



Towards EU climate neutrality

Progress, policy gaps and opportunities

Chapter 11: Whole-of-society approach

Assessment Report 2024

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11 Whole-of-society approach

The title of this chapter is inspired by the first global stocktake under the UNFCCC, which highlighted that **'carefully designed climate action** can generate significant benefits and can help to minimize disruptions by taking a whole-of-society approach informed by local context. Equity should enable greater ambition and increase the likelihood of meeting the goals of the Paris Agreement' (UNFCCC, 2023, own emphasis). **Given that several climate policy measures recommended in this report are likely to have regressive social impacts, at least in the short term, the Advisory Board raises a few points for attention in support of a careful design of the EU climate policies.**

Key messages

EU climate policies should be accompanied by more systematic ex ante and ex post measurements of their distributional and wider socioeconomic impacts in specific contexts. Co-benefits of climate mitigation policy measures such as health, well-being and climate resilience, as well as trade-offs, should be duly considered and better integrated in the EU's policymaking.

Needs. To allow a transition to societies with a high level of well-being in a net zero EU, EU climate policy cycles need to be informed by the distributional and wider socioeconomic impacts of their various measures in specific contexts, such as rural/urban and gender-specific aspects. Identifying climate policy co-benefits ⁽¹⁾ and unintended harms provides policymakers with a more comprehensive picture of what is at stake, and allows science-based positive framing of policy. By informing and engaging citizens and other stakeholders, consultations can increase public support for climate policies and measures.

Gaps. Despite the better regulation toolbox being equipped with instructions regarding the assessment of distributional and wider socioeconomic impacts, EU climate policies have not always been accompanied by systematic measurement of such impacts (**implementation gap**). Moreover, the evidence of climate policy co-benefits such as better health, social cohesion and energy security, as well as possible trade-offs, is often overlooked in impact assessments. For that reason, policymakers across the EU often lack sufficient understanding of the socioeconomic impacts of the policies they put forward.

Recommendation W1. More systematic and context-specific impact assessments and *ex post* evaluations (e.g. considering local and national needs) should help reinforce synergies between EU social and climate policies and improve climate policy narratives. Assessments should be transparent and include public consultations. Trade-offs and co-benefits of climate policy measures should be duly considered and better integrated in the EU's policymaking. The European Commission's communication on 'Better assessing the distributional impact of Member States' policies' (2022), provides welcome guidance for the Member States, and should go hand in hand with integrated socioeconomic assessments, including those conducted by the European Commission for all relevant draft EU policies and measures.

Climate policies driving societal and behavioural changes can be supported by better narratives that are tailored to local contexts and built on evidence regarding the expected costs and benefits.

Needs. Many demand-side mitigation measures build on people's willingness to adopt innovative or otherwise disruptive solutions, usually triggered by understanding of the related costs and benefits at

⁽¹⁾ Climate policy co-benefits are the multiple benefits that are additional to avoided climate change costs.

the household, community, or wider society level. EU climate policies need to leverage behavioural and societal changes in consumption patterns.

Gaps. The narratives surrounding climate policy instruments tend to be focused on GHG emission reduction and cost-effectiveness, without due attention paid to their co-benefits or to local needs and values (**ambition gap**).

Recommendation W2. EU climate policies across sectors should be better supported by narratives that respond to local needs and values, informed by data on both costs and benefits of climate policy measures.

Regressive impacts of climate policies can be attenuated by well-designed and well-resourced social policy measures.

Needs. Many climate policy instruments carry a risk of disadvantaging lower-income households and vulnerable groups, for instance through green gentrification, restricting access to energy services, higher prices of goods and loss of jobs. Since the perceived fairness of EU climate policies will determine whether they are implemented successfully, EU policies need to address regressive social impacts of climate policy measures, taking into account various dimensions of social inequalities including location (e.g. rural, urban, remote), income, gender, ethnicity, race, age and (dis)ability.

Gaps. EU climate and social policies are not sufficiently complementary so far. Few EU climate policies are informed by *ex ante* assessments of their possible socioeconomic impacts (**policy gap**). This may affect the design and funding of social compensation instruments; for example, it is uncertain if the Social Climate Fund will be sufficient to offset the expected regressive impacts of the EU ETS 2. Adequate targeting of compensation measures is attracting increasing attention within the EU, linked to the risk of perverse incentives in fossil fuel consumption; for example, the recent energy subsidies deployed across the EU in response to high energy prices to protect consumers accounted for EUR 195 billion in 2021–2022, with the lion's share categorised as fossil fuel subsidies (for the need to phase out fossil fuel subsidies, see Section 12.3). The risks of such policy responses were flagged by the Advisory Board in its previous contribution (ESABCC, 2023a).

