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CONTRIBUTION

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

Subject: Fit for 55 package - Social Climate Fund: Follow-up to the AHWP SCF on 14 March 2022 - Comments by delegations

In follow-up to the call for comments (WK 3825/2022) on the Presidency non-paper (WK 3404/2022) on blocks 3 (eligibility) and 4 (management and control) of the SCF regulation, delegations will find below comments from the [redacted] and NL delegations.

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Comments from the Netherlands

We would like to thank the Presidency for facilitating this round of written comments. We again wish them the best of luck in bringing Member States' input to a fruitful conclusion in the coming period.

For us, it remains important to note our overall stance regarding negotiations on the SCF. We remain hesitant to introduce new funds and revise the MFF-regulation, and believe that the negotiations on the next MFF should not be pre-empted. Furthermore, we will consider our ultimate position on the SCF in the light of the result of negotiations regarding the Ff55 proposals as a whole. Comments, suggestions, and proposals that we will make until we have a final overall position therefore remain provisional, but we hope they can contribute to the technical discussion nonetheless.

Comments and suggestions on the discussion questions for block 3 and 4;

Principles governing the fund

Any potential SCF must maintain a strong and direct link to the Fit-for-55 package's climate goals and should therefore focus on sustainable investments. A performance based structure and the direct management mode are the best fit for this.

We support making the use of the SCF conditional on Member States having in place a national carbon neutrality condition, which would thus supplement Article 2 of the European Climate Law. Furthermore, limiting the targets and milestones to a narrow subset of potential CO2 reductions runs the risk of emissions being shifted between sectors instead of being truly reduced. Therefore, CO2 reduction targets should be considered broadly.

Specifying whether the milestones and targets need to cover all principles could be a useful way to reduce the administrative burden. As for the Presidency suggestion on "close cooperation" for coming to targets and milestones, we are not sure what this would look like. This should be further operationalised before we can make a specific statement on it.

Measures and investments to be included

At this time it is too early for the Netherlands to comment on suggestions regarding the inclusion of specific measures under the Social Climate Plans, as our position on these is highly dependent on the fund's overall design. We can however state that we consider technical guidance on the "do no significant harm principle" to be crucial to ensure that the SCF contributes to the Ff55-package's climate goals and does not support low carbon or fossil fuel related investments.

Exclusions from the estimated total costs

As noted above, any potential SCF must maintain a strong and direct link to the Fit-for-55 package's climate goals and should therefore focus on sustainable investments. In our view, direct income support does not directly contribute to our climate goals. If a potential SCF is to contain provisions allowing direct income support, there needs to be a very strict delineation of how and when this is allowed.

We would like to note that if this would impose too large an administrative burden on member states, perhaps it would make more sense to leave the income support to be financed at the national level, for instance through the revenues generated by member states under the ETS2, instead of doing so through the SCF. This would allow member states to address the need for compensation of possible negative effects due to an ETS2 in a more straightforward manner.

Additionality and complementarity – national recurring expenditure

The Presidency has noted that there is somewhat of a tension between the SCF's exclusion of national recurring expenditure and the ability to finance technical aid through the fund.

We acknowledge that defining "recurring expenses" is a difficult task, because this requires a very detailed discussion so they can be properly operationalised. Here, learning the lessons from existing fund structures could be helpful. For now we can share the general principles that we believe a potential SCF should adhere to.

Firstly, measures should have a clearly demonstrated causal link to the ETS2. This means that measures need to be proportional to the impact of the ETS2. If measures automatically reduce in size as emissions are lowered and the impact of the ETS2 is reduced, measures here could be justified as not being recurring.

Secondly, measures should be undertaken under new programs or clearly justified and separately tracked increases of existing programs, again of a temporary and proportional nature to the ETS2.

Thirdly, there could be special provisions for measures with a relation to existing schemes similar to the ETS2+SCF. If a clear technical distinction can be made to identify such measures, they might be considered "duly justified".

Finally, we would like to note that, if direct income is included in a potential SCF, this should be done under its own set of principles, for instance specifying that measures can never be "recurring" and should instead be "temporary and decreasing over time" and operationalising this through specific definitions.

Protection of the financial interests of the Union

We support bringing the SCF in line with the CPR where sensible. This also holds with regard to the Single Data Mining Tool for the Prevention and Combating of Fraud (ARACHNE).

Adjustment of social climate plans

For the Netherlands, a special provision for minor adjustments could be sensible, but this depends on the operationalisation thereof. It is too early to support a full definition, but we suggest that at a minimum adjustments should only be considered minor when they do not alter the milestones and targets, the chosen measures, or the financial distribution between these measures. Adjustments could be considered minor, for instance, when they only concern technical changes such as the exact executing authority.

Common methodology for impacts of the ETS2

During the past ad hoc working parties, the Commission has commented that it considers a common methodology to assess the impacts of the ETS2 on the vulnerable target groups of the SCF too difficult owing to the different national circumstances experienced by Member States. We agree that there is significant degree of heterogeneity between the social issues faced by Member States, but at the same time conclude that there must be some common core of issues faced, if a potential SCF is to be justified as a European measure. We would like to request the Commission to present a form in which they might be able to aid the various Member States, perhaps by focusing solely on the issues commonly faced and giving guidance for national calculations on top of this. Another alternative could be to provide common questions or elements that should be included by Member States, to aid them in making the correct calculations.