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The Social Climate Plan in Romania:

bridging climate, energy and social policy

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The Social Climate Plan in Romania: Bridging Climate, Energy and Social Policy

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About EPG

EPG is an independent think-tank specialising in energy and climate policy, focusing on the decarbonisation of the Romanian and Central and Southeastern European economies. Founded in 2014, EPG operates as a research institute primarily financed through competitive research grants. Its research aims to promote a constructive, evidence-based dialogue on decarbonisation and economic transformation among decision-makers and the public, both regionally and globally.

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Key findings

The Social Climate Fund (SCF) is meant to be a tool that increases the effectiveness and mitigates the welfare impact of the expansion of carbon pricing to buildings and road transport through the introduction of the Emissions Trading System 2 (ETS2). The SCF will help vulnerable households and transport users respond to higher fossil fuel prices by enabling investments into low-carbon solutions. It can also provide temporary direct income support to cover the initial impacts on vulnerable groups until the long-lasting investments take effect, but this is not the main support mechanism.

Importantly, the SCF interventions need to primarily address potential impacts related to the introduction of ETS2. This limitation of scope, as well as that of budget, mean that this instrument cannot address the overall energy poverty problems of a country. However, additional ETS2 revenues (or other funding sources) can be used meaningfully toward similar aims outside the direct scope of SCF, including through complementary financing mechanisms.

In Romania, the highest incidence of ETS2 will be limited to the minority of households connected to the natural gas grid, who are generally outside the lowest income brackets. For a household with an average monthly consumption of natural gas of 100 cubic meters, a carbon price of 45€/t results in a monthly impact of around €8.2/month.

While outside the direct scope of the SCF, the numerous rural households who use woody biomass for heating, while not directly affected by ETS2, are expected to transition to more convenient heating sources - providing help for them to leapfrog to low-emissions solutions represents an opportunity. In urban areas, despite the recent decline, district heating remains a relevant option that could be enabled by the SCF.

The impact will be more widespread on transport users, where fossil fuels covered by ETS2 dominate the fuel mix. For a carbon price of 45€/t, the simulated price increase is 0.12€ per liter of diesel and 0.10€ per liter of gasoline. Improving access, quality and emissions performance of public transport and access to low-emissions vehicles are viable options for the implementation of the SCF.

All in all, compliance with the SCF will require significant efforts, data collection, mapping of existing programmes, and justifications for additional measures and investments, as well as credible milestones and targets. However, this process also comes with significant opportunities.

Recommendations for Romanian decision makers

- **Seize the opportunity of the SCF to tackle energy (and transport) poverty more systematically in Romania.** The effort needed for collecting data and designing the SCPs will be **substantial** and could, with the help of SCF or other EU-funded technical assistance and capacity building programmes, be used optimally by rethinking the climate-energy-

social policy interactions, by acquiring and managing more data, reducing the exclusion error, and tackling the multiple and concurring sources of vulnerability.

- **Design SCP interventions in synergy with other funding instruments, either existing or potential.** There are many possible interactions between SCF and the NRRP, Regional Programme, Sustainable Development Programme, the Just Transition Programme, and the Environmental Fund Administration. When needed interventions do not fit within the scope or budget of the SCF, they can be complemented through other funds.
- **Enable wide and meaningful consultation to ensure the measures and investments are correctly tailored to the needs of vulnerable groups and are designed in an inclusive manner with beneficiaries and local authorities.**

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Introduction

In the context of the European Green Deal, the Fit for 55 legislative package aims to achieve emissions reductions in all the relevant sectors of the economy by 2030. For the buildings and road transport sectors, an important instrument will be the new Emissions Trading System (ETS2). ETS2 is bound to have welfare impacts, which are to be anticipated and partly addressed through a separate piece of legislation (Regulation (EU) 2023/955, 2023) that introduces a Social Climate Fund (SCF). Somewhat coupled with the introduction of ETS2, SCF will have a twin mission: to protect vulnerable consumers and transport users from the impact in the short run and to help them respond to the carbon price, by making emissions-lowering investments in the longer run.

As a concept, ETS2 and SCF can be seen as a partial application of carbon pricing with revenue redistribution.¹ Carbon pricing is meant to add the external costs of emissions² to consumer prices, ensuring that consumption and investment decisions are based on the full social cost (World Bank, 2017). ETS2 makes it mandatory for fossil fuel suppliers to purchase emissions allowances (EUAs) at auction from a state authority. Most of the additional costs are likely going to be passed through to consumer bills (Shang, 2021). By making high-emissions fuels more expensive, lower-carbon alternatives become relatively more attractive. However, carbon pricing has the risk of being regressive, i.e. having a higher impact on lower-income households (Klenert, et al., 2018) (Feindt, et al., 2021). Such households tend to spend a higher share of their incomes on heating and transport and may have less efficient dwellings, appliances and vehicles (EPG, 2023). In addition, for carbon pricing to be effective, higher prices of carbon-intensive technologies need to nudge consumers into making investments that reduce their emissions such as energy efficiency improvements or purchases of low emissions solutions. Consumers with lower incomes may simply lack the means to make such investments, potentially rendering the policy ineffective for significant segments of the population. Thus, redistributing the revenues collected by auctioning EUAs to certain parts of the population could both address the regressive tendency of the policy in the short run and make it more effective by helping lower-income consumers make investments that lower their emissions.

