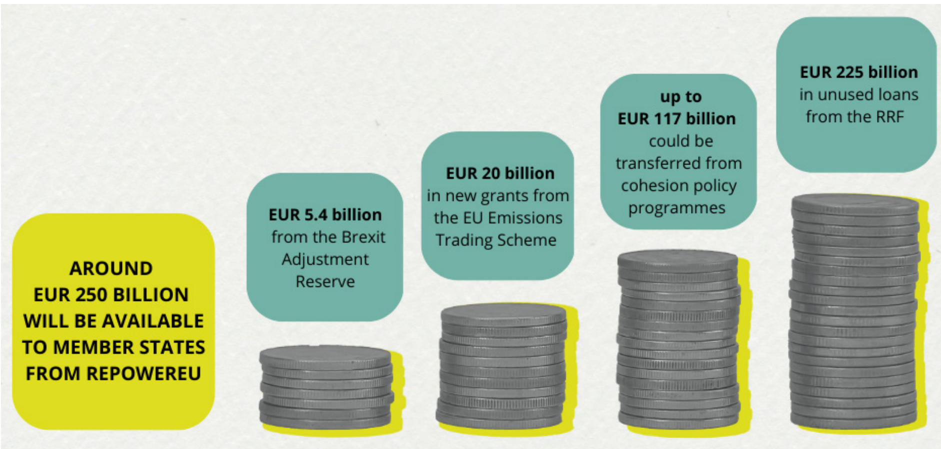
REPowerEU – a new opportunity to finance energy transformation

REPowerEU Chapters Factsheet

This factsheet shows how the REPowerEU strategy can provide a new opportunity for the EU to move away from fossil fuels and support clean, sustainable energy for its citizens. It explains the actions that Member States should take if they choose to include a dedicated REPowerEU chapter in their recovery and resilience plans. But it also highlights the risks of deviating from EU climate objectives if new investments under the chapters are not carefully considered in consultation with the public.

What is REPowerEU?

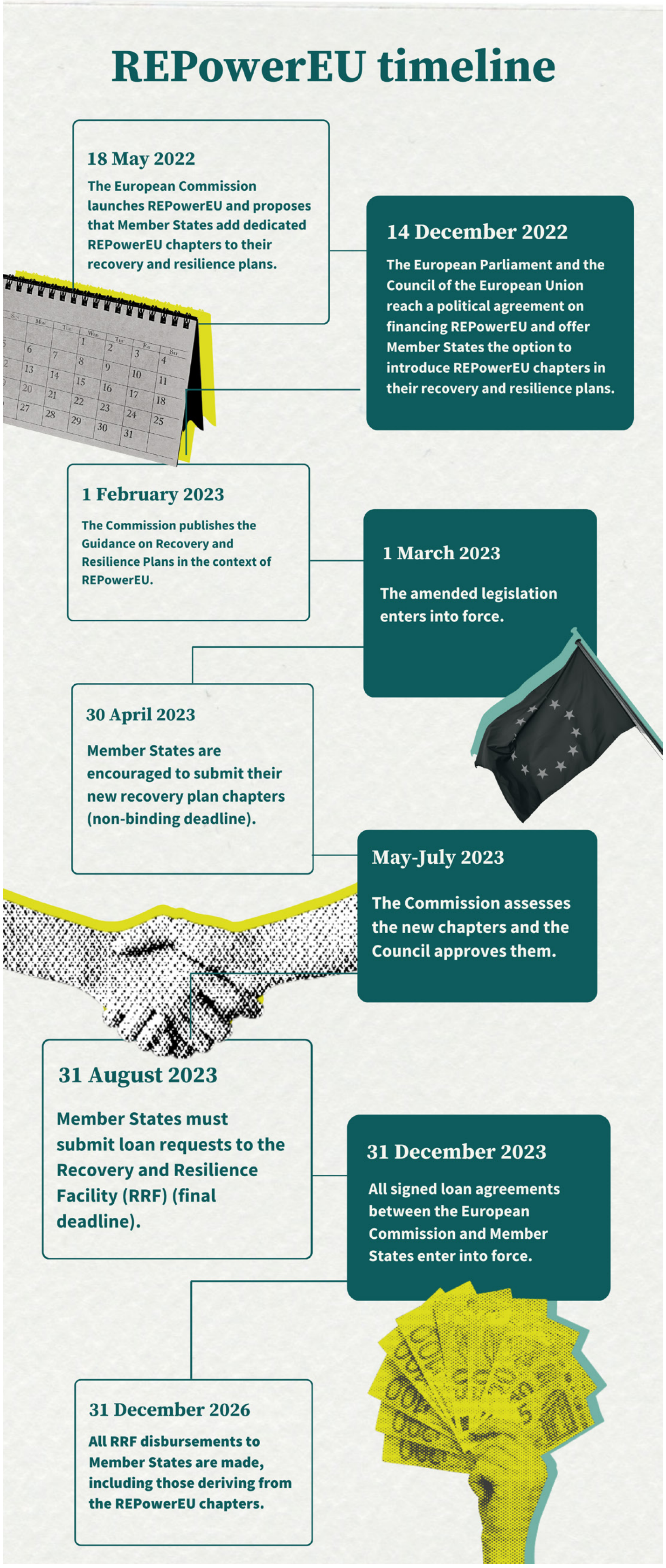
Adopted in response to Russia's invasion of Ukraine, REPowerEU is the EU's strategy to end dependency on fossil fuel imports from Russia. The plan's objectives are to diversify energy supplies, increase energy efficiency and accelerate the adoption of renewable energy sources. To support the required investments, and following an inter-institutional agreement in December 2022, Member States can request additional funding by submitting REPowerEU chapters to the European Commission to finance specific measures. EU funds (see the graph below) are available to support businesses, households and the critical infrastructure necessary for a secure energy transition.



