

## The role of gas in the recovery and resilience plans<sup>1</sup>

2021 is a crucial year for the future of gas in Europe. Gas issues are high on the agenda of the European institutions, as some of the most important files currently being negotiated address fossil fuels: the Taxonomy Regulation for sustainable activities, the Trans-European Networks for Energy (TEN-E) Regulation, the revision of the Renewable Energy Directive (REDII) and the revision of the Gas Market Regulation. Indeed, all of these regulations have generated controversy over the role they envision for gas, since these regulations are essential to reach the objectives of the European Green Deal, including climate neutrality by 2050 and the reduction of greenhouse gas emissions by at least 55 per cent by 2030. Nevertheless, it seems that much still needs to be done to phase out fossil gas in the EU.

The latest report<sup>2</sup> published by the International Energy Agency (IEA) earlier this week killed the idea of fossil gas as a transitional fuel, calling for an immediate end to investments in the extraction of fossil fuels and a rapid decrease in their usage, if the goals of zero-net emissions by 2050 and limiting global warming to 1.5 °C are to be achieved. In this report, the IEA states that it is necessary to start turning the world's energy system from one dominated by fossil fuels into a future 'powered predominately by renewable energy like solar and wind'. Nevertheless, the existing division on the topic among EU Member States shows how difficult it will be to go in this direction. This is further proved by an analysis of the national recovery and resilience plans that European countries are in the process of submitting to the European Commission.

One relevant reason for concern regarding gas is related to the clear division that exists when it comes to financing fossil fuel projects. The bulk of European countries are still determined to ensure the EU bankrolls their gas projects, while a smaller portion of Member States has taken measures towards a fossil fuel-free Europe. This clash has recently become evident in the context of the revision of the TEN-E Regulation. In February, nine Member States submitted a joint position asking for the reintroduction of fossil gas in the revised TEN-E Regulation<sup>3</sup>, and in May 2021, 11 Member States (including Latvia and Estonia from central and eastern Europe (CEE)) signed a letter sent to the Commission demanding the exclusion of fossil fuel from the Projects of Common Interest (PCIs), a list of projects to be financed through public European funds<sup>4</sup>. The most recent version of the candidate projects for the fifth PCI list comprised 74 fossil gas projects eligible to receive European funds and thus represents a major obstacle to climate goals.

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<sup>1</sup> This briefing was prepared by [Francesca Canali](#), Sustainable Finance Policy Support, CEE Bankwatch Network.

<sup>2</sup> International Energy Agency, [Net Zero by 2050 - A Roadmap for the Global Energy Sector](#), *International Energy Agency*, May 2021.

<sup>3</sup> Joint comments from BG, CY, CZ, EL, HU, MT, PL, RO, SK on the inclusion of natural gas in the revised TEN-E Regulation, February 2021.

<sup>4</sup> Sanchez Nicolas Lena, [11 EU states want to cut fossil-fuels from cross-border projects](#), *EU Observer*, 7 May 2021.

## Recovery and resilience plans

According to the requirements of the Recovery and Resilience Facility (RRF), countries have to dedicate at least 37 per cent of their budget from the Facility to climate and must respect the ‘do no significant harm’ principle, as outlined by the Commission in the Technical guidance published in February<sup>5</sup>. A more careful analysis of the plans, however, confirms that several EU states have not given up on gas yet, and have instead proposed projects that will expand the gas industry and infrastructure. Clearly, this challenges the credibility of the EU’s climate objectives.

