

Ariadne @ Brussels 7 December 2023

TARGETED SOCIAL COMPENSATION AND IDENTIFICATION OF VULNERABILITY: WHAT IS NEXT FOR SCIENCE TO SUPPORT POLICY?

Michael Pahle & Christopher Leisinger (PIK)



GEFÖRDERT VOM



AGENDA

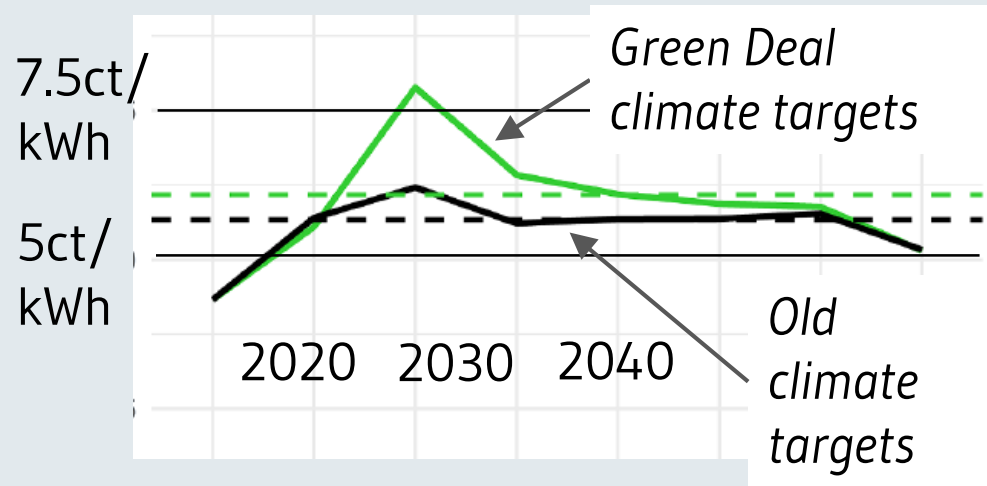
- Welcome and aim of the workshop (5 min)
- Framing the problem (5 min), followed by inputs:
 - Inputs by **academics** (T. Douenne, L. Stern, S. Feindt/M. Pahle; 5 minutes each): Where does the **science stand**? Why is targeting so important, and yet **so difficult**?
 - Inputs by **consultants/think tanks** (M. Catuti, K. Schumacher & N. Unger; 10 min each): Where does **policy action** and related applied research in member states **stand**? Is support for the vulnerable about to be implemented, and actually targeted?
 - **Reactions from EU COM** (T. Siebern-Thomas, E. Srnová; 5 min each)
- Open discussion (45 min)

BACKGROUND AND AIM

With more stringent climate policies and higher energy prices it has become clear that *supporting vulnerable groups* will be of the essence. The creation of the Social Climate Fund spearheaded this discussion on the EU level, established criteria and is now prompting implementation in EU member states. In this event we will discuss *what role science can play to support this process*, and *which research is needed* beyond “traditional” distributional impact analysis that informed the first wave of the debate. The focus of the discussion will be *targeted social compensation [and investment support]*, and the *identification of vulnerability*, which have already emerged as key topics.

