selected goods and services caused by the introduction of the ETS2,
- specifying in the SCP the estimated number of vulnerable households, micro-enterprises and transport users,
- clarifying how the SCP overlaps with the existing policies and measures,
- specifying the cost of complete implementation of the SCP.

The framework **SCP structure** should include:

- an outline of **the current situation** and **a description of the process of creating the SCP** (including a report on the conducted public consultations),
- a component on **planned policies and measures** in the **buildings and transport sectors**, as well as **milestones** to be achieved in this respect,
- a component on planned **direct income support** policies and measures + milestones to be achieved in this respect,
- **assessment of the impact** of policies and measures included in the SCP, including on vulnerable groups,
- a component on the **SCP implementation and monitoring** process and how it **complements other plans and commitments**.

Importantly, the SCP should be consistent with other strategic documents. The plan should be **consistent with the National Energy and Climate Plan (NECP) as well as complementary to the NRP**, and ensure synergy with its solutions[6]. The payments from

4 In the official translation of the Regulation, the term *social and climate plan* is used. However, in this publication we use the term *Social Climate Plan*, which more clearly indicates the connection of the document with the Social Climate Fund and corresponds to the name in the English version of the Regulation (Social Climate Fund, Social Climate Plan).

5 The text of the Regulation is available here.

6 The Polish NRP already includes solutions for improving the energy efficiency of buildings (mainly increased support for the *Clean Air* programme and the Thermomodernisation and Renovation Fund). It also includes policies and measures relating to the promotion of low- and zero-emission public transport.

the NRP are to last until 2026, so the SCP may supplement the actions included in the NRP by extending them and increasing their scope.

Before submitting the SCP for assessment by the Commission, the Member State should hold **public consultations** on the document. Representatives of local and regional authorities, relevant economic and social partners, civil society organisations, youth organisations and others should be invited. The Plan should include a summary of the conclusions reached due to stakeholder comments, together with information on how the knowledge gathered in this way was reflected in the Plan. The Commission will also assess whether the public consultation process was satisfactory.

4.3. The implementation, evaluation and reporting process

The Regulation establishing a SCF stipulates that Member States should formally submit their Social Climate Plans to the European Commission by **the end of June 2025** at the latest. The Commission then has five months to evaluate them in terms of ensuring a sufficient response to the impact of the implementation of the ETS2 and compliance with the EU climate targets. If the EC approves the plan, the state in question will receive the first disbursement from the Fund for the implementation of the Plan. If approval is not given, the plan must be revised and resubmitted. This means that **meeting the time limit and producing a good quality Plan is a prerequisite for mobilizing funds from the SCF at the beginning of 2026.**

By 2029, Member States should send an evaluation of the adequacy of their SCFs to the EC together with a two-year report describing the implementation rates. This process overlaps with the NECP reporting process.

As in the implementation of the NRP, **access to all funds from the SCP is subject to the milestones specified in the Plan and the disbursement of funds as intended.** Member States will have an integrated information and monitoring system at their disposal. Applications for disbursements from the SCF can be submitted twice a year. The application will also need to be accompanied by evidence of the progress in completing the milestones set.

4.4. Scope of actions covered by the SCP

Direct cash transfers

Access to such support should be **temporary and phased out**. It should be addressed to **well-selected** potential beneficiaries who are members of the target groups of the Fund. Tools and investments relating to such support should effectively eliminate energy and transport poverty from among the beneficiaries.

The inclusion of direct cash support in the plan is only possible if the planned disbursement of funds also takes into account **related tools and investments that permanently** improve the situation of persons covered by direct subsidies.

Direct transfers of funds may amount to a **maximum of 37.5% of the funds covered by the Social Climate Plan, and should only address the direct effects of the implementation of the ETS2** (the impact of the ETS2 on fuel prices is the reference point). In other words, this part of the Plan aims to mitigate the impact of the ETS2 on vulnerable consumers, and not to finance a wider range of protective actions, e.g. addressed at the general public or intended to tackle high fuel prices on the international market.

Direct support for investments in infrastructure and zero-emission technologies

In the case of **buildings**, investments may concern:

- improving the energy efficiency of buildings and their renovation, including in particular *energy vampires* and social buildings,
- decarbonisation of heating and cooling of buildings,
- RES integration, including by supporting energy communities.