The assessment of the recovery plans of eight central and eastern European countries (Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Poland, Romania and Slovakia) reveals that most contain gas investments. For example, in the Czech Republic<sup>6</sup> fossil gas is foreseen as a potential replacement for coal. In Poland<sup>7</sup>, fossil gas is also included in the recovery plan, leaving room for potential lock-in at the systematic level. As for Romania,<sup>8</sup> the government has proposed new investments for the expansion of the gas infrastructure, despite the Commission’s recommendation that the country focus on alternative measures such as the development of renewables. In Bulgaria, the government has planned to provide 91 per cent of the support required to implement gas infrastructure in coal regions from RRF grants. Estonia and Latvia, by contrast, do not plan to use the recovery funds to support gas projects. In Hungary<sup>9</sup>, while our assessment of an earlier draft of the plan revealed indirect and hidden support to fossil fuels, these elements have completely been eliminated from the final plan submitted mid May.

*Our table below provides an insight into the main gas projects that have been proposed for financing by the RRF.*

## Loopholes in the RRF Regulation and in the ‘Do no significant harm’ guidance

Although Member States are required to ensure the compliance of each measure proposed in their plans with the ‘do no significant harm’ principle, loopholes in the RRF Regulation and in the ‘Do no significant harm’ guidance have made it possible for the Facility to support harmful projects as well.

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<sup>5</sup> European Commission, [Technical guidance on the application of “do no significant harm” under the Recovery and Resilience Facility Regulation](#), *Official Journal*, February 2021.

<sup>6</sup> Šimon Batík, [Assessment of the Czech Republic recovery and resilience plan](#), *CEE Bankwatch Network*, May 2021.

<sup>7</sup> Francesca Canali and Rafał Rykowski, [Assessment of the Polish recovery and resilience plan](#), *CEE Bankwatch Network*, April 2021.

<sup>8</sup> Laura Nazare, [Assessment of the Polish recovery and resilience plan](#), *CEE Bankwatch Network*, April 2021.

<sup>9</sup> Alexa Botar and Teodóra Dönsz-Kovács, [Assessment of the Hungarian recovery and resilience plan](#), *CEE Bankwatch Network*, April 2021.

Annex 1 to the RRF Regulation<sup>10</sup>, which addresses the climate tracking methodology, specifies only two types of gas related investments that countries cannot count towards their climate spending targets. The ‘*Replacement of coal-based heating systems by gas-based heating systems for climate mitigation purposes*’ (034bis1) and ‘*Distribution and transport of natural gas substituting coal*’ (034bis2) cannot be considered measures that contribute to climate change mitigation and adaptation objectives. The ‘Do no significant harm’ guidelines specify that ‘support could be given exceptionally on a **case-by-case basis**’ (emphasis added). However, most of the countries surveyed in CEE did not respect these requirements in the Regulation and the Guidelines. This led to the reveal of a clear mismatch: some of the gas projects in the CEE countries’ plans are considered as contributing 100 per cent to the climate target. The type of direct or indirect support for gas requested in many of the plans even goes beyond the exceptional support for the replacement of coal based heating systems. The following examples are all projects that allegedly support climate change mitigation while in fact representing a major threat to decarbonisation.

### 1) Gas boilers (the Czech Republic, Slovakia, Poland)

Investments in fossil gas boilers are one of the controversial measures proposed by several Member States, including the Czech Republic and Slovakia. On the one hand, the Czech government has promoted gas boilers within component 2.5 of the plan (‘Buildings renovation and air protection’) as a substitute for small heating units powered by solid fuels. According to the Czech plan, the expected distribution of the newly installed heat sources will be 30 per cent for natural gas, 60 per cent for biomass and 10 per cent for heat pumps. Solid fossil fuels are not supported under the measure for boiler subsidies, and natural gas (via a measure supporting the installation of efficient gas condensing boilers) is the only currently supported fossil fuel. Moreover, the expected lifespan of these boilers is about 15 to 20 years, thus increasing the risk that they could become stranded assets. On the other hand, Slovakia plans to allocate approximately EUR 50 million for gas boilers in its recovery plan. This measure was initially thought to be a way to address energy poverty in the country; however, the data coming from Slovak agencies show that fossil gas is actually the most expensive fuel source compared to wood and heat pumps. Considering that Slovakia has one of the worst ratios of energy-related spending to individual income in the EU, the government should opt for more sustainable solutions rather than invest in gas boilers. This was indeed the request of NGOs at the national level, who advocated for the removal of gas boilers and supported investments in renewable energy sources (RES). In Poland, the funding for the Clean Air programme was increased in the last version of the recovery plan.

