I

(Resolutions, recommendations and opinions)

OPINIONS

EUROPEAN ECONOMIC AND SOCIAL COMMITTEE

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Opinion of the European Economic and Social Committee on a review of tax policy to shield low-income households and vulnerable groups from the negative effects of the green transition

(own-initiative opinion)

(2023/C 349/01)

Rapporteur: **Philip VON BROCKDORFF**

Plenary Assembly decision	25.1.2023
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	Own-initiative opinion
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(for/against/abstentions)	195/7/10

1. **Conclusions and recommendations**

1.1. The EESC observes that the impact of the green transition will not be uniform across the EU and will vary substantially from country to country, as well as among different regions within Member States. In view of this, Member States must pay attention to the social challenges caused by the transition to enhance its legitimacy, maintain stability and avert populist opposition.

1.2. The EESC considers that the Commission impact assessments carried out in support of several legislative acts concerning the green transition mainly take a general EU perspective, often lacking the depth required for a country-by-country and region-by-region approach needed to focus on the likely impact on local economies and communities (an exception is the proposal concerning the Energy Taxation Directive).

1.3. The EESC also deems that a more targeted analysis should provide highly relevant data regarding households affected by the green transition, thereby allowing governments to take more appropriate measures to mitigate the impact of the ongoing process on poorer and vulnerable households.

1.4. The EESC flags two main risks related to the green transition in terms of social and economic adverse implications and in particular: (i) growing income disparities; and (ii) the displacement of industrial sectors and related jobs.

1.5. The EESC therefore underlines the need to pursue a fair transition able to address both the employment and the distributional effects of a shift to climate neutrality. In this context, the EESC calls for redistributive measures capable of directing financial resources in favour of low-income households and vulnerable groups to minimise social exclusion, by avoiding further deepening of income inequalities during the ongoing process.

1.6. Provided that taxation relating to the green transition is within the remit of Member States, the EESC underlines the importance of national fiscal measures to make the green transition more sustainable and less impactful on the weakest parts of the population.

1.7. Hence, fiscal policy should consist of three components during the transition: the polluter pays principle with complementary redistributive measures in support low-income households; targeted income support; and tax credits on energy-saving home products. This approach would (i) support the purchase of electric vehicles; (ii) incentivise the adoption of green technologies in homes; and (iii) improve the energy efficiency of buildings (admittedly the revised Energy Tax Directive ([1]) also aims to improve energy efficiency while protecting vulnerable groups). For the lowest income households who may have insufficient tax liability and may not benefit from tax credits, the recommended optimal measure is income support.

1.8. The EESC also believes that the distribution of vouchers by the state allowing purchases and investments in green technologies and products could help in supporting vulnerable groups during the transition.

1.9. The case of tax credits for individuals who purchase electric vehicles (EVs) implemented in the Netherlands is a good example of incentivising the purchase of environmental-friendly vehicles while minimising possible distortion caused by subsidies which often benefit suppliers at the expense of consumers ([2]).

1.10. The EESC also considers that the experience of Member States such as Germany, France, and Italy, which have implemented lower VAT rates for energy-efficient products, energy-efficient technology and home renovations aimed at increasing the energy efficiency of buildings, could be explored. However, VAT is by definition not progressive. To tailor such an approach to low-income households, flanking measures such as lump-sum compensation may be required to encourage take-up among these households. Moreover, the EESC points out that energy communities (Directive (EU) 2019/944 ([3])) and renewable energy communities (Directive (EU) 2018/2001 ([4])) may become a key tool to help citizens and vulnerable groups cope with the green transition.

1.11. The EESC underlines the strategic role of the Just Transition Fund (JTF). This financial instrument should be effectively aimed at tackling the socio-economic impact of the transition on EU economies currently relying heavily on fossil fuels or greenhouse gas-intensive activities and, above all, at smoothing the transition for workers and households impacted by the current change.

1.12. As already pointed out in previous opinions, the EESC remarks that the Just Transition Fund, even if strategic, may not be enough to support the ongoing economic change and should therefore be supplemented by an adequately funded Social Climate Fund (SCF).

([1]) Council Directive 2003/96/EC of 27 October 2003 restructuring the Community framework for the taxation of energy products and electricity (OJ L 283, 31.10.2003, p. 51).