Recommendation W3. Synergies between EU social policies and climate policies should be strengthened, and the measures compensating for regressive impacts of climate policy instruments, such as the Social Climate Fund and Just Transition Fund, should be adequately targeted and resourced. At the national level, the European Commission's recommendation of October 2023 should be followed by all Member States, as it provides a welcome basis for defining and tackling energy poverty, calling on Member States to ensure coherence across policies, in particular between energy and social policies.

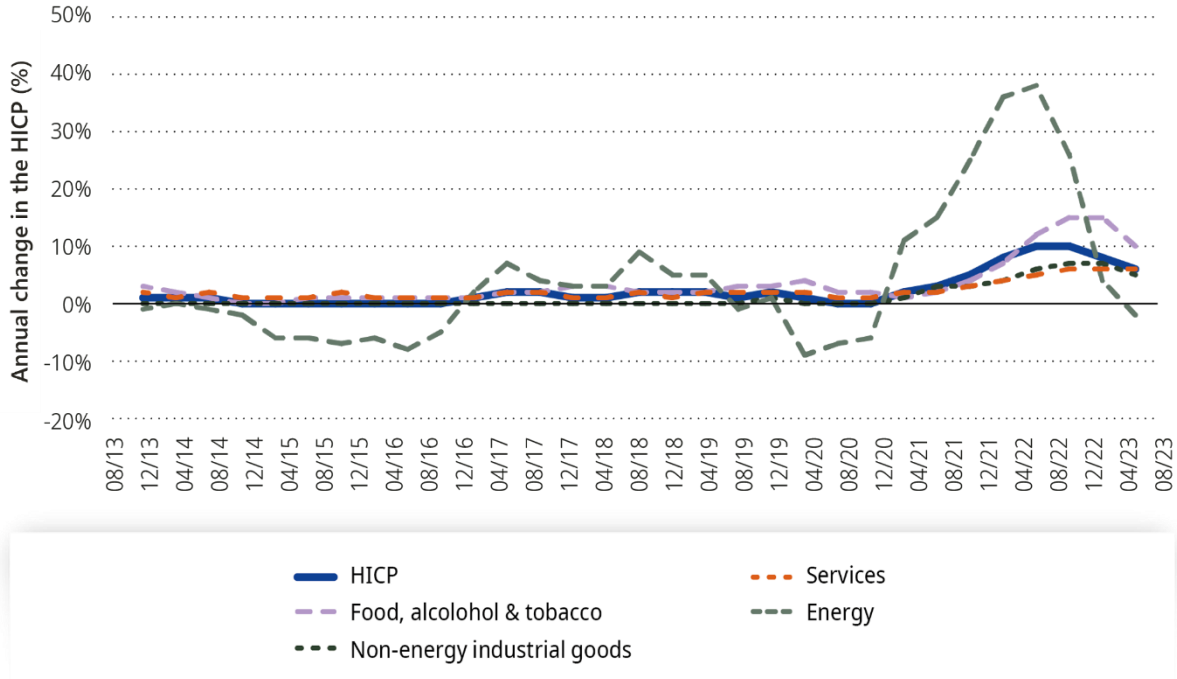
11.1 Fair and just transition in a challenging context

The EU is moving towards net zero while dealing with the cost-of-living crisis, income disparities and constrained fiscal space.

Since the European Green Deal communication in 2019 (EC, 2019c), the socioeconomic and geopolitical context in which the EU is pursuing its climate objectives has become increasingly challenging. The COVID-19 pandemic in 2020–2022 and subsequent recovery have resulted in global supply shortages and inflation (Lebastard et al., 2023). These worsened in the wake of Russia's war of aggression against Ukraine, which resulted in historically high energy prices in the EU and increased food prices globally.

High levels of inflation (see Figure 75) led to a cost-of-living crisis in the EU and undermined the international competitiveness of EU businesses, notably in energy-intensive sectors (ESABCC, 2023a). A recent Eurofound survey sheds light on the resulting hurdles for the European workforce, such as struggles to make ends meet and poor job security, as well as declining trust in public institutions (Eurofund, 2023).

