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Assessment of Romania's recovery and resilience plan

Key points

- The latest version of the Romanian recovery and resilience plan does not specify any milestones, targets or implementation calendars for the proposed investments and reforms.
- The decarbonisation of the energy sector is jeopardised by the allocation of a significant amount of funds for fossil fuel investments, specifically the expansion of gas infrastructure and its adaptation for hydrogen.
- The proposed measures lack a detailed assessment of compliance with the 'do no significant harm' principle.
- Although the green transition spending target appears to be achieved, the components of the plan do not mention any concrete projects, nor other information detailing compliance with the European Green Deal principles.
- The latest version of the plan does not include any information on the integration of the suggestions and proposals collected during public consultations.

Introduction

Recovery after the COVID-19 crisis has been high on the agenda in Romania, which started planning its recovery measures in November 2020. After a first draft full of questionable investments and reforms, the updated version of the national recovery and resilience plan aimed to provide more clarity on how to mitigate the negative post-pandemic economic and social effects.

The second draft of the Romanian recovery and resilience plan[1] was approved by the government on 7 April, after the latest round of public consultations, but it is still unclear

[1] This assessment is based on the plan approved on 7 April 2021. Ministerul Investitilor Si Proiectelor Europene, *Planul Naţional de Redresareşi Rezilienţă*, April 2021.

how the proposed measures will contribute to strengthening the national economy and to the European Green Deal's objectives.

The document has been submitted to the European Commission ahead of the 30 April deadline to be further negotiated.

The envisioned reforms and investments for the economic recovery are structured around six pillars of intervention totalling an investment need of approximately **EUR 41.4 billion**, more than the EUR 30.4 billion allocated to Romania through the EU's Recovery and Resilience Facility (RRF). The financial allocations for each pillar are as follows:

Pillar I – Green transition: **EUR 15.3 billion**
Pillar II – Digital transition: **EUR 3.5 billion**
Pillar III – Intelligent, sustainable and inclusive growth: **EUR 9.5 billion**
Pillar IV – Social and territorial cohesion: **EUR 5.1 billion**
Pillar V – Health and economic, social and institutional resilience: **EUR 6.5 billion**
Pillar VI – Policies for the next generation and youth**: EUR 1.3 billion**

As the allocations show, the 37 per cent spending target for green transition, detailed in the EU's Technical guidance for the facility, seems to be respected, as the plan allocates EUR 15.3 billion for this category. The 20 per cent target for digital transition spending is not reached. The financial allocations for reforms and investments in the digital sector amount to almost 9 per cent of the total amount.

The plan is split into two parts: one containing an overall analysis of the national context and another where the proposed investments and reforms for each pillar are listed. Unfortunately, the document does not provide any concrete targets or implementation calendars, and the details for each of the pillars do not contain any specific projects, only investment proposals. Financial allocations are specified for the whole pillar but are not further broken down for each investment or reform proposed. Moreover, the plan does not explain how the proposals collected during the public consultations have been integrated into the most recent version.

Assessment

False solutions for green transition

The Romanian recovery plan contains proposals to expand the existing fossil gas infrastructure and adapt it for the use of hydrogen and other gases that it refers to as 'green gases', which is highly controversial in terms of its added value and transformative potential for Romania's achievement of the Green Deal's goals. The plan sets no targets or milestones for this investment proposal, and it provides no details on the amount of hydrogen that will be distributed through the new infrastructure. This component is allocated EUR 600 million, and compliance with the 'do no significant harm' principle is not detailed or explained.

Given that the hydrogen sector is still at an incipient stage in Romania, support for hydrogen is not consistent with what the Recovery and Resilience Facility was created for – financial support for reforms and investments that are ready to be implemented and can accelerate the economic revival while contributing to the green and digital transition.

Romania already has experience with major gas infrastructure projects that have become mired in administrative issues. The BRUA pipeline, which has been pumped with millions of euros from the European Commission and other international financial institutions, remains unused due to a recent legislative change that increased the royalty fees for offshore exploitation activities and subsequent delays in starting offshore gas production in the Black Sea[2].

The 'do no significant harm' principle should be applied rigorously to ensure that hydrogen infrastructure is not funded, as it will not contribute to climate mitigation and is not a cost-effective or efficient way to ensure energy security.

Decarbonisation and renewable sources

The plan states that the objective of this investment proposal is to decarbonise the energy sector, but continuing to pour considerable amounts of resources into fossil gas infrastructure will make it difficult to switch to cost-effective, clean energy alternatives, thus increasing the costs of the energy transition and undermining efforts to implement a fair and sustainable green transition.