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<sup>10</sup> [Regulation \(EU\) 2021/241 of the European Parliament and of the Council establishing the Recovery and Resilience Facility](#), *Official Journal*, 12 February 2021.

Nevertheless, the loophole in the Annex to the Technical guidance on the ‘do no significant harm principle’<sup>11</sup> does not exclude the possibility to use the RRF to promote investments in gas boilers. The text states: ‘*Support for measures related to natural gas-based boilers and heating systems (and related distribution infrastructure) can exceptionally be given, on a **case-by-case basis***’ (emphasis added). This wording opens up three possible ways for countries to finance gas boilers, if they:

- Are in line with Article 7(2) of the Energy Labelling Framework Regulation (EU) 2017/1369 (1) or are being installed in buildings that are part of a wider energy efficiency or building renovation programme, in line with long-term renovation strategies under the Energy Performance of Buildings Directive;
- Lead to a significant decrease in greenhouse gas emissions; or
- Lead to a significant improvement of the environment (notably due to pollution reductions) and public health, in particular in areas where there is a risk that the EU air quality standards set by Directive 2008/50/EU will not be respected, such as when replacing coal- or oil-based heating systems and boilers.

Consequently, the Technical guidance on the ‘do no significant harm’ principle does not prevent Member States from including fossil gas boilers in their recovery plans and ultimately undermines the overall climate targets. The exclusion of such measures would have worked if other criteria had been considered. For instance:

- **Stranded assets assessment:** Given that the lifespan of these boilers is about 15 to 20 years, we perceive them as being at increased risk of becoming stranded assets. Current expectations for natural gas infrastructure funding should be further defined to make it exceptional, in limited cases, provided it does not exacerbate dependence on fossil fuels or generate substantial greenhouse gas emissions over its entire life cycle.
- **Added value of public support (grants) / supporting a long-term-solution:** Gas boilers should not be supported by non-refundable grants, because this only creates a false sustainability discourse among the population. As shown by the data from the Slovak agencies, fossil gas is the most expensive possible source in the long-term (it costs more than heat pumps and wood on a 20-year cost trajectory) and EU funds’ support should differentiate between zero-emission sources and gas projects.
- **Transformative effect:** In our opinion, the grants should be primarily allocated to the most transformative measures and those that are harder to address with market instruments, such as measures that combat energy poverty or build a system that enables deep renovation, heat pumps, and heating based on RES in a coordinated manner that is also accessible for larger segments of society and opens opportunities for new forms of ownership of energy production.

## 2) Gas pipeline (Bulgaria)

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<sup>11</sup> European Commission, [Technical guidance on the application of ‘do no significant harm’ under the Recovery and Resilience Facility Regulation](#), *Official Journal*, February 2021.

Another major issue in the Bulgarian recovery plan is the following measure: *‘the diversification of sources and routes of natural gas supply; modernisation and expansion of the gas transmission infrastructure and overcoming dependence on energy imports through the use of local resources (including coal)’*. This measure will fund a Bulgartansgaz gas pipeline project with a total of EUR 244 million: 91 of this will come from the RRF and 9 per cent from Bulgartansgaz’s own contribution. According to the Bulgarian government, this measure is compliant with the ‘do no significant harm’ principle and is classified as making a 100 per cent contribution to the climate spending target.