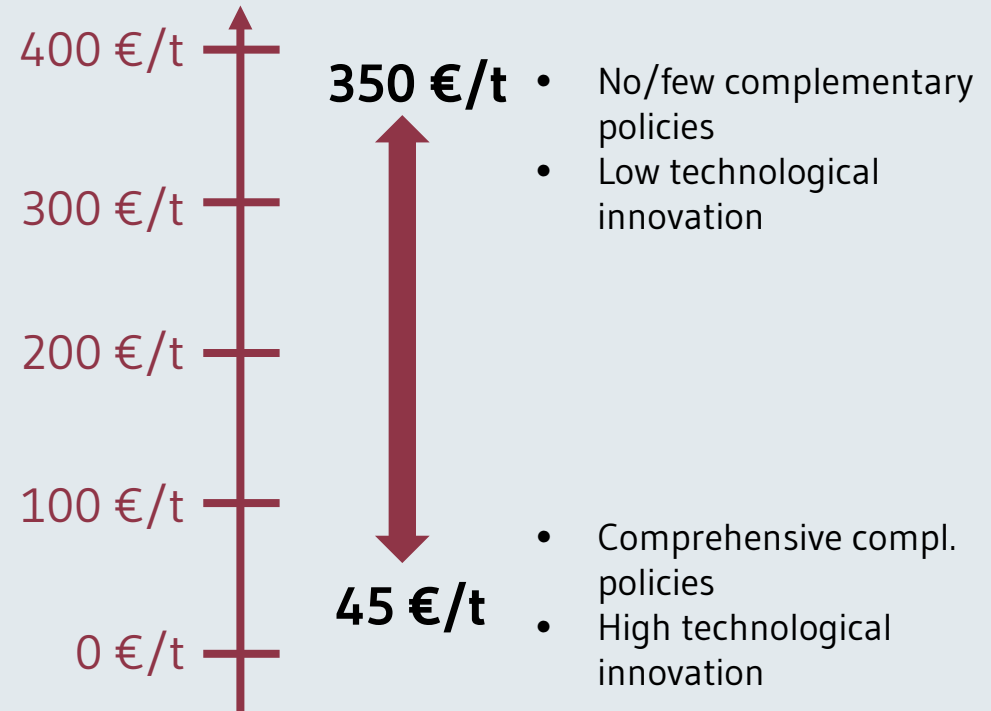
WHERE ARE ENERGY PRICES BOUND TO GO IN THE MID TO LONG TERM?

Average EU wholesale electricity price bound to rise in next years, but will fall afterwards?



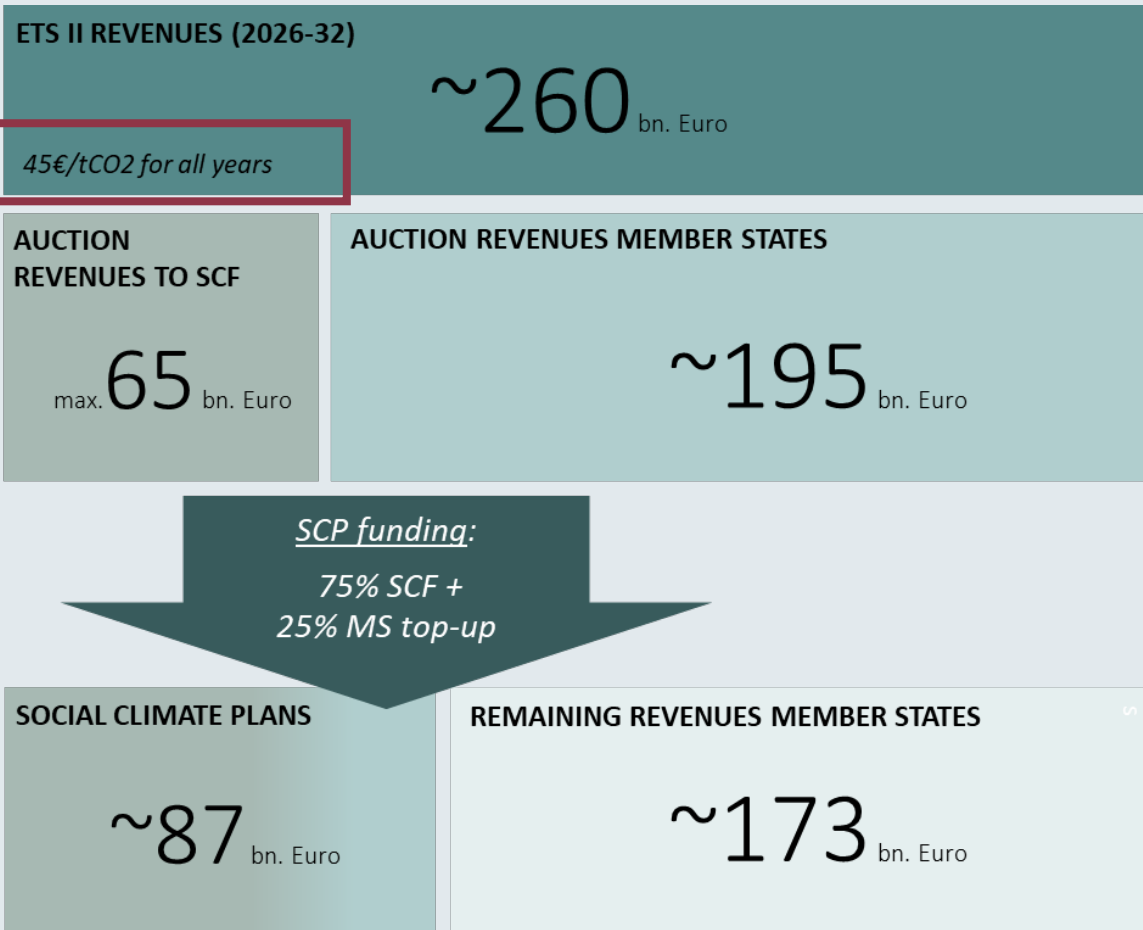
Source: Pietzcker et al. (2021)