On a practical level, SCF is meant to start in 2026 and operate until 2032. The SCF will be funded with a portion (25%) of the allowances auctioned under the ETS2 plus funds from the existing EU ETS and additional revenues from Member States (MS). MSs will have to co-finance at least 25% of the total SCF related expenditures, using part of the revenues raised by auctioning EUAs. The total budget will be €65 billion³ between 2028 and 2032. The

¹ The SCF is not an exact application of revenue redistribution from carbon pricing, since the total SCF allocation does not depend on the carbon price itself and the funding does not originate entirely from ETS2 revenues. However, the funds are meant to be spent on direct and indirect impacts of ETS2 and will be the equivalent of a significant fraction of ETS2 revenues.

² GHG emissions are responsible for climate change which generates large costs for society at large through more intense and frequent extreme weather events such as storms and droughts.

³ Reduced if ETS2 is postponed by one year.

allocation by country is based on a formula that includes the country's population, population at risk of poverty in rural areas, share of consumers with arrears for utility bills, the size of the economy and emissions. Romania will get 9.25% of the total funding, which amounts to approximately €6 billion.

SCF will have a results-based structure like the National Recovery and Resilience Plans (NRRPs). MSs will need to submit Social Climate Plans (SCPs) with milestones and targets to the European Commission (EC). If the plans are considered to be in line with the regulation they are approved and then disbursements are made upon the completion of said milestones and targets.

Eligible interventions must mainly target vulnerable households and transport users⁴ and include:

- building renovations;
- access to affordable energy-efficient housing including social housing;
- decarbonization of heating, cooling and cooking, such as through electrification;
- self-consumption of electricity including renewable energy communities;
- connection to smart grids and district heating networks;
- information, education and advice on measures and investments, available support and transport options;
- support for public and private entities in providing affordable energy efficiency solutions including access to funding;
- access to low emissions vehicles, including public and private infrastructure, fiscal support, financing, purchase of vehicles, and developing a market for second-hand low emissions vehicles;
- access and incentives for affordable public transport and for shared transport solutions by public and private organizations;
- temporary direct income support to vulnerable households and transport users if they are targeted with investments and other measures as well;
- technical assistance at national level required to effectively implement the SCF up to 2.5% of the total estimated cost.

A number of relevant restrictions apply to SCF interventions.

Income support measures must be temporary, targeted to vulnerable energy and transport users, proportional to the impact of ETS2, coupled with investments and other measures, and are capped at 37.5% of the total estimated cost of the plan. This means the SCF will not be a vehicle for broad-based income support measures or to fund universal price regulation-compensation mechanisms to shield consumers but will require more specific and targeted interventions.

A condition for all interventions is that they must address the direct impacts of ETS2. SCF is not meant to tackle all aspects of energy or transport poverty in a country but to be

⁴ The SCF is also meant to target vulnerable microenterprises, but the discussion in this paper will only focus on vulnerable households and transport users.

complementary to other EU-funded or local instruments.⁵ Thus, a strong coordination between SCF interventions and wider social-climate policies is strongly encouraged at country level.

SCF also includes a number of relevant definitions.

Vulnerable households are “households in energy poverty or households, including low income and lower middle-income ones”, that are significantly affected by the price impacts of the inclusion of greenhouse gas emissions from buildings” within the scope of carbon pricing and lack the means to renovate the building they occupy’.

Vulnerable transport users are “individuals and households in transport poverty, but also individuals and households, including low income and lower middle-income ones, that are significantly affected by the price impacts of the inclusion of greenhouse gas emissions from road transport” within the scope of carbon pricing and lack the means to purchase zero- and low-emission vehicles or to switch to alternative sustainable modes of transport.

Energy poverty is defined as the “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”.

Transport poverty is defined as “individuals’ and households’ inability or difficulty to meet 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”.

Key takeaways

- SCF is meant to be a tool that increases the effectiveness of ETS2, helping vulnerable households and transport users respond to the higher prices by making investments into low-carbon solutions.
- SCF can provide temporary direct income support but this is not its primary aim.
- Interventions need to primarily address potential impacts related to ETS2.
- Additional ETS2 revenues can be used meaningfully toward similar aims outside the SCF.
- SCF should be designed as complementary to other interventions.

⁵ As they are competing heating fuels, it has generally been observed that increases in natural gas prices can put an upwards price pressure on biomass as well. Therefore, it could be argued that while ETS2 does not cover biomass suppliers, it can have an indirect impact on biomass prices with consequent welfare impacts on vulnerable households. However, the current scope of the SCF does not cover interventions targeted at such households. As explained later in this paper, Romania should seek to tackle energy poverty more holistically through its SCP and should aim to provide separate funding for measures addressed at vulnerable households heated with biomass, irrespective of any potential future scope clarifications of the SCF.