([2]) The Netherlands incentivises the purchase of environmental-friendly vehicles. According to a report by the Climate Group, subsidies of up to EUR 4 000 are available for the purchase or lease of new battery electric passenger cars, and EUR 5 000 for vans. There are also competitive tax incentives such as low road tax (MRB), no purchase tax (BPM) and no tax for private use/benefit. See Netherlands: Taking action on zero emission vehicles.

([3]) Directive (EU) 2019/944 of the European Parliament and of the Council of 5 June 2019 on common rules for the internal market for electricity and amending Directive 2012/27/EU (OJ L 158, 14.6.2019, p. 125).

([4]) Directive (EU) 2018/2001 of the European Parliament and of the Council of 11 December 2018 on the promotion of the use of energy from renewable sources (OJ L 328, 21.12.2018, p. 82).

2. **Introduction and context**

2.1. The green transition is a huge challenge for the EU and for future generations, particularly with the protracted war in Ukraine causing economic uncertainty both in general terms and with specific regard to the energy sector. The EESC considers that, for the transition to succeed, social consensus is deemed necessary, and this can only be achieved if support measures are effectively implemented across the EU and populist opposition is averted.

2.2. The EESC recalls that the Green Deal increased the EU's 2030 greenhouse gas emissions reduction target from 40 % to at least 55 % in relation to the 1990 levels, setting at the same time the target of climate neutrality by 2050.

2.3. The 'Fit for 55' package features a series of policy proposals for meeting the 2030 target, regarding which the EESC would like to put forward its contribution to advocate a green transition that is fully understood and shared by all the stakeholders involved, on the one hand, and not excessively damaging for households and vulnerable groups, on the other hand.

2.4. Taking for granted that the green transition will bring about substantial and much awaited benefits across the EU, the present opinion focuses on the likely adverse effects of the ongoing green transition in the short term with a specific focus on social exclusion and income inequalities, urging a fair transition that is able to be proportionate towards low-income households and vulnerable groups.

3. **General and specific comments**

3.1. The EESC observes that the implications of the green transition will not be uniform across the EU and, on the contrary, will actually vary substantially from country to country, or even among different regions and areas within Member States, depending on several economic and social variables.

3.2. In this respect, the EESC notes that regions with high dependency on carbon fossils are and will be especially vulnerable to the impact of the transition and to potential job losses. Therefore, the responses required to support social cohesion will need to be quite differentiated across Member States, or even from region to region, based on the differing local contexts in line with the subsidiarity principle. The EESC recognises, however, that the revised Energy Tax Directive proposes a 'transitional' period, and the possibility for Member States to exempt vulnerable households from heating taxation for 10 years after the implementation of the revised tax.

3.3. From a methodology perspective, the EESC believes that the impact assessment analyses carried out by the Commission so far mainly take a general EU perspective, lacking the depth required by a country-by-country and region-by-region approach able to focus on the likely impact of the transition on local economies and communities. In this respect, the proposal concerning the *Energy Taxation Directive* is an exception, since it was anticipated by a targeted micro analysis that should be more broadly embraced in implementing the Green Deal.

3.4. The EESC deems that a more targeted analysis, able to fully consider local specificities, should be useful in providing valuable information, especially regarding households affected by the green transition, thereby allowing governments to take appropriate measures to mitigate the impact of the ongoing process on poorer households and vulnerable groups who will face the most critical implications.

3.5. The EESC is of the view that there are two main risks related to the green transition in terms of social and economic adverse implications: (i) growing income disparities; and (ii) the displacement of industrial sectors and related jobs.

3.6. The EESC points out that the shift towards a climate-resilient and low-carbon economy is particularly challenging for low-income households and communities, especially in regions where the level of development lags behind the urban parts. Hence, it is paramount that the transition is supported by an appropriate range of fiscal measures, including financial support, to address the concerns expressed above.

3.7. Moreover, the EESC would like to flag possible additional burdens on the weakest parts of population caused by the transition with particular regard to the prices of commodities that could significantly increase during the transitional process. The transition could indeed push up energy and fuel prices for those who can least afford it, as the higher cost of carbon is factored in. Such an impact is particularly of concern within the current macro-economic context, where earlier this year several Member States' inflation rates were high ([5]).