What awaits Member States as they amend their recovery plans?

Two years after the Recovery and Resilience Facility (RRF) came into force, the implementation of recovery and resilience plans has just begun for some Member States. Now, these plans will be reopened for further amendments. This will enable Member States to add new measures and remove or modify existing ones.

As a result, Member States are about to make new investment decisions that will impact the EU's climate and socio-economic policies. All changes and new measures must be approved by 31 August 2023, which is the legal deadline for requesting loans under the RRF regulation. Before then, the European Commission must assess these plans and the Council of the European Union must approve them – a process that is likely to take some time. Therefore, Member States are strongly encouraged to submit their recovery plan chapters by 30 April 2023.



What type of measures and investments will REPowerEU support?

The modified plans still need to contribute to the broad RRF goals of 'green transition', 'digital transformation' and 'smart, sustainable and inclusive growth', as well as dedicate a 37 per cent share of funds for climate action. Yet, they must also address the objectives set out in the REPowerEU plan and the recent Green Deal Industrial Plan for the Net-Zero Age, which aims to improve the competitiveness of clean technology industries.

Fuelled by the energy crisis and high inflation, this process will mostly affect energy measures. But it may also lead Member States to channel funds into a variety of other areas. That's why all funding must be scrutinised to ensure it benefits citizens and protects the environment.

What could go wrong?

Due to the speedy timeline and highly technical process, Member States risk making decisions that will negatively impact climate goals.

Over-investment in fossil fuel supply. Member States are now allowed to earmark funding for infrastructure development that improves security of supply needs, which may mean financing fossil fuels, particularly gas. This is possible due to a derogation from the principle of 'do no significant harm', an environmental safeguard incorporated within the RRF to ensure that no investments harm the climate or the environment. Now, this principle has been lifted for gas infrastructure in all Member States and even for oil facilities in three countries: the Czech Republic, Hungary and Slovakia. Member States will have to demonstrate that these investments are urgently needed, and this will be assessed by the European Commission – but up to 30 per cent of the national envelope can be channelled towards fossil fuels.

Fossil fuel consumption subsidies. Given the economic situation caused by inflation and high energy prices, and to ensure funds are spent quickly, large subsidies can be channelled into projects and schemes, which have been eligible for funding since 2022, to alleviate the cost-of-living crisis. This indirectly supports fossil fuel consumption without addressing decarbonisation or energy-saving needs. The trend is evidenced in a 2022 report by the International Energy Agency, which reveals that EUR 330 billion was spent in Europe on subsidies for energy consumption, while major oil companies doubled their profits during the same period.

Limited democratic control and lack of trust in the transition. The national recovery and resilience plans were not developed with the involvement of relevant stakeholders, particularly civil society organisations, and the same is likely to occur with the REPowerEU chapters. The rules only require Member States to demonstrate how they consulted with stakeholders, rather than outlining clear requirements on what steps to take to engage with them in a meaningful manner.

Possible rollback of positive measures. Implementing the recovery and resilience plans in many countries has proved difficult, leading to milestones and targets being missed. As a result, the European Commission has blocked further disbursements in certain countries. Under pressure to amend their plans, some Member States may be willing to remove previously negotiated positive investments and reforms.

Recommendations

Even though the process will steam ahead, Member States still have the chance to focus on a more citizen-led energy transition by adding optional chapters to their recovery plans. Member States are required to involve all relevant stakeholders, including the public, in the preparation and submission process of their REPowerEU chapters. To that end, they should conduct public consultations and engage with civil society organisations, industry representatives and other relevant stakeholders to ensure long-term support and proper implementation of investments.

Member States must include measures in their REPowerEU chapters to mitigate the long-term consequences of the energy crisis. They should focus on ramping up energy-saving measures and decarbonising their economies. This can be achieved by creating better schemes to renovate buildings and implement renewable heating systems for vulnerable households. Additionally, Member States should support a decentralised energy system by funding and promoting energy communities, as well as building and renovating the public transport system. By doing this in a just and fair way, countries can increase support for vulnerable households and address energy poverty.

ANNEX

How are countries progressing?