Range of modelled ETS2 prices (2030)



Source: Günther et al. (in preparation)

ETS REVENUES TO COMPENSATE AND ALLEVIATE: SOCIAL CLIMATE FUND, AND MORE



Beneficiaries SCF



Vulnerable households



Vulnerable micro-enterprises



Vulnerable transport users

Eligible measures SCF

DIRECT INCOME SUPPORT

- Temporary, max. 37.5% of SCPs

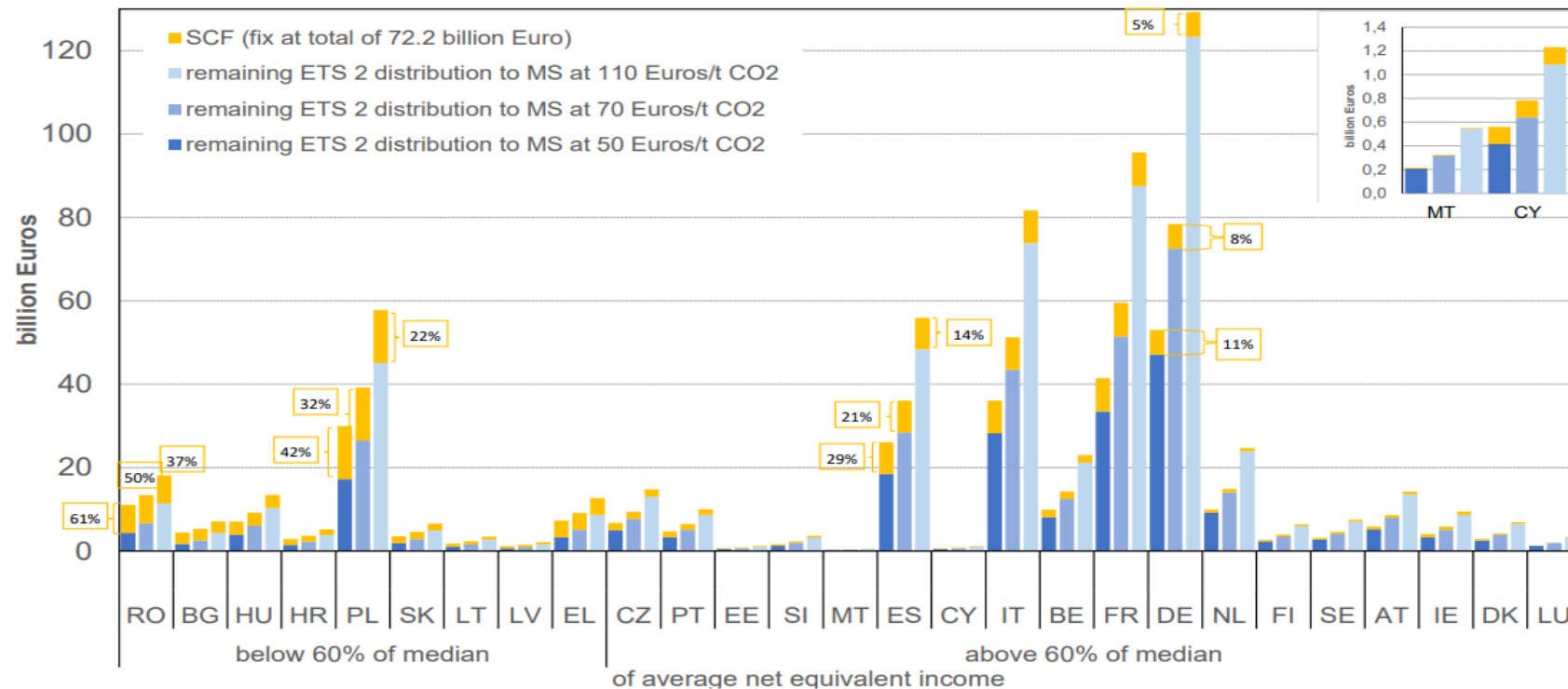
MEASURES/INVESTMENTS TO LOWER RELIANCE ON FOSSIL FUELS

- Energy efficiency of buildings, decarbonisation of heating and cooling
