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Energy insecurity:

EU funds for fossil gas in Poland and Romania contradict climate goals

Introduction

Authors
Gligor Radečić / Krzysztof Mrozek / Raluca Petcu

The EU's dependence on fossil gas imports is a significant liability for its energy security. This reality has become even more evident with Russia's weaponisation of fossil fuel exports, primarily fossil gas, which has driven energy prices to record levels in Europe. According to an analysis by think tank Bruegel, EU countries have earmarked or allocated almost EUR 650 billion to shield consumers from rising energy costs since September 2021.[1] Yet since 2022, the EU has witnessed a decline in gas consumption and a realisation that its existing fossil gas import capacity is sufficient to meet its needs. Eurostat states that EU fossil gas consumption has dropped by 17.7 per cent from August 2022 to March 2023 (compared with the average gas consumption for the same months between 2017 and 2022).[2] Although the fear that the EU was overly dependent on gas from Russia has been debunked,[3] Europe has continued its dash for new import infrastructure.[4]

Fossil gas is among the leading sources of polluting emissions in the EU due to CO_2 emissions from combustion as well as methane emissions that occur along the whole gas supply chain, from extraction to final use.[5] When methane emissions are considered, fossil gas has a similar impact on climate change as coal.[6]

The latest Intergovernmental Panel on Climate Change (IPCC) report reiterates the IPCC's previous conclusions that there is simply no room for new fossil fuel infrastructure globally, as the projected CO_2 emissions from existing fossil fuel infrastructure, without additional abatement, would result in a more than 1.5°C temperature increase by the end of the century.[7] According to the IPCC, all global modelled pathways that limit warming to 1.5°C with no or limited overshoot, 'involve rapid and deep and, in most cases, immediate greenhouse gas emissions reductions in all sectors this decade'.[8]

The EU has adopted an ambitious climate policy, guided by the European Climate Law, 'Fit for 55' Package and REPowerEU. According to think tank E3G, EU fossil gas demand could be slashed by 52 per cent by 2030 (compared to 2019) if the REPowerEU plan is implemented.[9]

On the other hand, new gas projects, if approved today, will continue to operate well past 2050, releasing harmful pollutant emissions. Despite this, some EU Member States and the gas industry are trying to justify their plans to expand fossil gas infrastructure as being compatible with climate goals, based on the wishful claim that the infrastructure can be easily converted to supply hydrogen in the future.[10]

Poland and Romania are among them. Both rely heavily on fossil gas for their 'decarbonisation' plans and take strongly pro-gas stances at the EU level; in both cases, EU funding plays a critical role in the countries' infrastructure investments, as both have been amongst the largest net recipients of EU funding in recent years.[11]

The cohesion policy is the EU's main investment policy, providing funding equivalent to 8.5 per cent of government capital investment in the EU.[12] In Poland and Romania, the share of cohesion policy funding in public investments is much higher than the EU Member States' average: 60 per cent in Poland and approximately 45 per cent in Romania.[13]

This report provides information on EU public funding for fossil gas in Poland and Romania since 2014, to illustrate the key role such funding plays in supporting fossil gas infrastructure in these two countries.

It includes data from the previous (2014 to 2020) and current (2021 to 2027) iterations of the EU's long-term budget, the Multiannual Financial Framework (MFF). It also provides information on fossil gas financing from other EU programmes and funds: the Recovery and Resilience Facility (RRF), its associated national recovery plans (including the REPowerEU national chapters) and the Modernisation Fund (MF).[14]

The findings show that although the EU has put some restrictions on fossil gas financing in the current period, in Poland and Romania, EU funding for fossil gas has actually increased, rather than decreased.

These examples show how allocations for fossil gas under existing EU programmes and funds are not compatible with the EU climate and energy transition agenda and, as such, require urgent revision.

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1 Giovanni Sgaravatti, Simone Tagliapietra, Cecilia Trasi and Georg Zachmann, 'National fiscal policy responses to the energy crisis', *Bruegel*, 24 March 2023.

2 Eurostat, EU gas consumption decreased by 17.7%, *Eurostat*, 2023.

3 Artelys, Does phasing-out Russian gas require new gas infrastructure?, *Artelys*, 2023.

4 Greig Aitken, EU plans to double LNG import capacity at odds with climate targets, *Global Energy Monitor,* December 2022.

5 Grace Alster, Gas power plants now Europe's top power sector emitter, *Ember*, 2021.

6 Ramon A. Alvarez et al., 'Assessment of methane emissions from the U.S. oil and gas supply chain', *Science*, 21 June 2018.

7 IPCC, AR6 Synthesis Report: Summary for Policymakers Headline Statements, *IPCC*, 2023.

8 Ibid.

9 Rheanna Johnston, Matthew Jones, Lisa Fischer, Raphael Hanoteaux, Repowering towards EU gas demand reduction, *E3G*, 2022.