([5]) The inflation rate has slowed down in recent weeks.

3.8. The EESC therefore advocates the need to pursue a fair transition that addresses both the employment and distributional effects of a shift to climate neutrality. Such an approach should be seen as an integral part of the green transition framework and not only as supplementary corrective measures.

3.9. The EESC underlines the need for redistributive measures allowing for financial resources to be directed towards assisting low-income households and vulnerable groups with the objective of averting social exclusion and the deepening of income inequalities. Such measures could, for example, take the form of environmental taxation based on the 'polluter pays principle', with income earners above an established threshold paying higher tariffs for consuming carbon-intensive energy.

3.10. Provided that, based on the subsidiarity principle, taxation relating to the green transition is within the remit of Member States, the EESC underlines the importance of fiscal measures adopted at the national level to make the green transition more sustainable and less impactful on vulnerable categories, possibly avoiding regressive effects that are often associated with environmental taxes.

3.11. The EESC considers that fiscal policy during the transition should consist of three components: the polluter pays principle with complementary redistributive measures to support low-income households; targeted income support; and tax credits for energy-saving home products. This approach would (i) support the purchase of electric vehicles; (ii) incentivise the adoption of green technologies in homes; and (iii) improve the energy efficiency of buildings. The EESC acknowledges, however, that the revised Energy Tax Directive also aims to improve energy efficiency while protecting vulnerable groups. For the lowest income households who may have insufficient tax liability and may not benefit from tax credits, the recommended optimal measure is income support.

3.12. The EESC also believes that the distribution of vouchers by the state for investing in green technologies and purchasing green products could help support vulnerable groups during the transition.

3.13. Fiscal measures for individuals who purchase electric vehicles (EVs) implemented in the Netherlands are a good example of incentivising the purchase of new generation, environmental-friendly vehicles, reducing possible distortions related to more widespread subsidies. The tax-friendly approach to EVs in the Netherlands is extended also to registration and road taxes, completing a favourable legal framework. In this respect, tax credits could be specifically targeted to low-income households of the population which are expected to struggle the most during the transition toward green technologies.

3.14. The EESC also considers that the experience of Member States such as Germany, France, and Italy, which have implemented lower VAT rates for energy-efficient products, energy-efficient technology and home renovations aimed at increasing the energy efficiency of buildings, could be further refined and explored. However, VAT is by definition not progressive. To tailor such an approach to low-income households, flanking measures such as lump-sum compensation may therefore be required to encourage take-up among these households.

3.15. The EESC underlines the importance of the Just Transition Fund, which cannot be understated. This financial instrument should be effectively aimed at tackling the socio-economic impact of the transition on EU economies currently relying heavily on fossil fuels or greenhouse gas-intensive industrial activities and, above all, at smoothening the transition for workers and households impacted by the change under development.

3.16. As already pointed out in its previous opinion on *Public sector loan facility and amendment to the Just Transition Fund* [6], the EESC remarks that the Just Transition Fund (JTF), though important, may not be enough to support the ongoing economic change in terms of its resources and scope. The JTF should therefore be supplemented by an adequately funded Social Climate Fund (SCF) as recommended in the EESC opinion on a *Climate Adjustment Fund financed by Cohesion and NGEU* [7].

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(6) Opinion of the European Economic and Social Committee on 'Proposal for a Regulation of the European Parliament and of the Council on the public sector loan facility under the Just Transition Mechanism' (COM(2020) 453 final — 2020/0100 (COD)) and on 'Amended proposal for a Regulation of the European Parliament and of the Council establishing the Just Transition Fund' (COM(2020) 460 final — 2020/0006 (COD)) (OJ C 429, 11.12.2020, p. 240).

(7) Opinion of the European Economic and Social Committee on Climate Adjustment Fund financed by Cohesion and NGEU (own-initiative opinion) (OJ C 486, 21.12.2022, p. 23).