The plan's reform measures for the energy sector miss many opportunities in terms of decarbonising electricity production – instead of exploiting Romania's significant potential for offshore wind energy generation, the focus still remains on dated solutions based on fossil gas.

The renewable component of the plan also includes the restructuring of the main coal-based energy production companies as decarbonisation measures. This would be achieved by diversifying the companies' energy sources to include renewables. This restructuring process has been criticised by stakeholders at the national level[3], as the current decarbonisation plans provide for only a small reduction of coal-based energy units, their replacement with fossil gas units and the development of an insignificant amount of renewable energy. This is insufficient for a real transition to clean energy sources.

In addition, as the reforms and investments proposed in the plan should address policy challenges included in the country-specific recommendations of the European Semester[4], gas is in no way recommended as a proper reform for the energy system. In fact, the country-specific recommendations from the Commission mention explicitly that the focus should be put on increasing renewable energy generation and on measures for the renovation of buildings and energy efficiency of district heating networks.

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[2] Răzvan Botea, 'România a terminat conducta BRUA pe relaţia cu Ungaria, dar nu are ce gaze să transporte pentru că din Bulgaria şi Grecia nu vine nimic. Ion Sterian, CEO Transgaz: Consumul de gaze al României va creşte cu 8 mld. de metri cubi de gaz anual', *Ziarul Financiar,* 26 November 2020.

[3] Dan Dobre, '1,3 miliarde de euro pentru combustibili fosili. Care este alternativa ?', *Profit.ro,* 15 April 2021.

[4] European Commission, Council Recommendation on the 2020 National Reform Programme of Romania and delivering a Council opinion on the 2020 Convergence Programme of Romania, Brussels, 20 May 2020.

Instead of proposing fossil fuel-based infrastructure as a means of recovery and resilience, the plan should propose reforms and investments that support the climate transition as a matter of priority. The focus needs to be put on specific and mature projects for the development and use of renewable energy sources and for energy and resource efficiency.

Renovation of buildings

Indeed, the latest version of the plan has increased the allocation for renovation and energy efficiency measures from EUR 1.8 billion to EUR 2.2 billion. In this case as well, the investments do not represent specific projects. The recovery and resilience contribution of these investments is of concern, as they lack concrete targets and milestones as well as implementation calendars. The measures should be based on the National Renovation Strategy, which awaits an action plan and additional pieces of legislation before it can be implemented.

Progress towards a sustainable and efficient recovery needs to be assessed through well-defined, measurable and realistic targets and milestones, accompanied by a clear timeline so that the proposed investments are implemented without delay.

Public consultations

Romania's recovery plan was submitted for consultations twice this year, as the newly elected government took responsibility for revising the version of the document produced under the previous government. Compared to last year's non-transparent process, the second round of consultations was conducted through online sessions for each of the main pillars of the plan throughout February 2021. Despite a considerable number of attendees, the consultations were organised without setting a proper agenda beforehand, making it difficult for the interested parties to take the floor and express their opinions and concerns.

Stakeholders were encouraged to submit written suggestions and proposals to the plan, but the structure of this process posed some limitations. The proposals needed to follow a strict format, in the form of project proposals – a very time consuming, bureaucratic and discouraging mechanism for the general public, as this should have been the responsibility of the relevant institutions engaged in the recovery process. It is not clear how these investment proposals collected from the public were integrated, as the plan's updated version does not include a section detailing the public consultation procedure.

More transparency is needed in regard to the influence of public participation on the elaboration of the plan. A separate section or distinct report should be included in the plan describing the whole consultation process and how the feedback and suggestions collected from the public shaped the proposed reforms and investments.

An increased level of transparency must also be ensured for all communication and feedback that is given by the European Commission after the plan is submitted for evaluation and further negotiations. Moreover, another round of consultations should be organised after the Commission's first evaluation, so that all interested parties are given the chance to contribute to the finalisation of the plan.

Conclusion

The budgetary support stemming from the Recovery and Resilience Facility must be used for reforms and investments that will bring Romania a sustainable and green economic recovery, and not false solutions that will hinder decarbonisation efforts. The recovery measures need to be in line with the European Green Deal principles and to contribute effectively to a green and just transition. Moreover, the plan should be an efficient and ready-to-use investment strategy, backed by concrete targets and measurable milestones that will enable reforms and investment mechanisms able to unlock Romania's significant potential for decarbonisation in line with the EU's ongoing climate change commitments.

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