The project aims to phase out the use of coal for electricity generation and to gradually replace coal in power plants with ‘low-carbon’ gases – biogas and hydrogen, blended at different ratios with fossil gas. The 175 kilometre-long gas pipelines are supposed to transport ‘low-carbon’ gases primarily to coal-based thermal power plants in the coal-dependent regions of Maritsa East and Bobov dol. The gas pipelines would also allow for the ‘gasification’ of four coal thermal power plants. Instead of supplying low-carbon gaseous fuels, the project will actually bring about a coal-to-gas transition, which would increase the fossil gas dependency of the region and leave households and other industrial and administrative consumers stuck with fossil gas bills for years. This would not be in line with the climate targets of the Paris Agreement, and will further create stranded assets, lock Bulgaria into fossil gas dependency, and make decarbonisation goals unachievable. For these reasons, the project should be excluded from the recovery plan and the European funds should be directed towards other sustainable resources, investing in innovation and the development of renewable energy solutions.

### **3) District heating (the Czech Republic)**

District heating is another dangerous issue in the CEE region. The Czech recovery plan allocates EUR 64 million to the modernisation of district heating distribution networks within component 2.3 (*‘Transformation of industry and transition towards cleaner energy sources’*) of its recovery plan. This measure is counted as a 100 per cent contribution to the climate spending target because the country needs more efficient pipelines for district heating. The plan says: *‘this component is fully in line with the energy politics of the European Union, whose goal is a reduction of emissions by 40 per cent by 2030’*. However, this goal is already outdated.

The plan further details that: *‘For the stabilisation and development of district heating, it will be crucial for thermal energy supply systems that currently use coal to ensure the transition to another (less emission intensive) fuel (biomass, waste or natural gas by 2038 at the latest by the Coal Commission recommendation)’*. This is the case for 45 heat plants. Between 2021 and 2030, the fuel sources used in these plants should be switched from coal to biomass, waste or gas.

The paradox lies in the fact that the plan is considered to support a 100 per cent contribution to the climate spending target, while actually contributing to an obsolete plan for district heating modernisation. The most controversial part of the coal to gas switch will be financed by the Modernisation Fund instead. Although more efficient district heating networks are needed, at the moment there is an even greater need for a clear plan for switching the district heating system to one based on renewable sources in combination with demand management measures. This is the only way to ensure that the Czech Republic's heating reforms are in line with the EU's 55 per cent climate target for 2030 and long-term climate neutrality goal.

#### **4) The transport sector (the Czech Republic)**

Although in some cases CEE countries have positively moved towards electric vehicles, there remain a number of measures that support problematic investments. This is the case in the Czech Republic, where hybrid buses, not in line with the 'do no significant harm' principle, are being promoted. In Hungary, only the reform regarding the legislative environment for vehicles run on alternative fuels mentions that this reform is supposed to serve the transition to a hydrogen-based economy. There are, however, no financial resources from the RRF allocated to this reform.

#### **5) Hydrogen (Bulgaria, Poland, Romania)**

Hydrogen is given significant importance in the Bulgarian, Romanian and Polish plans, with respectively EUR 60 million, EUR 600 million and EUR 797 million allocated towards its development. The Bulgarian plan foresees a scenario where by 2024, five to six times more capacity for hydrogen will be built through electrolysis. However, what remains unclear is the means used for the production of hydrogen: neither plan specifies whether it will be produced from gas or from renewables. Hydrogen can only be considered sustainable if produced through renewable energy sources. Hydrogen produced through electrolysis is only as green as the electricity powering its production<sup>12</sup>. The paradox is that the Bulgaria National Energy and Climate Plan (NECP) considers slowing the installation of RES capacity by 2030. The NECP's plan for increasing RES in Bulgaria's total final energy consumption from 16 per cent in 2020 to 25 per cent in 2030 would be positive, if not for the fact that in 2016 Bulgaria had already reached 18.8 per cent RES in final energy consumption. The increase is only planned in the field of renewable heat, while electricity production from RES would stay almost unchanged. Increasing the production of hydrogen in the recovery plan is only compatible with a massive expansion of the RES potential, and that seems not to be the case in the CEE region.

