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CONTRIBUTION

From: General Secretariat of the Council
To: Ad hoc Working Party on the Social Climate Fund

N° prev. doc.: WK 10801/2021

Subject: Fit for 55 package - Social Climate Fund: Follow-up to the informal vc of the AHWP SCF on 15 September 2021 - Comments from delegations

Following the call for comments on the above set out in WK 10801/2021, delegations will find attached comments from the [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED], [REDACTED], NL, [REDACTED], [REDACTED] and [REDACTED] (on behalf of [REDACTED]) delegations.

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THE NETHERLANDS

Written questions to the European Commission

A thorough impact analysis of the additional value added of the SCF would contribute substantially to our understanding of the motive behind the proposal. We thus would appreciate an analysis of the marginal impact of the proposed fund (SCF) in relation to funding available for the green transition and cohesion already in the MFF and NGEU as well as the Innovation and modernisation funds.

Relation to MFF:

- Could the Commission further substantiate its rationale for adding expenditure on top of existing funds, rather than choosing to alter existing structures? We would need help to understand the proposal considering the overlap with other instruments and of potential beneficiaries, the additional administrative burden a new fund would lead to in member states, and the resources already mobilised for similar objectives in the MFF and NGEU as well as the Innovation and Modernisation funds¹.

Choice of instrument:

- Could the Commission present an analysis of other possible ways of compensating for price changes than budgetary measures?
- Could the Commission provide the rationale behind the statement that the distribution key reflects uneven impacts across member states?
- Could the Commission further explain how the distribution key handles potential overlaps with other funds?

¹Currently possible disposable funds to programme (or re-programming) which could be mobilised to facilitate the green transition (inter alia):

- The Just transition fund of 19,3 billion euros in current prices in NGEU and MFF. Together with the requirement that the MS need to match the JFT-allocation with 1,5 euros per JFT-euro with funding from the ESF+ and the ERDF, the CION estimates that the JTF will consist of a total of 30-50 billion euros in the current MFF.
- The possible transfers to the Just Transition Fund from ERDF (243 bn) and ESF+ (88bn). In theory the entire amounts could be reprogrammed to address the purposes of the proposed fund.
- Funding under the European Green Deal Investment plan, which provide tailored financing to a wide range of projects.
 - o Just transition mechanism under the Invest EU-scheme. According to the CION this will over the current MFF-period mobilise 143 bn euros over 10 years.
 - o The rest of the investments dedicated to environment and climate adaptation (e.g. EU-budget guarantee) of 279 bn euros
 - o Already existing Innovation and Modernisation funds of 25 bn euros.
 - o The Cohesion Fund (48 bn euro)
 - o The funding connected to the National Energy and Climate Plans (NECP)
 - o Support for at risk groups in the ESF+ (which now includes FEAD) (88 bn euro), the EU Solidarity Fund (1 200 mn euro), the Employment and Social Innovation fund (EaSI) (762 mn)
 - o Support for infrastructure through the Connecting Europe Facility (11,4 bn for transport and 5 bn for energy), Interreg and ERDF (243 bn euros).

We thank the Swedish delegation for the above calculations.

Financial impact:

- Could the Commission explain how the proposed volume of the fund was established/calculated and the underlying motivation for these exact amounts?
- The Commission states that the new ETS should provide economic incentives to reduce the use of fossil fuels. This would, all other things equal, increase the incentives to use renewable energy and invest in technology would enable use of renewable energy sources/technology. Thus, the costs on renewable energy investments should decrease over time. How has the Commission factored this probable price reduction on clean energy and fuel into the calculation of the timeframe for the proposed fund and the amounts suggested?
- Could the Commission provide an analysis of the expected administrative expenditure for member states and the Commission of the proposed fund, and how these administrative costs relate to potential savings possible if existing funds instead were reprogrammed?
- The SCF would enable the first transfers to commence in 2025, one year before the start of the ETS-BRT.
 - Could the Commission substantiate why it has chosen for a start of the SCF one year before the start of the ETS-BRT in particular?
 - How does the Commission envision that this early start will contribute to the effective mitigation of negative socio-economic effects?
 - For instance, would only the financing of sustainable investment measures be allowed, with direct income support being excluded?
 - How would the Commission measure milestones already in 2025?
- The Commission has suggested that the instrument is self-financed through the ETS own resources (recital 11) which raises the following questions:
 - How is the SCF proposed to be financed in 2025 considering that there is no revenue from the ETS in that year?
 - How can the 72,2 bn euros be attained in case 25% of the ETS revenue falls short of 72,2 bn? Will any shortfall of ETS revenue towards the global amount be financed with the same distribution key as ETS revenue?

- Could the Commission present an analysis of other possible ways of compensating for price changes than budgetary measures?
 - How would this be achieved if not via a designation of this revenue as assigned revenue to the EU budget?
 - How would this instrument be financed if a change in the MFF ceilings would only materialize at a later point in time?
 - Where would funding be redeployed from should new own resources be needed to cover the repayment of NGEU interest and principle?
- In this context, could the Commission elaborate on whether the 72.2 bn. euro of spending proposed for 2025-2032 is based on an estimate 25% of the global ETS revenue over the same timeframe? And if so, could the Commission provide the estimated differences between annual spending and 25% of annual ETS revenue?

Design of the instrument and measures financed:

- The SCF allows for the financing of both direct income support and sustainable investment measures and support thereof.
 - Is the Commission planning to provide minimum and maximum allocation requirements for the financing of sustainable investment measures and direct income support under the Social Climate Funds?
 - If not, is the Commission planning to provide some other form of further specification on the split between sustainable investment measures and direct income support?
- Could the Commission substantiate how it intends to treat measures that finance purely transitional energy forms – e.g. replacing coal-powered heating with gas-fired heating – especially with regards to the marginal effect this will have on households’ disposable income given the price increases of such unsustainable forms of energy that will likely result from the ETS-BRT?

Legal considerations:

- Could the Commission, as well as the CLS, further substantiate its rationale for the fund’s legal basis, i.e. the EU’s competence and the subsidiarity and proportionality of the SCF? Also, in relation to the actions to be financed. In particular, could the Commission substantiate on the following:
 - its choice for Article 91, first section, subsection d (TFEU) and its relation to the SCF and the EU’s common transport policy?

- the relation between Article 192, first section, and Article 194, second section (TFEU) and the possibility of financing direct income support under the SCF?
- What is the legal basis for direct income support by the EU budget? Simply, the relationship and appropriateness of the possible actions and the legal bases suggested.

Fiches:

To be able to assess the impact on MS of the package in its entirety we would highly appreciate a fiche of the financial implication per MS, more concretely we ask for:

- I. An overview of expected reflows from the modernisation fund per MS and an estimation of the total size for the innovation fund (incl. EUAs stemming from the phase-out of free allocation).
- II. An overview of expected ETS revenues from the different sectors per MS, especially an estimate of expected revenues from the ETS system on road transport and buildings per MS.
- III. An overview of the exact data files used to calculate the allocation of the Social Climate Fund.
- IV. Could COM please also provide overview fiche of expected financial impacts of the Fit for 55 packages on the Union budget and on MS as well as an overview of total funding available per member states from all climate related expenditure streams? This could be combined with an overview of information provided for in the country fiches.

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