Figure 75 Euro area inflation and its main components, October 2013 to October 2023 (%)



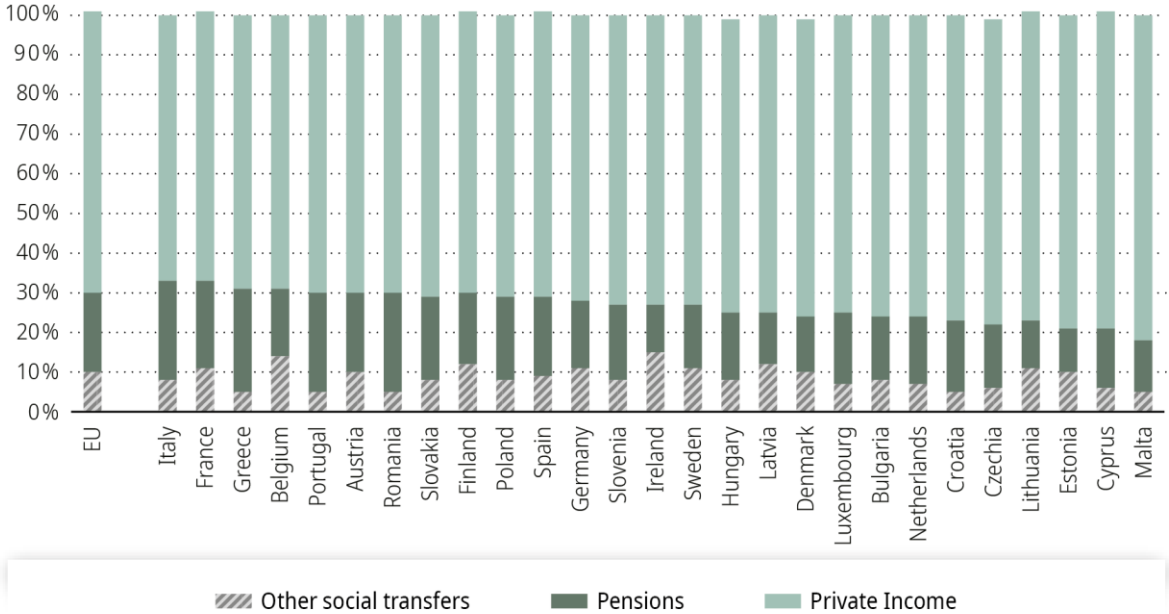
Source: Eurostat (2023n)

As a response to the increasing inflation, the ECB has increased interest rates to a record high level since the euro was established in 1999. The ECB’s benchmark deposit rate went up to 4 % in September 2023, from 0.5 % in September 2019 (ECB, 2023b). Central banks’ interest rates have increased investment financing costs, that is, cost of capital. Increases in the cost of capital are exacerbated by financial risks linked to, for example, geopolitical and policy uncertainties (IEA, 2023b). High financing costs can discourage investment spending, while the opposite is needed on the EU’s pathway to climate neutrality (see Chapter 12 ‘Finance and investments’).

Furthermore, the economic slowdown and various support measures in the context of COVID-19 and the energy crisis led to a surge of government debt across the EU in 2020, and, although the EU’s government debt to GDP ratio is decreasing, the available fiscal space of the EU Member States is more constrained today than it was in 2019 (Eurostat, 2023k). High interest rates set by the ECB increase costs in public debt management (Claeys and et al., 2023), further constraining the fiscal space of EU Member States. This in turn affects social transfers that reduce the high disparities in income in the EU Member States⁽²⁾. The contribution of social transfers to the total median annual disposable income per inhabitant across the EU in 2022 is presented in Figure 76.

⁽²⁾ In 2022, the Gini coefficient for the EU was 29.6. The Gini coefficient is based on the comparison of cumulative proportions of the population against cumulative proportions of income they receive, and it ranges between 0 in the case of perfect equality and 100 in the case of perfect inequality .

Figure 76 Mean equivalised disposable income and share of social transfers



Notes: Categories estimated based on mean income including/excluding pensions and social transfers

Source: Adapted from Eurostat (2023p) (codes ilc_di03, ilc_di13, ilc_di14)

The pressure on social transfers to ensure redistributive equality is likely to grow together with the introduction and strengthening of some climate policy instruments, notably carbon pricing. It will be exacerbated by an ageing EU population (EC, 2021a) and competitiveness pressures.