The energy and transport poverty context in Romania and the incidence of ETS2

Energy poverty and the buildings sector

As the country with the highest share of people at risk of poverty and social exclusion in the EU and one of the highest levels of income inequality, Romania is also confronted with significant energy poverty (EU, 2023) (CSD, 2017; ORSE, 2022). For example, in 2022, 17.8% of households in Romania had arrears to their utility bills, the third highest level in the EU, and 15.2% stated they are unable to keep their home adequately warm (Ministry of Energy, 2024a). Energy poverty indicators have been improving over the last decade, however, since 2021 the trend reversed, likely because of the post-pandemic inflation and the effects of the energy crisis following Russia's invasion of Ukraine.

By potentially raising prices of fuels and without adequate revenue redistribution measures, ETS2 risks exacerbating this phenomenon, to some extent. ETS2 only applies to fossil fuels including natural gas, petroleum products (gasoline, diesel, etc.) and coal. If the buildings sector uses other sources for heating and cooking, then the incidence of ETS2 will be less pronounced.⁶ This seems to be the case in Romania. Looking at the literature, the additional estimated cost added by ETS2 to household expenditure in Romania would be relatively low, around 0.2% of total expenditure at a price of 70€/EUA (Eden, et al., 2023). This is explained by the significant share of households, especially in rural areas, that use woody biomass for heating (EPG, 2023). This fuel does not fall under the incidence of ETS2. In urban areas, a significant (but declining) share of households are connected to district heating, which is covered under the existing ETS. Natural gas use for heating is associated with urban households, who are generally in the higher income brackets (Grupul de lucru pe tema "Fondului Social pentru Clima", 2024)⁷, while coal or other fuels are virtually absent in the sector.

While the immediate and direct impact does not seem to be very high, compared to countries like Poland for example where coal is an important source for household heating, this should not be construed as an advantage for the country. The prevalence of woody biomass in rural areas is not the result of deliberate policy, but a reflection of relative deprivation. It is generally expected that such households, following further economic growth, will aspire to switch to more convenient sources for heating. The SCF (or similar instruments if the SCF eligibility criteria are not met) could be an opportunity to help them leapfrog straight to low-emissions technologies like electricity-based heating and cooking (heat pumps, electric stoves) instead

⁶ However, other sources are covered by the existing ETS1, with prices of EUAs also projected to go up (BloombergNE, 2024). In this discussion we only include direct ETS2 impacts.

⁷ According to the draft Energy Strategy of Romania, 78% of cities and towns have access to a gas distribution network compared to 25% of villages (Ministry of Energy, 2024a).

of going through the intermediate stage of using of natural gas.⁸ This could also bring power consumption in rural areas, currently the lowest in the EU in per capita terms, closer to the EU average (Eurostat, 2021a).

Another significant particularity of the country (similar to other Eastern or Northern European countries), is that a significant share of households in urban areas live in apartment blocks. Historically, an important share of these blocks was connected to district heating, but poor maintenance of networks led to many households disconnecting and opting for individual gas boilers. The SCF includes connection to the district heating as one of the eligible measures and investments. In conjunction with other EU and national policies to modernize, decarbonise, and extend such networks, district heating (and cooling) could be a relevant component in the SCP.

Finally, a particularity of the country that may be an advantage in the SCF context is that Romania has one of the highest rates of home ownership in the EU at over 95% (Eurostat, 2021a). This reduces the complexity of interventions with conflicting incentives for tenants and owners.

Currently, the highest impact of ETS2 on the buildings sector would be on natural gas users, i.e. apartments that disconnected from district heating, the ones outside the reach of district heating and detached houses with a natural gas connection. This represents around 44% of households. In addition, around 2.5 million households use LPG cylinders for cooking but this represents a smaller expense than heating (Ministry of Energy, 2024a). For households that use natural gas for heating and cooking, the average monthly consumption is almost 100 cubic meters of natural gas. Transforming this in CO₂ and applying a carbon price of 45€/t results in a monthly impact of around 8.2€.

For such households, temporary income support coupled with investments in low-emissions technologies (such as heat pumps and electric stoves) may be warranted. This could be limited in some circumstances by the state of the electrical wiring at the user or apartment block level, which may require upgrades that could also be funded through the SCF.

Transport poverty and the mobility sector

The impact of ETS2 in the transport sector will be comparatively more significant, as transport users rely heavily on fossil fuels. At the household level in Romania, some estimates from the literature show that the ETS2 is expected to add 0.6% of total expenditure at a carbon price of €70/t (Eden, et al., 2023). In practical terms, the price of fuels used for transportation such as gasoline and diesel will likely increase. For example, for a ETS2 EUA price of 45€/t⁹, the simulated price increase is of 0.12€ per liter of diesel and 0.10€ per liter of gasoline.

⁸ Connecting households to the natural gas network with the perspective of such networks carrying decarbonised gases in the future is not included in the areas of eligible measures and investments of the SCF.

⁹ ETS 2 has a range of price control mechanism, one which is explicitly designed to respond one carbon prices reach this level, as explained in the box below.

