Joren Schepers - 10 September 2024*

The Social Climate Fund as a Catalyst for the French Energy Poverty Strategy

The need for a Social Climate Fund

On 22 April 2021, Ursula von der Leyen announced the expansion of the EU Emissions Trading System (EU ETS) to the buildings and transport sector in 2027[1]. This proposal sparked immediate concern, particularly from Poland and Romania. The expansion could have a disproportionate impact on heating and transport costs for these countries as they have higher levels of energy poverty and an ageing car fleet[2]. This concern resonated widely across the EU. In 2021, 6.9% of the population was unable to adequately heat their homes. In the wake of war in Ukraine, there was further cause for concern in 2022 as this figure increased to 9.3%[3]. So, when the new ETS directive was approved in 2023, the buildings and transport sector were established separately from the former ETS and got renamed ETS2. Moreover, the concerns regarding rising prices for vulnerable households became a part of Directive (EU) 2023/959 (10/05/2023). In order to mitigate the effects of the rising prices on vulnerable households, it was decided to introduce a social compensation mechanism. A part of the revenue generated from the ETS2 will be recycled and redistributed through the Social Climate Fund (SCF). The aim of the fund is to prevent the most vulnerable people from being exposed to transport and energy poverty as a result of the pricing policy. The SCF primarily funds investment in energy efficiency, but also direct income support. This is the first time the EU has combined climate policy (lowering carbon emissions) with carbon pricing and social policy (supporting vulnerable people) in one Directive. According to the European Commission (EC), this was necessary in order for the policy to be accepted and more importantly, to make the energy transition a just transition[4]. The SCF regulation sets out ambitious objectives, allocating a total budget of €86.7 billion from 2026 to 2032 (25% of total ETS2 revenue). However, the MSs are responsible for defining the details of distribution with national Social Climate Plans (SCP), which have to be submitted by 30 June 2025. France qualifies for €7.28 billion (11.19%) for their SCP. All MSs are required to contribute 25%, bringing the total to €9.10 billion for France. Divided equally over seven years, this translates to €1.30 billion annually.

This paper sets out to take a deeper look into the potential of the fund to accelerate French current policy which primarily focuses on direct income support and, more notably, energy efficiency.

Current strategy of France

At present, France renovates 100,000 houses annually, but has set the ambitious target to renovate 200,000 houses in 2024 and 900,000 houses in 2030[5]. In total there were seven million poorly insulated houses in 2019 and half of them belonged to people living in energy poverty[6]. This would indicate that many people living in energy poverty need retrofitting.

The policy to combat energy poverty was initiated in France by a law dating back to 2010, known as "Grenelle 2". The law created the ONPE (Observatoire National de la Précarité Énergétique), which produces data on the phenomenon of energy poverty and on the measures and financial aid which aim to prevent it and limit its extent[7]. The main indicator of energy poverty, published by the Ministry for Energy Transition, is the energy effort rate (EER), i.e. the share of households in the first three equivalised income deciles whose energy bills amount to 8% or more of their income. On average, this rate, adjusted for temperature variations, amounts to 11.7% of households over the 2010-2021 period. Figure 1[8] shows the evolution of the EER over time.

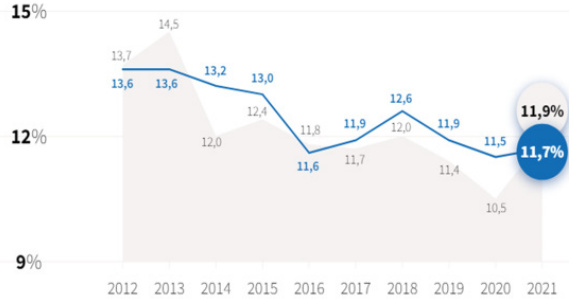

Figure 1, EER 2012-2021. Grey surface: gross EER & blue line: EER corrected by weather

* **Joren Schepers** *is an Alumnus of the Master in Global Energy Transition and Governance at CIFE. Currently, he works as a trainee in European energy policy with a focus on electricity grids.*

France has a robust institutional framework for addressing energy poverty, with various laws and regulations using curative (energy vouchers), behavioural (Energy Sobriety Plan), and preventive measures (investing in energy efficiency). Governmental agencies like the ONPE monitor energy poverty itself and the impact of the implemented policies. Between 2010 and 2022, France implemented approximately fifty measures prioritising increasing energy efficiency[9]. With this institutional framework, France is to date one of the most active MS in the EU in alleviating energy poverty. And with the goal of reducing energy consumption by 40% by 2050 it has also set a very ambitious target for energy efficiency for the future[10].

However, while energy poverty has shown a modest decline since these policies began in 2010, their impact remains limited. A key challenge for future targets are the upfront costs associated with energy efficiency improvements, even with the grant programmes. The strong emphasis of France's policy on energy efficiency suggests the SCF could be a valuable tool in meeting the set targets. For this reason, correctly allocating the SCF is paramount for maximising its potential in alleviating the consequences of the ETS2 for vulnerable households. Therefore, it should fill the gaps in the current policy, such as the out-of-pocket-costs.

Out-of-pocket costs

One of the principal existing measures is MaPrimeRenov (MPR). MPR finances on average €3,841 per project and 67% of the projects are related to vulnerable households. Yet the average cost of the work for a deep renovation is €29,000 per dwelling. So, on average, the current projects are not enough to finance deep renovations and significantly drop the DPE level (energy performance label). Another concern is the rate at which the renovations are being executed. In 2023, 24% fewer files were funded than 2022. It is assumed that this is due to the increase in material and labour costs[11]. The situation is further complicated by the lengthy processing times for applications. While the official target is a five-week assessment, the average waiting time in 2023 ballooned to three months[12]. This delay is a particular cause of concern in light of the recent inflation spikes. For many vulnerable households the difference between affording energy-efficient renovations and falling deeper into energy poverty hinges on receiving these funds promptly.