The above considerations indicate that the EU’s path towards climate neutrality is particularly exposed to the socioeconomic impacts of the climate policies.

11.2 Transition to high-well-being societies

To allow a transition to high-well-being societies in a net zero EU, EU climate policy cycles need to be informed by the distributional and wider socioeconomic impacts of their various measures in specific contexts. Co-benefits of climate policy measures need due consideration and better integration in the EU’s policymaking.

According to the IPCC, ‘ambitious mitigation pathways imply large and sometimes disruptive changes in economic structure, with significant distributional consequences, within and between countries, including shifting of income and employment during the transition from high to low emissions activities’. At the EU level, the better regulation toolbox (EC, 2021a) provides the European Commission with instructions regarding socioeconomic, including distributional, impact assessment of the proposed policies and measures. Moreover, in September 2022 the European Commission issued guidance to Member States on ‘Better assessing the distributional impact of Member States’ policies’ (EC, 2022).

However, recent EU analyses demonstrate that there is no systematic measurement of distributional and wider socioeconomic impacts of EU climate policies, and that there is a need to improve policymakers’ understanding of such impacts (EEA and Eurofund, 2021; EPRS, 2023). Limited recognition and narrow understanding of the negative socioeconomic impacts that could arise from implementing climate policy measures are particularly acute in relation to the various dimensions of inequality (EPRS, 2023).

In addition, co-benefits of climate policy measures are often not sufficiently considered (Buchholz et al., 2020; Karlsson et al., 2020; Weitzel et al., 2023). This may be because of the difficulties in quantifying, illustrating or monetising such benefits. Without due consideration of the co-benefits, the EU may forgo some of the opportunities linked to the positive framing and science-based support to policymaking offering a 'comprehensive picture of what is at stake' (Karlsson et al., 2020). A tendency to focus policy assessments on direct market cost values may lead to neglecting more systemic solutions for which market prices are difficult to evaluate, but that advance societies towards a new idea of prosperity and the achievement of the sustainable development goals (Buchholz et al., 2020; Creutzig et al., 2022).

Better data and understanding of distributional and wider socioeconomic impacts of climate policy design and implementation, based on experience and forward-looking assessment tools, can help advance the EU's fair and just transition. Information generated through systematic measurement of socioeconomic impacts can inform policy design and help to improve it. In this way, it will allow for adaptive feedback loops across policy instruments linking ex ante assessments and ex post evaluations (see also Section 14.3). Thanks to that, EU policies will be more fit to reduce social inequalities in a net zero economy, making the most of multiple benefits of climate action, such as health and well-being (see for example EEA and Eurofund, 2021).

11.3 Better narratives for societal and behavioural changes

Climate policies driving societal and behavioural changes can be supported by narratives that are tailored to local contexts and built on evidence regarding the expected costs and benefits.

Apart from the equity considerations, the whole-of-society approach links strongly to demand-side mitigation (IPCC, 2022b, 2022f) and its untapped potential highlighted in terms of GHG emission reduction in the sectoral analyses of this report. Demand-side mitigation options are considered to increase well-being (Creutzig et al., 2022), and can be activated by, among others, non-technological measures in climate action including professional advice and awareness raising, community approaches and demonstrative interventions at a local scale (IPCC, 2022f; Niamir et al., 2020). Many of them build on people's willingness to adopt innovative or otherwise disruptive solutions, usually triggered by their understanding of the related benefits at the household, community or wider society level (see for example Maestre-Andrés et al., 2019; Van Der Linden et al., 2021). In this respect, non-technological measures such as considering societal readiness levels in the preparation of net zero transition plans and measures (Bernstein et al., 2022; Büscher et al., 2023) can be supported by technology, such as smart devices.

In the context of energy and buildings, behavioural interventions such as social comparison, goal setting, and labelling have the potential to significantly reduce the energy consumption of private households (Andor and Fels, 2018). Half of the 12 % drop in fossil gas consumption in EU buildings between 2019 and 2022 is attributed to behaviour changes. Voluntary energy consumption reduction can be further leveraged through EU policies, for example by encouraging better use of existing buildings (Bertoldi, 2022; Gaspard et al., 2023). Moreover, considering behavioural factors represents a promising way to mitigate excessive rebound effects after renovation (EEA, 2023a).