In transport, Romania also presents a number of particularities. First, the age of the vehicle fleet tends to be high, as many consumers use inexpensive second-hand vehicles imported from Western Europe. This results in higher emissions despite the level of mobility being relatively low (Odyssee-Mure, 2021). EVs still represent a small share of new car sales and of the total vehicle fleet, the around 40,000 electric cars represent about 0.5% (DGPCI, 2023). EVs remain inaccessible for a majority of the population despite one of the most generous subsidies in the EU (around €10,000 per car before 2023, reduced to around €5000 since 2024).

Second, on a per capita basis, the country has the lowest number of cars in the EU (Eurostat, 2022). Similar to the woody biomass case, households aspire to purchase a vehicle that they cannot yet afford. Hence, ensuring that they will be able to leapfrog to a low-emissions vehicle or to improved means of public transport, instead of purchasing a second-hand high-emissions vehicle from abroad, could contribute to managing emissions in this sector in a way that takes into consideration the specific development challenges of the country.

Third, urban and peri-urban public transport is relatively well developed, despite having declined as a share of total traffic in the last 30 years (Odyssee-Mure, 2021). The age of the public transport fleet is also high which contributes to high emissions. The SCF could play a role in improving access to low-emissions public transport for certain categories of users.

Finally, the rail network is also dense and extensive, but not fully electrified and suffering from severe lack of modernisation and maintenance. The SCF could also contribute to facilitating access to rail travel for certain users, replacing at least a share of transport using higher-emissions vehicles.

The price of EUAs

The incidence of ETS2, its impact on energy and transport poverty, and the adequacy of SCF depend on the price of ETS2 allowances. By design, ETS2 features a number of adjustment mechanisms meant to keep prices under control, mostly based on a market stability reserve of allowances that can be released when prices go above certain levels. The aim is for prices to be kept below 45 €/EUA in the short term so that the price signal is significant but not strong enough to generate negative impacts on households. It is believed, however, that these price adjustment mechanisms – which can only be used a certain number of times for any given period – may not be sufficient to keep prices below this threshold. The range of price projections in the literature is extremely wide, from 51€ to 380€ in 2030 depending on various assumptions on abatement costs and the success of complementary policies (Gunther, et al., 2024). The range makes it difficult to estimate a realistic impact, however, the political acceptability problem will likely lead to actions for keeping prices toward the lower end of the range. This paper uses prices of 45€/t for estimating the incidence of ETS2.

Overall, the SCF is meant to address the impacts of ETS2 primarily on vulnerable households and transport users. These impacts will depend on the price of EUAs, especially in the transport sector, where the use of fossil fuels is more widespread. At the same time, while

the volume of the SCF will be significant, its limitations also need to be acknowledged. The fact that its total budget does not depend on the price of EUAs and that the price control mechanisms of ETS2 may not be adequate means that the SCF may not be able to cover the full extent of the impact of ETS2. In addition, there will surely be impacts beyond ETS2 that Romania needs to address, including the impact of ETS1 on electricity prices and heat generated through district heating. Finally, Romania has a number of structural problems that persist even without carbon pricing. Understanding and using the potential overlap but also the synergies between the SCF and other local, national or EU-funded programmes with similar goals, at the intersection of climate and social policy, is a requirement of the SCF and will be crucial for achieving the desired outcomes of all these policies.

Key takeaways

- The highest incidence of ETS2 will be limited to the minority of households connected to the natural gas grid, who tend to be in higher income brackets.
- For a household with average monthly consumption of natural gas of 100 cubic meters, a carbon price of 45€/t results in a monthly impact of around 8.2€.
- The numerous rural households who use woody biomass for heating, while not directly affected by ETS2, are expected to transition to more convenient heating sources - providing help for them to leapfrog to low-emissions solutions represents an opportunity
- In urban areas, despite the recent decline, district heating remains a relevant option that could be enabled by the SCF.
- The impact will be more widespread on transport users, where fossil fuels covered by ETS2 dominate. For a carbon price of 45€, the simulated price increase is 0.12€ per liter of diesel and 0.10€ pe liter of gasoline.
- Improving access, quality and emissions performance of public transport and access to low-emissions vehicles are viable options for SCF.

Enabling climate policy in Romania and the role of SCF

Complying with the SCF regulation

The implementation of SCF is based on comprehensive Social Climate Plans (SCPs) that need to fulfil certain conditions, and on meeting the milestones and targets set in the SCPs.

As proven in the case of NRRPs, building such plans requires significant mobilization of stakeholders and administrative capacity. At the same time, such planning exercises constitute an opportunity to map structural issues and coordinate various policies.

SCPs need to include solid justifications on how the measures and investments are related to ETS2 impacts and how they contribute to the goals of the SCF – enabling behaviours and choices that significantly and sustainably reduce emissions for households and transport users.

A number of strict requirements need to be met by the SCPs:

- All measures and investments must include a justification on how they respond to the impacts of ETS2 and how they contribute to the goals of the SCF
- The coordination with other EU policies and EU funded interventions must be demonstrated, including the European Pillar of Social Rights, cohesion policy, RRRPs, building renovation plans, NECPs, and JTPs
- The impact of ETS2 on energy and transport poverty must be assessed and presented
- The definitions of energy and transport poverty at country level must be outlined
- Milestones and targets must be defined and designed to be fulfilled by 31 July 2032
- Explanations of cost effectiveness of as well as the mandatory co-financing from the member state must be included
- Explanations on how the SCP respects EU wide principles such as do-no-significant-harm (DNSH), gender equality, regional specificities, as well as transparency and prevention of fraud must be included

The SCPs will be assessed by the EC based on relevance, effectiveness, efficiency, and coherence.