10 Although renewable hydrogen is set to play some role, it will be limited: the significant quantities of renewables needed for hydrogen production through electrolysis will be difficult to secure, and direct electrification remains much more efficient for end-use consumption. As a result, renewable hydrogen will most likely be used to replace existing hydrogen production that is almost entirely based on fossil fuels, considering that more than 99 per cent of hydrogen production in 2021 was derived from fossil fuels like gas and coal. It is also expected to support hard-to-abate niche sectors such as steel and chemical production, which are currently driven by fossil fuels. For hydrogen production overview see IEA, Global Hydrogen Review 2022, *IEA*, 71, 2023.

11 Berthold Busch, Björn Kauder and Samina Sultan, Who finances the EU?: Net contributors and net recipients in the EU, Busch IW-Report, no. 55, *German Economic Institute*, 2022.

12 European Commission, % of cohesion policy funding in public investment per Member State, *Cohesiondata*, 2023.

13 Ibid.

14 This report does not include information about fossil gas eligibility measures supported by InvestEU (previously the European Fund for Strategic Investments), Horizon Europe (previously Horizon 2020) or the Innovation Fund.

Fossil gas eligibility under different EU programmes and funds

Table 1. Fossil gas eligibility under different EU programmes and funds

PROGRAMME OR FUND			FOSSIL GAS ELIGIBILITY BY TYPE			
			Transmission networks	Distribution networks	Gas-fired heating systems (excluding power plants)	Gas-fired power plants
	EU budget 2021 to 2027	Cohesion policy funds (European Regional Development Fund & Cohesion Fund)	ELIGIBLE	ELIGIBLE	ELIGIBLE	ELIGIBLE
		Connecting Europe Facility	ELIGIBLE	NOT ELIGIBLE	NOT ELIGIBLE	NOT ELIGIBLE
	RRF		ELIGIBLE	ELIGIBLE	ELIGIBLE	ELIGIBLE
	REPowerEU		ELIGIBLE	NOT CLEAR	NOT CLEAR	NOT CLEAR
	Modernisation Fund		ELIGIBLE	ELIGIBLE	ELIGIBLE	ELIGIBLE

Fossil gas investments are – despite the ongoing climate emergency – still eligible under several EU programmes and funds. They are permitted in the EU's long-term budget, which runs from 2021 to 2027 and includes the EU's cohesion policy funds and the **Connecting Europe Facility**, as well as temporary recovery instruments such as the **RRF, REPowerEU** and the **Modernisation Fund** (the latter of which is funded by revenues auctioned from EU Emissions Trading System (EU ETS) allowances for CO_2 emissions). Depending on the fund or programme in question, fossil gas investments in transmission and distribution networks, heating systems, power generation and transport can be granted eligibility (once certain conditions are met).

Two of the cohesion policy funds – the **European Regional Development Fund (ERDF)** and the **Cohesion Fund** – permit investments in transmission and distribution networks, gas-fired heating systems and public transport vehicles; they exclude other fossil fuel investments.[15] Investments in transmission and distribution networks, including their expansion, are eligible if they incorporate 'renewable and low-carbon gases'.[16] Gas-fired heating systems are allowed provided they: replace solid fossil fuels and result in district heating and cooling systems being upgraded to the status of 'efficient district heating and cooling', as defined by the Energy Efficiency Directive (EED); result in combined heat and power (CHP) installations being upgraded to the status of 'high-efficiency cogeneration', as defined by the EED; or replace coal, peat, lignite or oil shale-based installations in 'housing and buildings'.[17]

[15] Regulation (EU) 2021/1058 of the European Parliament and of the Council of 24 June 2021 on the European Regional Development Fund and on the Cohesion Fund (OJ L 231 30.6.2021, p. 60), Article 7.

[16] Ibid.

[17] Ibid.

Under the **Connecting Europe Facility**, activities relating to projects of common interest (PCIs) are eligible for financing. PCIs are cross-border energy projects associated with electricity transmission and storage, offshore grids, hydrogen infrastructure, smart electricity grid deployment, smart gas grids and cross-border carbon dioxide networks. All PCIs are subject to streamlined permitting and regulatory procedures. The revised Trans-European Networks for Energy (TEN-E) regulation (2022) ended the PCI eligibility status for oil and fossil gas infrastructure projects and, consequently, their access to Connecting Europe Facility funding.[18] However, gas projects can still avail themselves of funding from this facility as long as they transport some amount of hydrogen.

According to the TEN-E regulation, 'During a transitional period until 31st December 2029, dedicated hydrogen assets converted from fossil gas can be used to transport or store a pre-defined blend of hydrogen with natural gas or biomethane. Selected projects must demonstrate how, by the end of this transitional period, these assets will cease to be fossil gas assets and become dedicated hydrogen assets'.[19] The process for the adoption of the sixth PCI list, the first without a dedicated fossil gas category, began in late 2022 and is expected to finish in late 2023. However, until the new PCI list is adopted by the Commission, the fifth and current PCI list, which includes 30 fossil gas projects eligible for funding from the Connecting Europe Facility, still applies.