Examples of possible actions with regard to buildings:

- supporting access to affordable, energy-efficient housing, including social housing,
- supporting decarbonisation, including electrification, of heating and cooling systems and cooking in buildings by providing access to affordable and energy-efficient systems and by integrating renewable energy generation and storage,
- providing information and raising awareness, and providing advice on cost-effective measures and investments, and on available support for building renovations and energy efficiency,
- support for public and private entities (including social housing providers and public and private cooperatives) in developing energy efficiency and providing appropriate financial support instruments.

In the case of **transport**, investments may concern:

- access to low- and zero-emission commercial vehicles, including infrastructure for recharging and refuelling.
- access to affordable and sustainable public transport.

Examples of possible actions with regard to transport:

- support for the purchase of zero- and low-emission vehicles and bicycles,
- provision of appropriate public and private infrastructure for the above-mentioned vehicles, including infrastructure for recharging and refuelling,
- development of a second-hand zero-emission vehicles market,
- provision of access to information and raising awareness, and providing advice on cost-effective measures and investments as well as sustainable, alternative, affordable mobility and transport solutions,
- support for private and public entities, including cooperatives, in developing and providing sustainable mobility on demand, shared mobility services, and active mobility options.

Technical assistance – Plan implementation

Member States may devote up to 2.5% of the total budget of the SCP to actions related to the implementation of the Plan. These may include funds for training, information and promotional activities, programming, and monitoring of activities, as well as monitoring, auditing and evaluating them. Given the scope and complexity of the Plan, including the attention paid by the European Commission to the definition of beneficiaries and the estimated impact of the ETS2, this element of the SCP may at the same time be **an opportunity to develop tools to raise public awareness** in the fight against energy and transport poverty, as well as to **pursue evidence-based public policy**.

5. Lessons learned from the preparation of NRP and NECP for SCP works

Unlike the NRP or the REPowerEU plan, the Social Climate Plan does not have to respond quickly to a sudden systemic shock. European governments became aware of the objectives, scale, principles of operation and the scope of support that the SCP entails, two years before the time limit for submission of the Plans. Leaving the preparation of the SCP until the last minute, as in the case of the revision of the NECP, will mean that the funds available to Poland cannot be used effectively, as the Plan has to be drawn up according to three requirements.

Firstly, the SCP should be based on **comprehensive planning**, i.e. on a sound diagnosis of the problem and the existing condition of state policies concerning energy and transport poverty. The Plan must also be linked with other strategic documents on climate and energy policy, and existing policies have to be revised, especially in view of the requirement to make a 25% contribution.

Bearing in mind that the SCP has the longest time horizon among the currently defined policies determining the shape of decarbonisation of the Polish economy (beyond 2030), early inclusion of the SCP in the map of strategic documents will make it possible to think about reforms and investments planned under the PEP and the NECP in the long term and ensure uniformity of these documents.

However, bottom-up planning of possible investments is not sufficient to achieve the EU objectives, as there is a qualitative shift in district heating and heating systems towards zero-carbon systems; this changes the relative costs and benefits of investments in building renovation, and requires coordination of investments in energy efficiency improvement and modernisation of electricity and district heating systems. Similarly, Poland faces complex changes relating to mobility, where both the technologies used and the manner of meeting the transport needs of citizens and companies will have to change. It is therefore important that the NECP, as a cross-cutting document, reflects an appropriate level of ambition and a perspective beyond 2030, and makes a good contribution to sectoral strategies, thus defining the scale, scope and pace of reforms and investments under the SCP. Similarly, as the NECP, the PEP should also take into account the effects of introduction of the ETS2 and activities within the SCP, as well as their consequences for the structure and level of demand and energy supply.

Secondly, it will not be possible to prepare an effective SCP without **inter-ministerial coordination**: the selection of priority areas for the necessary reforms and investments, as well as the decision on the scale of support to be provided to the different target groups, requires, especially in the absence of a long-term strategy for achieving climate neutrality, efficient coordination between the Ministry of Climate and Environment, the Ministry of Development and Technology, the Ministry of Infrastructure, the Ministry of Family and Social Policy, and the agencies responsible for implementing programmes concerning decarbonisation of buildings and transport. Moreover, the necessary coordination with other European funds and national funds (e.g. decisions on how to distribute the contribution to the SCP over time) requires the involvement and strategic decisions of the Ministry of Finance and the Ministry of Funds and Regional Policy.