- **Relevance** captures the extent to which the measures and investments are adequate in tackling the impacts of ETS2, their DNSH compliance and contribution to the green transition.
- **Effectiveness** refers to the prospect of achieving lasting impacts, coordination with other national and EU instruments and strategies, and sound monitoring and implementation plans.
- **Efficiency** refers to the costs being commensurate with the expected benefits, to milestones and targets being correctly defined, and to the credibility of actions for fraud prevention.

- **Coherence** ensures that the set of measures and investments are internally consistent.

Going beyond compliance - making the most out of SCF

The SCF could be an opportunity to integrate climate, energy and social policies in ways that go beyond the incidence of ETS2. The work that will go into designing the SCPs can be used for mapping policy gaps and other areas of intervention that could work in synergy with the SCPs.

This is particularly relevant for Romania, where the direct incidence of ETS2 on the lower income brackets is comparatively low.

In addition, the fact that the SCF's maximum envelope does not directly depend on the price of ETS2 allowances means that it is unlikely to be sufficient to cover its full impact. Moreover, the government will collect additional revenues by auctioning ETS2 allowances which must also be spent on climate and social measures outside the SCF. Thus, SCF covers just some of the interventions at the intersection of social and climate policy, and Romania can do significantly more.

The SCF could be an opportunity to target some of the chronic deficiencies in addressing energy poverty in Romania, not just the ones exacerbated by ETS2. The data collection required for the identification and delivery of SCF interventions to eligible households and transport users will be substantial. This offers the opportunity to rethink the social policy architecture around energy (and transport) poverty in Romania. A portion of SCF can fund technical assistance and can be used to this end.

The ETS2 works by having fuel suppliers buy EUAs auctioned by authorities and then pass that extra cost to their customers. Hence, households will be exposed to the price signal indirectly through their suppliers. The SCF allows governments to work with the suppliers in implementing the intended measures. Suppliers may have rich data about their customers based on their consumption behaviour and may have channels of delivery that can already be effective. Involving them in the implementation of SCF could be considered as a potential way to leverage the impact of measures and investments.

ETS2 encourages households and users to switch to lower-emissions alternatives, including EVs and electric heating/cooling and district heating. But electricity and district heating prices may also increase on the short term because of the ETS1, which does not have a corresponding SCF. Addressing ETS1 impacts in a similar way could be an option for Romania, which collects significant and growing (with gradual transition to full auctioning starting in 2026) revenues from ETS1.

Finally, Romania benefits from numerous EU funding instruments that may tackle similar or adjacent issues to the SCF. The advantage of the SCF is that it steers the intervention toward beneficiaries in vulnerable categories. In some cases, the SCP could include modified versions of existing programmes with dedicated eligibility criteria to target vulnerable groups. Should some needed measures and investment be found ineligible for the SCF or require

funding that goes beyond the SCF budget, they can be covered through other instruments in a way that amplifies their impact.

For example, energy poverty can be addressed through building renovations for improved energy efficiency through the SCF but also through the Regional Programme and the NRRP (Ministry of Investments and European Projects, 2021). The same applies for interventions that improve access to renewable energy (PV panels, battery storage). They can complement existing Programmes, such as the ones under the Regional Programme, the Sustainable Development Programme, the Environmental Fund Administration and the Just Transition Programmes (for the eligible regions) especially if they have well-functioning channels.

On the transport side, the replacement of inefficient vehicles with low-emissions ones, including EVs and charging infrastructure can be tackled by the SCF but also by existing programmes of the Environmental Fund Administration and the JTP. On public transport, interventions from the SCF can be designed in coordination with the ones from NRPP (low emissions public transport and green infrastructure component) and the Regional Programme. Further synergies can be found on long distance transport with the Transport Programme and NRPP that cover the modernization of railways and rolling stock.

The structural lack of effectiveness of policies meant to tackle energy poverty can be addressed with technical assistance from the SCF (up to 2.5% of total) but also through the digitalization of social protection component of NRRP and the Administrative Capacity Operational Programme but also through the Social Inclusion and Dignity Programme.