- Access to zero- and low-emission mobility and transport

SUPPORTING (TECHNICAL) MEASURES

CONSIDERABLY HIGHER SHARE "OUTSIDE" SCF IN CASE OF HIGHER ETS2 PRICES

Figure 3 Revenue allocation to Member States under different CO₂ price assumptions with fixed total amount for SCF at 72.2 billion euro (2025/2026-2032)



Source: Öko-Institut (2022)

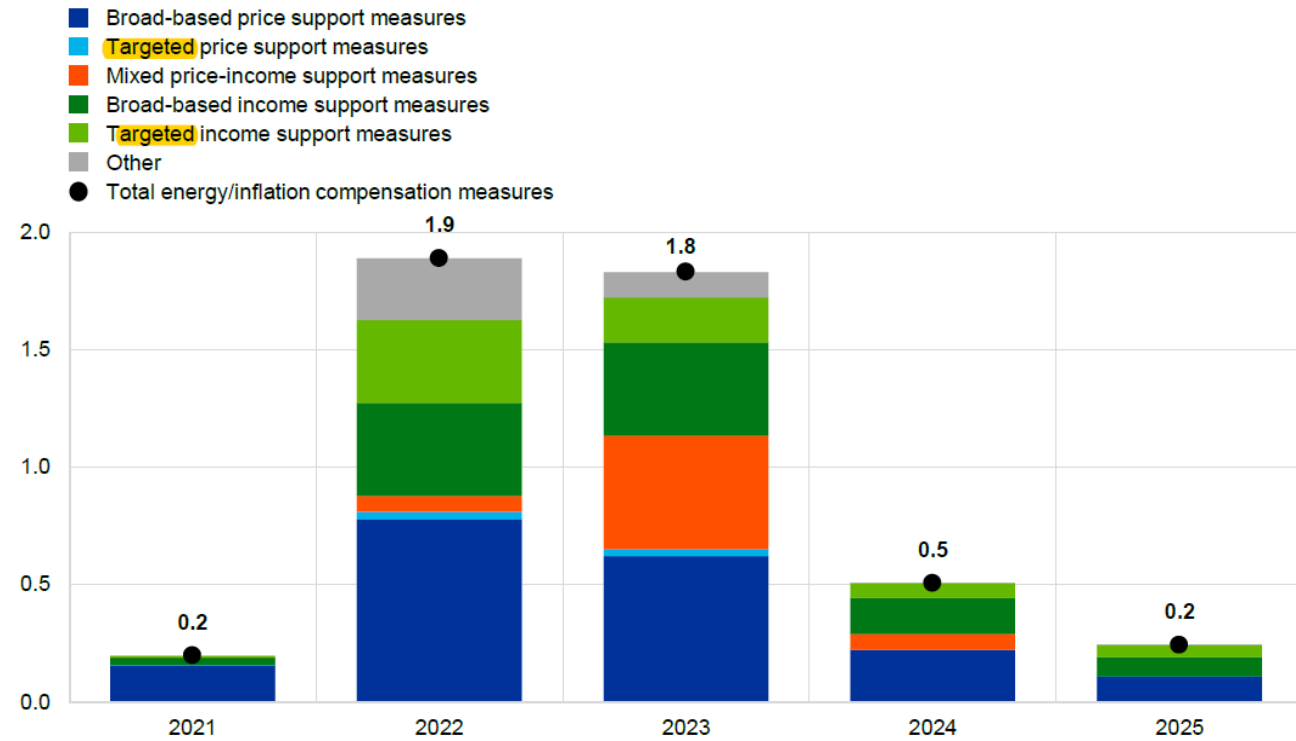
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ENERGY CRISIS MEASURES SUGGEST MEMBER STATES HAVE LONG WAY TO GO