In agriculture, informing and educating consumers helps them to reduce food waste and choose sustainable and healthy diets. While some cultural and social values might hinder the adoption of more sustainable diets, policies can appeal to supportive values; for example, they can invoke health by highlighting the multiple benefits of sustainable diets.

So far, however, as described in sectoral chapters 4-9, EU climate policies have not sufficiently leveraged behavioural and societal changes in consumption patterns. This can be attributed to, among other

influences, narratives surrounding climate policy instruments, which tend to be focused on GHG emission reduction and cost-effectiveness, without paying due attention to their multiple benefits or to local values and core beliefs (Rietig, 2019). For example, building retrofits triggered by the EPBD have not been sufficiently embedded in appealing narratives so far, often for lack of reliable data regarding the multiple benefits of deep energy retrofits of the building stock, such as job creation, energy poverty alleviation, public health, energy security and environmental sustainability (EC, 2021j).

Increased policy integration of multiple benefits at the EU level has been announced in the renovation wave strategy and the ensuing initiatives such as the New European Bauhaus (EC, 2022f). The New European Bauhaus aims at facilitating and steering the transformation of our societies alongside the values of sustainability, aesthetics and inclusion. It devises a delivery mechanism to spur such new lifestyles and future-proof the built environment (EC, 2023ay). The EPBD recast (EC, 2021ac) refers to wider benefits of energy efficiency and reinforces their contribution of those benefits to society through several provisions, for example as part of the proposed building renovation passport. The proposed revision fosters digitalisation of buildings through, for example, a smart readiness indicator, which can support behavioural changes, for instance by improving building users' access to data.

In energy supply, in locations where RES and energy demand reduction are perceived predominantly as remedies for air pollution, low-quality employment or energy dependence on imported fuels, prospects linked to these multiple benefits, rather than climate action, engage citizens in transformative changes (IPCC, 2022g; Mata Pérez et al., 2019). Following Russia's invasion of Ukraine in February 2022, European Commission communications emphasised the benefit of energy security linked to measures increasing the roll-out of renewable energy and encouraging energy savings (EC, 2022a). That made the EU policies in these areas relatable and understood by the wider public who were enduring the energy crisis and geopolitical instability.

In this context, EU climate policies across sectors could benefit from better narratives informed by data and tailored to local needs.

11.4 Attenuated regressive impacts

Regressive impacts of climate policies can be attenuated by well-designed and well-resourced social policy measures.

The perceived fairness of EU climate policies will determine whether they are implemented successfully (IMF, 2023; ECA, 2022; EPRS, 2023b). The climate transition exposes fairness issues. Many climate policy instruments, whether regulatory (e.g. standards) or economic (e.g. carbon taxes), carry a risk of disadvantaging lower-income households and vulnerable groups, for instance through green gentrification, restricting access to energy services and – as in the case of fossil fuel workers – loss of jobs (see e.g. Zakeri et al., 2022). Climate policies bring also substantial long-term benefits to societies, such as lower energy bills, higher thermal comfort and improved air quality, with positive outcomes in terms of health and well-being. They also avoid the immense economic and social costs of climate inaction (see for example IPCC, 2022h). Lower-income households and vulnerable groups tend to be exposed more to these costs and benefits (EEA and Eurofund, 2021; IPCC, 2022l).

The around 10 % of EU citizens who cannot afford to heat or cool their homes properly often occupy low-performing buildings that lead to high energy costs (Eurostat, 2023o; Thomson et al., 2019). Moreover, the inability to maintain thermal comfort at home is also likely to coincide with health issues for residents. The problem of energy poverty in conjunction with unhealthy living conditions is common

across the EU (IEA, 2020) and is reflected in the definitions of 'energy poverty' and 'vulnerable households' ⁽³⁾ in the Social Climate Fund regulation (EU, 2023m). The proposal for a revised ETD (EC, 2021y) includes a simplified definition linking vulnerability only to disposable income ⁽⁴⁾. Vulnerability in the context of high energy bills goes beyond the disposable income consideration, however. Social inequalities in the context of climate change mitigation are also linked to, among other factors, spatial location (e.g. rural/urban) gender, ethnicity, age and disability (IPCC, 2022f).