Table 1: Examples of issues that can be addressed in synergy by SCF and other interventions

Problem	Cause (s)	SCF solutions	Other complementary interventions
Ineffective policies to tackle energy and transport poverty	Lack of data collection and management capabilities	Interventions to improve data capabilities via technical assistance (up to 2.5% of total SCP)	NRRP (digitalization of social protection) Administrative Capacity Operational Programme
	Large exclusion errors	Interventions to improve identification and targeting via technical assistance (up to 2.5% of total SCP)	Administrative Capacity Operational Programme Social Inclusion and Dignity Programme
Energy poverty	Low energy efficiency in buildings	Building renovations earmarked for vulnerable households	Regional Programme NRRP Just Transition Programme

Problem	Cause (s)	SCF solutions	Other complementary interventions
	Old and inefficient appliances	Access to higher efficiency appliances	Environmental Fund Administration
	Reliance on fossil fuels	Improved access to renewable energy and storage equipment	Regional Programme
			NRRP
			Just Transition Programme
		Facilitating transition to low emissions heating and cooking (consolidating electrical wiring at the user level, replacing stoves, etc)	Environmental Fund Administration
			Regional Programme
			Sustainable Development Programme
	Low affordability (power)	N/A	Social Inclusion and Dignity Programme
Local administration Programmes (heating aid)			
Low affordability (natural gas)	Access to lower emissions alternatives (heat pumps, district heating)	Regional Programme	
		NRRP	
Reliance on woody biomass	N/A	Just Transition Programme	
		Regional Programme	
		NRRP	
			Just Transition Programme

Problem	Cause (s)	SCF solutions	Other complementary interventions
	Increased impact of climate change	Increased access to low-emissions cooling solutions	
	Lack of awareness of social-climate policy solutions	Information activities	Environmental Fund Administration
Transport poverty	Old and inefficient public transport	Facilitating access to low emissions public transport	Transport Programme NRRP
	Old vehicle fleet with high consumption and emissions	Replacement of old vehicles with low-emissions vehicles or efficient public transport	Transport Programme NRRP Just Transition Programme Sustainable Development Programme
	Outdated and inefficient rail services	Facilitating access to low emissions rail transport	Transport Programme NRRP Regional Programme

Governance and stakeholder consultation

Carbon pricing is oftentimes considered unpopular and faces public acceptance challenges.¹⁰ Even though it has proven effective in emissions reductions, the public still faces concerns around the pricing method design, its impact (raising prices of emissions-intensive goods for households and businesses) and is sensitive towards how the revenues are going to be redistributed (Carratini, et al., 2018; Valencia, et al., 2023). These concerns can be alleviated, if the public is engaged early on in the policy process and if the redistribution

¹⁰ There are several examples where a carbon tax in an advanced political stage was abandoned by policymakers, such as Switzerland, France, United States (Washington state), Australia (Carratini, et al., 2018).

systems are clearly highlighted from the start. Securing an enduring social acceptance for the ETS2 will be key for safeguarding its timely and efficient implementation, and consequently for meeting emissions objectives in the buildings and transport sectors.

The SCP regulation states that the plans must be elaborated in accordance to the Governance Regulation article 10 on public consultation and shall engage local and regional authorities, representatives of economic and social partners, relevant civil society and youth organisations and other stakeholders (Regulation (EU) 2023/955, 2023). However, the provisions of the Governance Regulation are rather vague and offer significant space for interpretation at national level for implementing 'early and effective public participation', setting 'reasonable timeframes' and ensuring that the public is informed. Most recently, this has led to gaps in the implementation of public participation requirements in the National Energy and Climate Plans (NECPs) updating, as most countries did not detail how the public was engaged in the process (EC, 2023). Inadequate citizen engagement can be particularly harmful for policies with distributive outcomes, such as ETS2 and the SCF.

To boost the social acceptance of the SCP and make sure that the measures are properly tailored to the needs of the individuals, MS can allocate funds from the SCF for communication and targeted information campaigns, raising awareness (Regulation (EU) 2023/955).

One of the major concerns in the implementation of the ETS2 is the lack of data on vulnerable households, microenterprises and transport users. In the elaboration of the SCP, stakeholder engagement is not only valuable for enhancing the acceptability of the ETS2, but also for filling in the data gaps and come up with tailored solutions for vulnerable segments of the population (Eden, et al., 2023) . An effective way to address this would be to invite stakeholders for consultations which can also provide relevant data and give feedback on existing measures and how to enable synergies with the SCP. Regional actors, municipalities, private actors such as utility companies, civil society organisations active in the region but also nationally, experts and citizens could bring valuable insights.

It is important to tailor engagement methods on the profiles of the stakeholders in order to maximise their input. Conducting preliminary engagement activities for the SCP represent a good starting point for mapping the relevant stakeholders and their interests and informing them about the SCP and the potential impact of the ETS2. Setting up an online dedicated platform with all the relevant information could help inform the public and deliver periodic updates. For the public consultation process for the updated NECP, in Lithuania, the authorities set up a website which included an explanation of the process behind the development of the plan, a calendar with key dates and events, the possibility to register online to any working group along with a list the meetings, presentations, minutes, recordings (EC, 2024). However, this method has a limited reach, hence it is still encouraged to use more diversified communication channels, especially in rural areas, where technological barriers still persist. Additionally, setting up one stop-shops at the municipality level could not only help the data collection process, help diagnose the current issues that communities face, but also enhance the administrative processes of implementing the SCP measures (Sinea & Jigla, 2021). Polling and focus groups could be used for an initial mapping of citizen's social

preferences towards carbon pricing and their willingness to pay, as well as the level of compensation they expect and additional government measures.