b) Decomposition of measures based on the channels through which they affect inflation

(percentages of GDP)



Source: ECB Economic Bulletin 02/2023

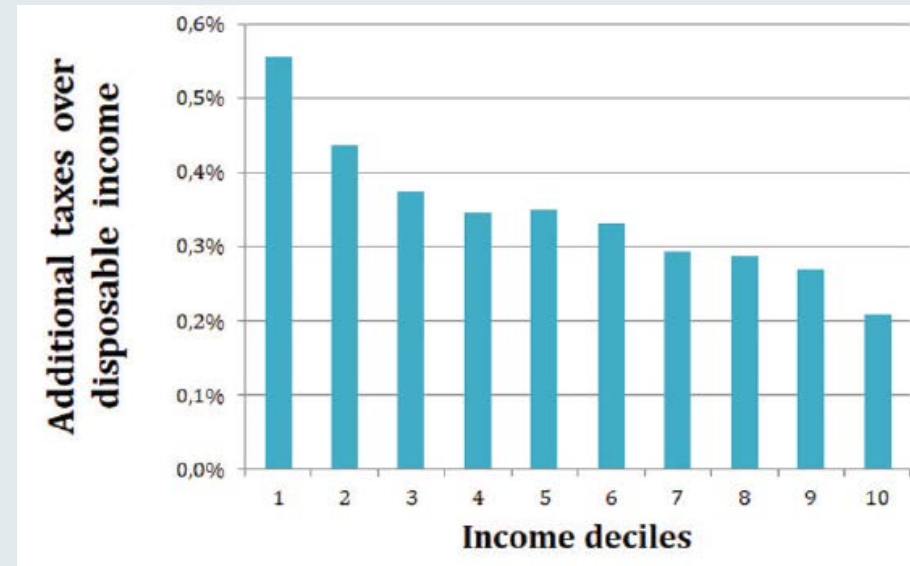
- Measure used **during energy crisis** can shed light on where member states stand
- Only a **small share** of measures were/are targeted
- Was it because of “crisis mode”, or because of **structural and institutional deficits**?

