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## CONTRIBUTION

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

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Subject:	Fit for 55 package - ETS BRT and Social Climate Fund: Comments from a delegation
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In view of the Coreper meeting on 4 May 2022 on the "Fit for 55" package, delegations will find attached a non-paper on the extension of ETS to buildings and road transport and on the Social Climate Fund from the LT delegation.

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## **Lithuania's non-paper on the Buildings and Road Transport Emission Trading System and Social Climate Fund**

Given Russia's aggression in Ukraine and rising energy prices the EU should further seek to reduce its' dependence on fossil fuels and adhere to the goals of the Green Deal. Therefore, implementation of the Fit for 55 package is of higher importance than ever before and therefore should as soon as possible deliver increased capacity of indigenous renewable energy sources, more effective use of energy and resources and further innovative sustainable investments accelerating the green transition towards a climate-neutral economy in the EU by 2050.

It is essential that extension of the EU Emission Trading System (ETS) to buildings and road transport (BRT) sectors and the Social Climate Fund (SCF) are discussed in parallel. The SCF debate should not be postponed pending the agreement on the BRT ETS. Without assurance and clarity on how the significant negative socio-economic consequences on the most vulnerable households and small enterprises will be mitigated, the support for the BRT ETS will be highly unlikely.

We recognize that the ETS as a tool to reduce GHG emissions has proven its efficiency. For the extension of the ETS to BRT sectors to be effective, we must bear in mind that impact of a single EU market carbon price will vary greatly among different Member States (MS) and the most adverse effects will be borne by MS with the highest energy poverty rates. Therefore, it is critical to ensure that the MS experiencing the greatest energy poverty at least recover all the funds paid through the extended BRT ETS through the auction rights and the SCF.

We seek that agreement on BRT ETS is followed by the establishment of the SCF with as simple and easy implementation as possible. Recalling the EU MS discussions regarding the BRT ETS and the SCF in the CRP1 meeting on 8<sup>th</sup> of April 2022, we agree with the need to explore the possibility to incorporate SCF under the framework of EU ETS. This could be easier to negotiate as it would avoid opening the discussions on the revision of MFF. Additionally, we also prefer that under the ETS the MS shares of SCF would be assigned as shares of revenues from auctioning allowances rather than the current fixed amounts in EUR. Additionally, it will also require to adjust SCF's allocation criteria in order to better reflect the socio-economic conditions and the energy poverty rates in the MSs and include additional criteria for transport sector.

This way the MS might receive higher funding through the SCF, and this would allow MS to mobilize additional sustainable investments in the BRT sectors and to provide direct income support while ensuring that the most vulnerable households and small enterprises are protected.

We believe that the SCF management mode should reflect the existing mechanisms of EU ETS funds and be directly linked to the BRT ETS auctioning allowances. The ETS Directive could establish general provisions for the SCF scope, financing ceilings, MS shares etc. In this way the Directive would establish general rules for the SCF similarly to the existing EU ETS funds although implementation mechanism might differ.

The governance of the SCF should be further debated and possibility of using a shared management mode under EU ETS should be explored. This would allow for flexibility for MS to establish and implement measures best suited according to their national circumstances. Shared management option would as well obligate the achievement of targets and milestones, but without a direct link to the disbursement of funds.