It is important to target engagement efforts at the municipal level, since this is where implementation will be most important (EC, 2024). Focus groups and surveys with municipalities and relevant departments (such as General Directorate for Social Assistance and Child Protection) can help unlock relevant data and discover uncharted vulnerabilities. If smaller municipalities lack resources to participate in the consultation process, then involving a representative sample of the region and/or associations of municipalities could represent an alternative option (EC, 2024).

Moreover, surveys with vulnerable communities already afflicted by energy or transport poverty are a way to gain insights on why existing measures have not been effective and on the structural barriers to successful target support measures (such as the Environmental Fund Administration programmes). To ensure the success of the surveys, organisers should consider informing and holding an introduction session for the target group before disseminating them and formulate the questions clearly, using simple language and use as many closed questions as possible.

Another important segment to include in public consultations are organised stakeholders groups such as NGOs, experts, companies. Their input can be maximised through working groups and seminars, where an expert and informed dialogue can take place on what are the most suitable measures for the SCP and specific details can be debated (EC, 2024). Timelines are also important, holding regular meetings strengthens trust between authorities and stakeholders and offers predictability. Public consultations in the form of workshops and debates at the ministerial level on the content of the plan need to be conducted prior to the submission to the European Commission in a transparent and timely manner.

Following up after the consultations is also an important step to ensure transparency and accountability of the plan. As individual feedback takes time and authorities have limited internal capacity, the feedback of the stakeholders can be aggregated in a register with brief explanations on why it was considered or not. Recently, the Ministry of Energy provided such a register recording and analysing proposals and suggestions in the consultation process of the National Energy Strategy (Ministry of Energy, 2024b).

Key takeaways

- Compliance with the SCF will require significant efforts, data collection, mapping of existing programmes and justifications for additional measures and investments, as well as credible milestones and targets.
- The data collection effort for SCF could be used as an opportunity for mapping and rethinking the social-energy-climate policy interaction in Romania.
- Romania could maximise the impact of SCF by coordinating it with other existing or potentially new policies that address the country's specificities while specifically targeting vulnerable groups.
- Extensive and meaningful consultation is both mandatory and critical to effective planning and implementation of SCF.

Examples of potential SCF funded measures and investments

The European Union published a note on best practices in designing cost effective measures and investments for the SCF (Ramboll, 2024). The note describes the principles that measures and investments should respect, in addition to the strict eligibility criteria. These are i) ensuring a sustained long-term impact in energy and emissions savings; ii) addressing the root cause of poverty; iii) providing additional co-benefits for vulnerable groups (marginalised groups, the elderly, women, people with disabilities) and avoiding negative impacts on them; iv) ensuring interventions are well targeted to the needs of vulnerable groups; v) improving affordability for vulnerable groups; vi) providing administrative support to vulnerable groups (mitigating the digital divide, providing clear information, offering tailored advice). The note also includes a catalogue of interventions that could serve as inspiration for MSs when preparing their SCPs.

Planning, technical assistance, and communication

The preparation for the SCPs, the technical assistance offered through the programme, and the implementation itself can be used as an opportunity to correctly assess energy (and transport) poverty in Romania: where is it prevalent, what are its drivers, what are its socio-economic (income based, but also minority or gender based) and geographic patterns, and the interactions with other forms of poverty.

Potential interventions include:

- A comprehensive strategy to tackle energy poverty in Romania
- A registry of vulnerable households including but not limited to the incidence of ETS2
- A map of potential synergies between SCF and other existing or potential EU-funded or national/local interventions at the intersection of climate, energy and social policies
- Capacity building for local authorities and social protection implementing agencies including NGOs on identifying and tackling energy and transport poverty
- Information campaigns for potential users on the available interventions through the SCF and other instruments

Households

What is likely to be the most impactful intervention at the vulnerable household level is the support for building renovations¹¹ including insulation of walls, roofs, and floors, replacement of windows, and implementation of energy management control and monitoring. In addition,

¹¹ The impact is conditional on the building being in a state that allows for energy renovations, i.e. to be structurally adequate from a seismic point of view. This condition may reduce the number of potential beneficiaries.

SCPs can fund investments into low-emissions technologies, including heat pumps, energy efficient appliances, and related enabling measures.

The eligibility of households for such measures will be relevant. The poorest households may not qualify, as they rarely use fossil fuels for heating. If the definition is applied in a restrictive fashion, SCPs may only target households with a natural gas connection or that use gas cylinders for cooking. However, as discussed in the previous chapter, interventions can be designed in synergy with other related programmes which can extend both their eligibility and funding base.