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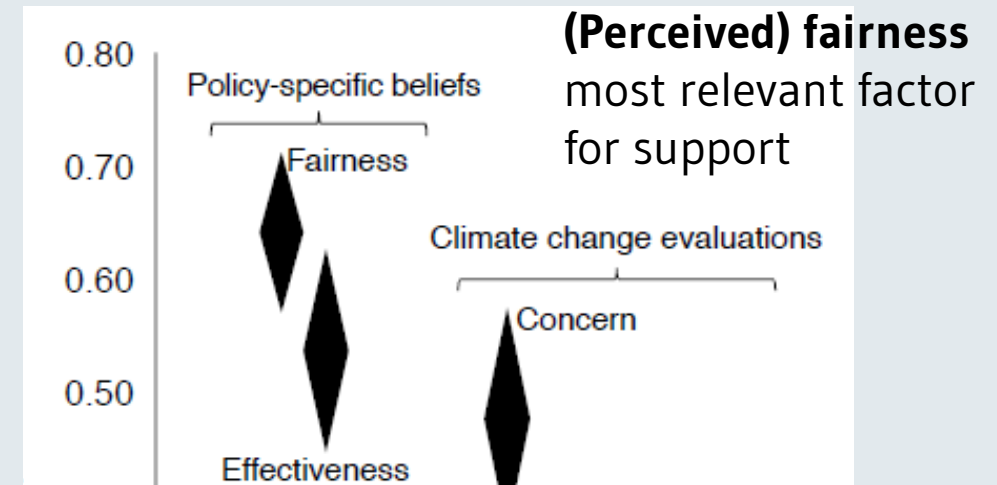
CONTRIBUTIONS OF SCIENTIFIC RESEARCH SO FAR ("1ST WAVE")

- Distributional implications of taxes/carbon prices ("**objective**" dimension)
- Public support ("**subjective**" dimension, perceptions)
- Where to go from here? What are scientific **innovations**, what is **needed for policy making?**



Source:
Douenne
(2020)

Source:
Bergquist et al.
(2022)



INPUTS AND REACTIONS

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- Inputs by **consultants/think tanks** (M. Catuti, K. Schumacher & N. Unger, 10 min each): Where does **policy action** and related applied research in member states **stand**? Is support for the vulnerable about to be implemented, and actually targeted?
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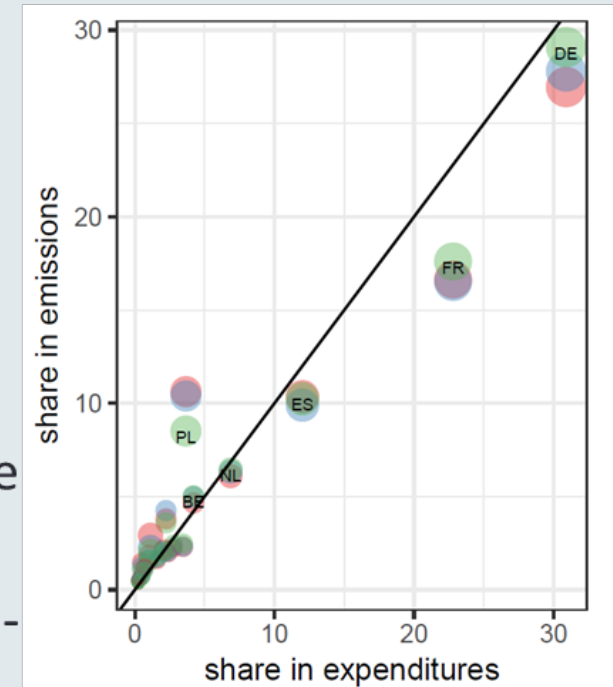
PLANNED RESEARCH AT PIK/MCC



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Vicious circle of revenue recycling ?

- Revenue recycling used as a remedy for public opposition
- Without source-side adjustments:
 - might increase the share in emissions of poorer countries and the most affected households
- → Well-designed and targeted revenue use required
- → Here: only short-term adjustments: mid- to long-term required, too



Scenario ● EU EPC ● National EPC ● ex-ante

Source: S. Feindt

How to model the mid- to long-term effect of revenue recycling?

- Multi-regional Computable General Equilibrium model coupled with household microsimulation
 - Allows to combine the production side with the use side and disentangle the impacts into expenditure side, labor, capital income and transfers
 - Weitzel et al 2023, Vandyck et al. 2022, Frederickson, Landis and Rausch 2021
- Usually: household deciles or representative households
 - Identify different important household types for the coupling, e.g. differences in elasticities, risk of energy poverty, ...
- No analysis of the emission increase caused by transfers
- Avoided damages, local air pollution ?

Source: S. Feindt