Bulgaria: The caretaker government has proposed to make the reforms and investments in the green energy transition section of Bulgaria's recovery and resilience plan less ambitious. Instead of achieving a 40 per cent greenhouse gas reduction milestone by 2026, the government is proposing to extend the lifetime of coal power plants without restrictions until 2038. Worryingly, these new measures have been taken without consulting civil society or experts. To accelerate energy transition in Bulgaria, enforcement of the 2018 Renewable Energy Directive is urgently needed in order to increase decentralised and community-led renewable energy production. Special energy efficiency programmes should also be implemented to tackle energy poverty and air quality issues, which are among the worst in Europe.

Czech Republic: Authorities plan on using REPowerEU grants and, possibly, new loans to support various energy investments. However, these include harmful fossil fuel projects like the expansion of the Transalpine Pipeline. Instead of using public money for projects that increase greenhouse gas emissions, the Czech government should focus on implementing measures that decarbonise the energy system with the support of a citizen-led transition. This can be achieved by making it more feasible for vulnerable households to switch from gas boilers to heat pumps, increasing the allocation for energy communities, and developing energy counselling for municipalities.

Estonia: The government submitted a request on 9 March 2023 to amend its initial recovery plan by removing non-energy transition-related measures and increasing support for existing schemes. This involves allocating more funds for the reconstruction of individual houses, grid investments and distribution networks, along with the acceleration of wind energy deployment. Although these steps are positive in principle, it is concerning that civil society organisations were not involved in preparing the REPowerEU chapter to ensure compliance with the EU's environmental regulations for the proposed measures.

Hungary: The government plans to request the loan component of the RRF, but there has been no official information about its content or any public consultation with stakeholders. According to media reports, the government intends to invest in energy production, which will see it expand lignite-based electricity generation and develop numerous power plants focused on gas, biogas, biomass and waste incineration. The government is also expected to partner with Serbia on joint hydropower development and has expressed support for investments in battery production. In contrast, the focus should be on reducing current energy demand and providing broad support tailored to the specific needs of target groups and regions, especially those most dependent on Russian gas. Additionally, specific investments that increase support for building refurbishments and promote prosumerism are required.

Italy: The Italian government is consulting with major energy companies behind closed doors on the REPowerEU chapter, and only recently started meeting with regional and local authorities. Civil society and citizens have been completely excluded from the process, as evidenced by the last legislative decree on the recovery plan, which abolishes the Permanent Round Table Partnership. This had been the only space for civil society organisations to participate, albeit in an advisory role. Newspapers report that the government is also considering including the Trans Adriatic Pipeline in its chapter at an estimated cost of EUR 2.4 billion. As a matter of urgency, Italy needs to focus on decarbonising all sectors and spreading renewable energy to combat energy poverty, support small and medium-sized enterprises and households, and break free from fossil fuels.

Latvia: Little information is available on the preparation of the REPowerEU chapter for Latvia. But any additional funds and loan withdrawals should be used primarily for energy efficiency measures that reduce energy consumption in a socially just way. To meet this goal, building renovation programmes must be accelerated, upgraded and diversified. In addition, other measures that promote the transition to electrification, such as modernising the electric grid and supporting the promotion of electric vehicles and energy communities, are of pressing need and will most likely be included among the investments.

Poland: There has been no consultation or involvement of a monitoring committee in preparing the REPowerEU chapter to date. However, according to unofficial information, the government is considering modernising the energy grid in rural areas and supporting the development of biogas production. Some fossil gas investments are also being discussed. While investing in grid development and small-scale biogas production is needed, efforts should be made to increase the integration of renewables and decentralise the energy system. The revision of the recovery plan provides for streamlining the deployment of citizen-led energy generation and further support for energy communities. However, the building sector would strongly benefit from amendments to the Clean Air Programme to assist households trapped in energy poverty.

Romania: Although the government is preparing a REPowerEU chapter, only sparse information is available and civil society has not been involved in the process. In December 2022, the government issued an emergency decree allowing nine controversial hydropower projects to proceed without environmental impact assessments, with the intention of using recovery funds to implement them. Recently, the government developed a new and more detailed list of investments and reforms planned under the REPowerEU chapter. It includes proposals to accelerate the deployment of renewable energy in residential buildings, increase the overall installed capacity of renewable energy sources (solar), strengthen the energy independence of communities, modernise and digitalise the national electricity transmission network and create training programmes for the workforce in the green energy field. Unfortunately, the new list also contains investments in new fossil gas distribution systems and still allows for investments in hydropower projects. Instead of increasing fossil fuel dependency and investing in projects that pose environmental risks, the government should prioritise investments that support vulnerable consumers in improving their household energy efficiency, the development of energy communities, and the efficient integration of new renewable energy capacities.

Slovakia: Preparation of the REPowerEU chapter and amendment of the recovery plan are needed to form a national strategy that phases out fossil fuels and makes the necessary reforms and investments to accelerate energy transition. Additionally, reforming the regulatory framework to enable the deployment of energy communities and increasing the integration of renewables into the system are important steps towards phasing out fossil fuels. Finally, adapting building renovation schemes to fit the needs of socially vulnerable households and ending support for fossil gas boilers will be essential for achieving climate targets and improving public health. It is crucial that civil society is involved in the preparation and implementation of these measures to ensure that they are not only equitable and effective, but also meet the needs of all stakeholders.

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