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<sup>12</sup> E3G, [Hydrogen Fact Sheet Supply](#), E3G, 7 April 2021.

## **Conclusion**

These proposals in favour of expanding the role of gas in the EU clearly do not comply with the objectives of the European Green Deal, nor with the IEA's recent call for the immediate end to financing fossil fuel projects. The EU taxonomy for sustainable activities and the TEN-E Regulation are still being negotiated in the European institutions, and recovery plans are currently being assessed by the European Commission. If the ambitious yet necessary goals outlined in the RRF Regulation are to be applied, the Commission should be aware that public European funds cannot be spent to finance harmful projects such as gas boilers or gas-fuelled buses, as the consequences for the long-term climate impact would be extreme.

## Gas proposals in the recovery and resilience plans

Country	Measure	Description	Direct or indirect contribution	Estimated cost (EUR)	Climate contribution in the plan
BG	<b><i>Diversification of sources and routes of natural gas supply; modernisation and expansion of the gas transmission infrastructure and overcoming dependence on energy imports through the use of local resources (including coal)</i></b>	Gas pipeline project of Bulgartransgaz to connect one of the main coal regions with gas supply	Total project cost: EUR 244 million. Direct contribution: 91% RRP support, 9% own contribution.	<b>EUR 222 million</b>	<b>100%</b>
BG	<b><i>Pilot projects green hydrogen and biogas</i></b>	It is expected that by 2024, five to six times more capacity for hydrogen will be built (through electrolysis)	Total project cost: EUR 120 million with RRF contribution 50%. Possible direct contribution – it is not clear from what sources the hydrogen will be produced.	<b>EUR 60 million</b>	<b>100%</b>
CZ	<b><i>Modernisation of district heating distribution networks</i></b>	RRF finances distribution infrastructure, while Modernisation Fund finances district heating renovation (switch from coal to gas, waste or biomass)		<b>EUR 64 million</b>	<b>100%</b>



<b>CZ</b>	<b><i>Replacement of unsatisfactory combustion heat sources with expected energy savings</i></b>	The expected distribution of the newly installed heat sources is 30% for natural gas, 60% for biomass and 10% for heat pumps		<b>EUR 330 million</b>	
<b>PL</b>	<b><i>Investments and reforms for hydrogen</i></b>	Not specified whether the hydrogen will be produced from fossil fuels or from RES; therefore, not possible to assess the compliance with the ‘do no significant harm’ principle		<b>EUR 797 million</b>	<b>100%</b>
<b>PL</b>	<b><i>Increasing use of natural gas for household heating, energy generation and in public transport</i></b>	Natural gas is considered an unavoidable ‘bridge fuel’ needed for transitioning from coal to RES. However, the risk of consolidating the role of natural gas in the Polish energy grid is likely to mean that it will be more than just a ‘bridge fuel’			
<b>RO</b>	<b><i>Expansion of the fossil gas infrastructure and its adaptation for hydrogen and other ‘green gases’</i></b>	Modernisation and adaptation of existing natural gas transmission and distribution infrastructures for the use of hydrogen and other green gases in order to decarbonise heating in the household and non-household	Direct contribution	<b>EUR 600 million</b>	<b>Not specified</b>

		consumers sector, economic operators as well as other categories of beneficiaries			
<b>SK</b>	<b><i>Improving the energy performance of family houses</i></b>	Investment package for improving the energy efficiency of 30,000 family houses, and restoration of public buildings in Slovakia - replacement of coal- / oil-based heating systems and outdated gas boilers with gas condensing boilers	Direct contribution	<b>EUR 50 million for family houses</b>	<b>Not specified</b>
<b>SK</b>	<b><i>Restoration of public buildings and construction of new public buildings - hospitals, schools, kindergartens, courts etc.</i></b>	Replacement of coal- / oil-based heating systems and outdated gas boilers with gas condensing boilers	Direct contribution	<b>Not disclosed</b>	<b>Not specified</b>