Currently, MPR requires upfront payment from the users. This creates a barrier for people with limited resources. While the grant reimburses the money for the renovations, vulnerable households may need to obtain an additional loan to cover the out-of-pocket-costs.

As a solution for the out-of-pocket-costs, the French government set up the Zero-interest Eco-loan (Eco-PTZ). While the low interest rate in combination with the costs savings because of the increase in energy efficiency makes loan repayments achievable for many vulnerable households, obtaining the loan itself still presents barriers. A report by I4CE[13] highlights the viability of combining loans with MPR subsidies for the least well-off. However, obtaining the loan is associated with numerous obstacles for households, including complex administrative procedures and increasing debt load (total sum of all the money owed) that can reach 70% for the lowest-income households. This should be below 5%, according to experts[14]. Addressing these obstacles, particularly reducing the debt load, is crucial for making the programme truly accessible and economically beneficial for the least well-off.

Grants instead of loans

Among the 67% vulnerable households served by projects subsided by MPR, energy poverty is most prevalent (59%) in the lowest income bracket (first decile). The prevalence then declines to 24% and 17% for the second and third income deciles, respectively[15]. So, the number of households in energy poverty served by MPR adds up to approximately 44,667 in 2024. Supporting these households with a grant to pay for the out-of-pocket costs instead of the Eco-PTZ will cost approximately €1 billion, if the goal of renovating 200,000 households in 2024 is to be sustained. This is a rough estimate, but it gives an indication of the funding needed. This is only enough if the money is targeted correctly and allocated to people in energy poverty. To ensure a proper allocation of funds, evaluating the EER can be incorporated into the existing MPR funding assessment process. Since MPR already takes account of income levels, this addition wouldn't require significant changes. Furthermore, this approach aligns with the SCF's focus on gender equality, as women are disproportionately affected

by energy poverty. Thus, making energy poverty part of the assessment is likely to lead to increased female representation among MPR funding recipients. Additionally, verifying the usage of out-of-pocket funding is crucial. This can be achieved by requiring grantees to submit documentation such as invoices and bank transfers demonstrating the fund is spent on the intended projects. And finally, MPR is supported by France Renov and ANAH (National Housing Agency) with advisors and bureaus throughout the country. Investing in out-of-pocket costs would likely be supported by these agencies and consequently local and regional authorities. Given the emphasis on public consultation in the SCF regulation, this support is crucial for successful implementation of the SCP.

Direct income support

Since not all renovations can be carried out immediately, direct income support is needed to safeguard people living in energy poverty from the impact of the ETS2. Currently, France distributes energy vouchers to the lowest 20% of income households as a way of income support. In total 5.8 million households have benefited from these vouchers in 2023 of which 82.6% also used them. The amount given to receiving households depends on the number of people living in the dwelling, but it lies between €48 and €277[16]. The EER adjusted figure for weather change decreased from 11.7% to 10.2% as a consequence of the voucher measure according to France's NECP[17]. The voucher measure is financed by the CCE (Climate-energy contribution), a national carbon tax in France. If the ETS2 substitutes the CCE, the energy voucher can stay in place as it is, because the carbon pricing contribution is approximately the same for both methods (CCE: €44.60/tCO2[18] & ETS2: €45/tCO2[19]). Should the CCE stay in place, the ETS2 could expand the energy voucher, doubling the possible allocation of the voucher to alleviate the direct impact of the ETS2 pricing aspect. The second scenario is less likely because the CCE is designed to be complimentary to EU ETS. So, in the case that the price per ton of CO2 emitted is the same, the CCE would have no additional effect anymore.

Maintaining the energy voucher would be advantageous for several reasons. Firstly, it is an easy solution to implement as the bureaucratic changes are minimal. Second, people are currently used to it and it has a reasonably high utilisation rate. And third, with the pricing being approximately the same, vulnerable households will not become worse off due to the mechanism change from CCE to ETS2. On the downside, energy vouchers would use up almost the complete budget of the SCF: €900 million. This is far above the maximum allocation of 37.5% (€487,251,156.75/y) for direct income support as defined in the SCF regulation (Regulation (EU) 2023/955) and thus complicates any possible implementation.

Combining the grant & voucher

The SCF regulation requires MSs to define measures in their SCPs which alleviate the burden of the ETS2 for people living in energy poverty. In the long term, MSs should invest in increasing energy efficiency for dwellings. And in the short term their income should be supported to reduce the impact of rising costs as a consequence of the carbon pricing. This paper proposes a solution for each of these issues in the specific French context. With the French objective of retrofitting 200,000 houses using MPR, supplying a grant to people living in energy poverty to pay for the upfront costs would require around €1 billion. Simultaneously sustaining the EER of the same people would require €900 million if the usage of energy vouchers is maintained or expanded depending on the CCE. Combining these two measures, the total (approximately €2 billion) is more than the annual allocation of the SCF to France (€1,299,336,418). Moreover, the maximum allocation defined in the SCF regulation prohibits direct income support to sustain the energy vouchers as is. These regulatory and financial requirements limit the potential of the SCF in meeting its ambitious targets as stated by the European Commission. However, this does not mean that the SCF cannot play a part. Effective utilisation can still be of importance for many vulnerable households. If surplus revenue from ETS2 (remaining 75%) is allocated towards energy efficiency, France could accelerate its renovation plans and ultimately reduce energy poverty.

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