Table 2: Summary for households

Household type	Potential measures and investments
Urban	
Apartment blocks	Building level insulation (walls, roofs, floors, windows) Upgrading building level electricity wiring to accommodate higher power consumption for heating/cooling/cooking
In range of DH network	Fund (re)connection to district heating (and cooling) network
In range of gas network	Temporary income support for vulnerable households coupled with support for purchasing heat pumps and electric stoves
Users of gas cylinders	Switch to electric cooking
Informal dwellings*	Building level insulation (walls, roofs, floors, windows) Access to energy efficient social housing Support in accessing other social services and programmes
Detached houses	
In range of natural gas networks	Temporary income support for vulnerable households coupled with support for purchasing heat pumps and electric stoves as well as PV panels, batteries and EV chargers

Household type	Potential measures and investments
Informal dwellings*	Building insulation (walls, roofs, floors, windows) Access to energy efficient social housing Support in accessing other social services and programmes
Rural	
In range of gas networks	Temporary income support for vulnerable households coupled with support for purchasing heat pumps and electric stoves as well as PV panels, batteries and EV chargers Building insulation (walls, roofs, floors, windows)
Users of woody biomass*	Support for switching to more efficient sources for heating including efficient bio-energy technologies
Users of gas cylinders	Switch to electric cooking
Informal dwellings*	Building insulation (walls, roofs, floors, windows) Access to energy efficient social housing Support in accessing other social services and programmes

*May not be eligible for significant interventions via the SCF

Transport users

For transport users, the SCPs can focus on measures and investments that lead to increased access to low emissions transport. This includes the purchase of vehicles and infrastructure for individuals and public transport systems, including bicycles and e-bicycles, electric vehicles and buses, trams, and rail transport for longer distances. This can be achieved through grants, vouchers, low interest loans, fiscal support, ride-sharing schemes, the development of second-hand markets for EVs, incentives and subsidies for public transport. The SCF also offers the opportunity to rethink current AFM funding to better tailor it towards vulnerable groups.

Table 3: Summary for transport users

Transport user type	Potential measures and investments
Individual transport users	<p>Retiring of old vehicles and purchase of low-emissions vehicles</p> <p>Charging infrastructure</p> <p>Access to bicycles and e-bicycles and related infrastructure</p> <p>Incentives to switch to public transport (subsidised tickets and passes)</p>
Public transport users	<p>Retiring of old vehicles (buses, mini-buses) and purchase of low-emissions vehicles, the refurbishment and establishment of new lines, including light rail.</p>
Long distance transport users	<p>Improved access to modern low-emissions rail services to replace fossil-based bus or car transport</p>

Key takeaways

- The technical assistance component may be used to devise a comprehensive strategy to tackle energy poverty in Romania beyond ETS2 and a national registry of vulnerable households and transport users.
- At the household level building renovations and investments into low emissions technologies like heat pumps, electric stoves, and efficient appliances, PV panels and batteries, may be warranted. Improving access to district heating (and potentially cooling), where available can also be included. Enabling investments such as refurbishing electrical wiring at the household or apartment block levels may also be required to accommodate higher power consumption.
- For transport users, replacing old vehicles both for individuals and public transport systems with low emissions ones, including the charging infrastructure, may be relevant. Access to low emissions local public transport and longer-distance transport through modernised railways is also encouraged.
- Temporary income support should be directed toward the vulnerable households and transport users who are affected by ETS2 and must be proportional to its impact. More comprehensive income support measures can be designed and funded through other national/local and EU-funded interventions.
- The particularities of Romania – the use of woody biomass by the lowest income brackets may have eligibility implications. Designing SCF interventions in synergy with

other complementary EU-funded or national/local interventions can overcome this barrier.

Conclusions and recommendations

The SCF emerged from the imperative of mitigating the welfare impact of ETS2, in the short term, and enabling its intended behavioural changes in the long term. It is meant as a tool to make the extension of carbon pricing to the buildings and road transport sectors more effective. The SCF will help vulnerable households and transport users cope with the likely increase in prices of fossil fuels by making investments in low carbon solutions. The SCF also allows for temporary income support interventions to cover the initial impacts on vulnerable groups until the long-lasting investments take effect. At the same time, the SCF cannot address all the energy poverty problems of a country, because it is limited both in terms of budget and scope of interventions.

Romania has been allocated a maximum of around €6 billion to which it must add 25% co-financing, funds that can be spent between 2026 and 2032 on building renovations, enabling access to district heating (and cooling), electric heat pumps, stoves and efficient appliances, PV panels and batteries, low-emissions vehicles and public transport.

Importantly, Romania will collect additional revenues from ETS2 (and ETS1) that it must also spend on climate and social programmes. These revenues can fund interventions that go beyond the scope of the SCF. Coupled with the availability of several EU-funded instruments including structural and cohesion funds, RRP, the Modernisation and Innovation funds, and others, Romania is well positioned to tackle energy (and transport) poverty in a systematic and meaningful way.

Recommendations for Romanian decision makers

- **Seize the opportunity of the SCF to tackle energy (and transport) poverty more systematically in Romania.** The effort needed for designing the SCPs will be substantial and could, with the help of SCF or other EU-funded technical assistance and capacity building programmes, be used optimally by rethinking the climate-energy-social policy interactions, by acquiring and managing more data, reducing the exclusion error, and tackling the multiple and concurring sources of vulnerability.
- **Design SCP interventions in synergy with other funding instruments, either existing or potential.** There are many possible interactions between SCF and the NRRP, Regional Programme, Sustainable Development Programme, the Just Transition Programme, and the Environmental Fund Administration. When needed interventions do not fit within the scope or budget of the SCF, they can be complemented through other funds.
- **Enable wide and meaningful consultation to ensure the measures and investments are correctly tailored to the needs of vulnerable groups and are designed in an inclusive manner with beneficiaries and local authorities.**

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