The sizeable socioeconomic impacts of climate policy measures call for a strong link between climate policies and social policies. This link has been found insufficient in recent analyses conducted by the EEA, Eurofound and the European Parliament's think tank (EEA and Eurofund, 2021; EPRS, 2023)

Stronger links between social and climate policies would be in line with the existing EU climate policy aspiration to leave no-one behind, repeatedly affirmed by EU leaders, in the context of just transition policy (EU, 2021b). EU efforts in this context include energy products and electricity used by vulnerable households being exempted from taxes under the proposed ETD, the European Commission's recommendation on energy poverty (EC, 2023i), and the setting-up of the Energy Poverty Advisory Hub (EC, 2023y) and the European Commission on Energy Poverty and Vulnerable Consumers Coordination Group (EC, 2022a). Together with the Social Climate Fund (EU, 2023m), these initiatives have the potential to mitigate some socioeconomic risks linked to energy prices and the cost of compliance with high energy performance standards and carbon pricing under the EU ETS and the EU ETS 2.

The Social Climate Fund (see also Box 1) is an example of using revenue from carbon emissions trading to address the equity and distributional impacts of carbon-pricing instruments. As such, it will be of utmost importance that it is targeted and resourced appropriately, so that it can fulfil its objectives. While it is positive that the Social Climate Fund budget can be increased through transfers from other funds, there are concerns that its reliance on EU ETS revenues may lead to insufficient finance for the fund (EESC, 2021). Moreover, experience from the Just Transition Fund suggests that the implementation of the public consultation requirement when developing national/local plans guiding the fund's disbursement can be challenging and is not to be taken for granted (EC, 2023bg).

In addition to the above initiatives, including the Social Climate Fund and the Just Transition Fund, the EU has put in place several social policy measures that can help attenuate regressive impacts of EU climate policies. Their adequate resourcing and targeting can be supported by closer interaction between social and climate policies, including better recognition of climate policies' socioeconomic impacts (see Section 11.3 above).

Box 1 Social Climate Fund

Adopted in May 2023, the EU regulation establishing a Social Climate Fund (EU, 2023m) aims to contribute to a socially fair transition towards climate neutrality by addressing the social impacts of including GHG emissions from buildings and road transport within the scope of the EU ETS. Its specific objective is to 'support vulnerable households, vulnerable micro-enterprises and vulnerable transport

⁽³⁾ Energy poverty for the purposes of the Social Climate Fund is defined as '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'; 'vulnerable households' means '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 the EU ETS Directive 2003/87/EC and lack the means to renovate the building they occupy' (Article 1 of the Social Climate Fund regulation).

⁽⁴⁾ Vulnerable households under the proposed ETD are households below the 'risk of poverty' threshold, defined as 60 % of the national median equivalised disposable income.

users, through temporary direct income support and through measures and investments intended to increase the energy efficiency of buildings, decarbonisation of heating and cooling of buildings, including through the integration in buildings of renewable energy generation and storage, and to grant improved access to zero- and low-emission mobility and transport' (Article 3). The Social Climate Fund resources will come from EU ETS 2 revenues covering buildings and transport and should reach up to EUR 65 billion between January 2026 and December 2032. This amount can be topped up with resources from EU funds under shared management, and it can also partly be transferred to such funds, at the request of a Member State. The Social Climate Fund will be disbursed based on the social climate plans prepared by the Member States through a participatory process in which local and regional authorities, economic and social partners, civil society organisations, youth organisations and other stakeholders are involved (Article 5). The first plans should be submitted to the European Commission in mid-2025 and the Social Climate Fund will put into operation in 2026.

11.5 Summary table

Table 17 Policy consistency summary – whole-of-society approach

Policy gaps	<ul style="list-style-type: none"> – EU climate and social policies are not sufficiently complementary so far. Few EU climate policies recognise their negative socioeconomic impacts, and even fewer identify ways to address them.
Ambition gaps	<ul style="list-style-type: none"> – The narratives surrounding climate policy instruments tend to be focused on GHG emission reduction and cost-effectiveness, without due attention paid to their co-benefits or to local needs and values.
Implementation gaps	<ul style="list-style-type: none"> – Despite the Better Regulation toolbox being equipped with instructions regarding the assessment of distributional and wider socioeconomic impacts, EU climate policies have not always been accompanied by systematic measurement of such impacts.



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