Thirdly, the focus on **transparency** through early presentation of the SCP work plan and involvement of stakeholders and experts will ensure that the process is comprehensible to all involved parties, based on evidence, and that it will prepare the entities responsible for implementation of the Plan for the challenges related to scaling of zero-emission investments. It is worth drawing upon previous experience: limited dialogue with the market during the process of establishing the NRP further increased the risk of failure to achieve milestones.

In addition, the SCP should be based on the **"reforms and investments"** mechanism known from the NRP. The priority from the SCP perspective is not only to spend the available funds, but also to create conditions through reforms that will allow scaling up the necessary investments and durable solutions to the problems of energy and transport poverty. This mechanism requires the development of a comprehensive legislative package introducing new regulations and amending current policy instruments. This will provide an opportunity to prepare a comprehensive policy to fight energy poverty and transport exclusion, and support SMEs in their transition to climate neutrality, which has been overdue for years.

6. Summary

It was officially determined in 2023 that a new ETS2 covering heating, road transport and small energy and industrial installations not covered by the EU ETS would be introduced. This will be one of the key elements in accelerating the transition to a climate-neutral economy, both providing a price incentive to move away from fossil fuels and generating funds to support the necessary investments and protective measures. In the case of Poland, a particular challenge will be the large impact of the new system on the prices of hard coal used for heating buildings. The initial scale of carbon price increases after the introduction of the ETS2 in 2027 will be significantly smaller than in the crisis of 2022, and the impact of the system on society can be mitigated by well-designed protective measures and investment support to stop using this fuel for heating.

The start of the ETS2 will also mean introduction of the Social Climate Fund, a new tool for redistributing a portion of the incomes from the sale of emission allowances. This redistribution will take place at two levels: between Member States (Poland will be the largest beneficiary of the Fund and will receive twice as much money as it will contribute) and within individual states. The use of the SCP will be based on an approach similar to the Recovery Fund: Member States will have to prepare comprehensive Social Climate Plans encompassing all of the measures to fight energy and transport poverty, together with the division of funds between the protective measures and investments in a sustainable solution to the problem. Similarly, as in the case of the NRP, the European Commission will evaluate the preparation and implementation of Social Climate Plans, on which subsequent disbursements from the Fund will depend.

The scale of the funds covered by the SCP (over EUR 15 billion in 2026–2032) exceeds the NRP grant earmarked for the green transition. Together with income directly obtained from the sale of allowances in the ETS2, Poland will obtain a total of approximately EUR 35–40 billion by 2032. The efficient use of these funds is a prerequisite for efficient and fair abandonment of fossil fuels in heating and road transport. Therefore, the preparation of the SCP and a broader policy for the use of funds from the ETS2 should be based on comprehensive planning, inter-ministerial cooperation, and a transparent approach to cooperation with stakeholders and experts. At the same time, the experience gained so far in the preparation and implementation of the NRP and the NECP should be put to use in order to avoid repetition of errors and delays.

In the first quarter of 2024, the government should specify a time frame for preparation of the SCP, which will take into account analytical works and dialogue with stakeholders.

The Plan should address a series of **strategic questions**:

- How **to manage the selection of priority areas** and to what extent support will be provided for the various target groups: how much funds should be allocated to mobility and how much to energy poverty? How much funding should be provided for households and how much to micro-enterprises?
- How should the framework **definitions of SCF beneficiaries**, laid down in the Regulation, be adapted to the national conditions?
- How **can the SCP be combined effectively with the funds currently available**: the NRP, funds from the EU ETS1, structural funds? Can the initiatives considered under the SCP be launched earlier, based on the funds already available as pilot actions?
- How can **the remaining resources from the ETS2** that will be received by Poland be spent effectively? How to manage the contribution to the SCP?
- Which **system reforms** concerning fighting energy and transport poverty can help with the start of the SCF?

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