3.17. The EESC points out that the aim of such an additional fund should be to shield low income and vulnerable groups from the adverse impact of the transition, provided the SCF is coupled with good practices aimed at avoiding any widening of income inequalities in the first place. At the same time the EESC cautions that, in its current organisation and financial capability (not to mention the postponement of its implementation by one year), the SCF is unlikely to be enough to effectively support the most vulnerable parts of the population, as already highlighted by several stakeholders. To give an example, the cost of shifting from traditional to electric vehicles could prove too expensive, and hence too difficult, for low-income and vulnerable households without fiscal incentives or financial support ([8]).

3.18. The EESC therefore suggests that the responsible authorities at European and local level develop appropriate fiscal policies to mitigate the adverse consequences of the transition, without undermining the incentives for changes in terms of green investments and consumption required by the transitional process. Importantly, such mechanisms should be accompanied by measures to ensure inclusive governance and the active involvement of those most affected by the green transition. The EESC recognises, however, that the revised Energy Tax Directive includes transitional periods for taxation of selected products or investments for reducing energy consumption.

3.19. The EESC would like to remind all the institutions involved in the green transition of the importance of social dialogue and of the useful involvement of civil society at European, national, sectoral, and regional level. Social dialogue plays a crucial function in managing and facilitating the green transformation, ensuring a widespread involvement of all the interested stakeholders and, at the same time, protecting vulnerable groups and employment levels across the EU.

3.20. The EESC points out that progressive taxation, targeted welfare systems and appropriate social dialogue mechanisms are already in place in several European countries and, hence, the adoption and further strengthening of such policies might build on the existing good practices and prove to be a very useful tool to avert further widening of inequalities and social exclusion.

3.21. The EESC strongly believes that creating a wide understanding, as well as a political and social acceptance, of climate policies within European countries will be conducive to a stronger and better green transition which, on the contrary, is at risk of losing both legitimacy and strength should its burden and adverse implications fall disproportionately on poorer households.

3.22. In this respect, the EESC stresses that governments, in consultation with civil society, should try to reduce the impact of the green transition on employment in the more affected areas of the EU also by means of targeted and innovative labour-market policies, including training and educational programmes for workers in high carbon industries.

3.23. The EESC highlights the risk of growing regional disparities, due to the green transition process, between more advanced economies across the EU and those still heavily reliant on carbon-intensive industries. In the same vein, there could also be a deepening of disparities and competitive discrepancies across countries and between urban areas, on the one hand, and peripheral, rural and remote areas, on the other.

3.24. The EESC is of the view that the green transition calls for realising the climate objectives of the European Green Deal and pursuing the social fairness agenda of the European Pillar of Social Rights simultaneously. The green transition involves structural change (with change expected at both economic and social levels). To be successful, it must be accompanied by social measures, including social investment aimed at facilitating climate neutrality and at achieving a transition conducive to dynamic and competitive European businesses that can generate, for example, green jobs and economic growth.

3.25. The EESC therefore stresses the importance of enhanced collaboration across the EU, which should be developed based on an effective political and social dialogue with the aim of devising accompanying economic and social policies to support the ongoing transition, duly adapting it to the different social and economic conditions of the communities involved.

([8]) Joanna Gill, Can Europe's new Social Climate Fund protect poor from rising carbon cost?, Reuters, December 2022.

3.26. Such a collaborative approach should be embraced also with regard to European countries that are not members of the EU, in order to avoid the transfer of business and employment towards countries not pursuing a greener and more sustainable economic development like the one pursued by the EU. That could have a negative impact on the internal market, as well as on the green transition itself both in terms of reduced effectiveness and enhanced adverse effects on the weakest parts of population.

3.27. The EESC also calls for further action on the part of Member States to tackle fiscal evasion and avoidance and to avert misuse of public funds, as this would provide additional resources to fund the distributive measures supporting the transition.

3.28. Finally, the EESC points out that energy communities (Directive (EU) 2019/944) and renewable energy communities (Directive (EU) 2018/2001) may become a key tool to help citizens and vulnerable groups in coping with the green transition. Such communities can take any legal form (associations, cooperatives, partnerships, non-profit organisations, or small/medium-sized enterprises), making it easier for its citizens, together with other market players, to team up and jointly invest in energy assets. This might contribute to a more decarbonised and flexible energy system, as the energy communities can enable citizens to access all suitable energy markets on a level-playing field with other players, reducing their energy costs or even allowing potential revenues.

Brussels, 12 July 2023.

The President
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