Under the **RRF**, recovery and resilience plans can include investments in fossil gas transmission and distribution networks provided they enable the transport of 'renewable and low carbon gases'.[20] Also, fossil gas-based power and/or heating generation, including fossil gas boilers and fossil gas-based generation facilities in district heating and cooling systems, is eligible for financial support.[21]

According to the principle of 'do no significant harm' adopted in the RRF Regulation, measures included in recovery plans must not imperil any of the six environmental objectives specified in Article 17 of the EU Taxonomy Regulation.

Member States need to provide a 'do no significant harm' assessment for each reform and investment included in their recovery plans. According to the Commission's technical guidance on the application of 'do no significant harm', support to measures related to fossil gas can be deemed compatible with the climate change mitigation objective of the 'do no significant harm' principle based on specific conditions, such as higher emissions standards or the ability to transport or use what the EU calls 'renewable and low-carbon gases'. [22]

Fossil gas investments are also eligible under the REPowerEU plan, a recovery instrument designed to end the EU's dependency on Russian fossil fuels. An amendment to the RRF Regulation[23] allows investments that 'meet immediate security of supply needs for oil and gas, notably to enable diversification of supply', paving the way for infrastructure such as liquified fossil gas terminals, floating storage regasification units, gas pipelines and gas storage facilities. Measures aimed at developing oil infrastructure and facilities are allowed only for Hungary, the Czech Republic and Slovakia. Fossil gas investments included in **REPowerEU** chapters are exempted from applying the 'do no significant harm' principle, provided the following requirements are met: (a) 'the measure is necessary and proportionate to meet immediate security of supply needs… taking into account cleaner feasible alternatives and the risk of lock-in effects'; (b) 'the Member State concerned has undertaken satisfactory efforts to limit the potential harm to environmental objectives within the meaning of Article 17…, where feasible, and to mitigate the harm through other measures, including the measures in the REPowerEU chapter'; (c) 'the measure does not jeopardise the achievement of the Union's 2030 climate targets and the objective of EU climate neutrality by 2050, based on qualitative considerations'; and (d) 'the measure is planned to be in operation by 31 December 2026'.[24] To receive funds under the REPowerEU plan, Member States must prepare national REPowerEU chapters, include them in their recovery plans and explain how they intend to invest the funds.

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18 Regulation (EU) 2022/869 of the European Parliament and of the Council of 30 May 2022 on guidelines for trans-European energy infrastructure, amending Regulations (EC) No 715/2009, (EU) 2019/942 and (EU) 2019/943 and Directives 2009/73/EC and (EU) 2019/944, and repealing Regulation (EU) No 347/2013 (OJ L 152, 3.6.2022, p. 45–102), Article 4.

19 Ibid. , Article 31.

20 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021), Annex VI, 17–75.

21 Ibid.

22 Commission Notice Technical guidance on the application of 'do no significant harm' under the Recovery and Resilience Facility Regulation (2021/C 58/01), Annex III.

23 Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023 amending Regulation (EU) 2021/241 as regards REPowerEU chapters in recovery and resilience plans and amending Regulations (EU) No 1303/2013, (EU) 2021/1060 and (EU) 2021/1755, and Directive 2003/87/EC (OJ L 63, 28.2.2023), Article 21c, 1–27.

24 Ibid.

The **Modernisation Fund** is another important source of financing for energy infrastructure. Targeting 10 lower-income EU countries,[25] the Modernisation Fund also permits fossil gas. Most of the fossil gas investments are treated as non-priority investments that can receive only a small share of the fund's financial resources (less than 30 per cent). However, it is possible that some gas investments could be regarded as energy efficiency improvements and, therefore, priority investments. The current EU ETS Directive even permits financing for efficient and 'sustainable' district heating facilities that use solid fossil fuels.[26]

The revised EU ETS Directive is expected to enter into force in mid-May 2023. According to the text adopted by the European Parliament,[27] fossil gas is still allowed under 'investments involving gaseous fossil fuels'. Although it is still unclear how the new Modernisation Fund will operate in practice, certain downstream uses for gas may be treated as priority investments. These may include demand-side energy efficiency improvements to existing fossil gas CHPs and related projects that facilitate the use of hydrogen by existing gas networks. Most of the fossil gas investments, such as new 'high-efficiency' fossil gas CHPs, are expected to be deemed non-priority investments. The adopted text also adds conditions for accessing certain streams of EU ETS allowance revenues, such as making funding available only for a limited time, ensuring the compliance of investments with the EU Taxonomy's technical screening criteria,[28] and providing justification on energy security grounds.

Photo by Milan Trivić via Midjourney

[25] The Modernisation Fund beneficiary Member States are Bulgaria, Croatia, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia.

[26] Based on the wording and conditions of the current directive, this seems only to apply to Romania and Bulgaria. However, neither country has availed of the exemption.

[27] European Parliament, Position of the European Parliament adopted at first reading on 18 April 2023 with a view to the adoption of Directive (EU) 2023/... of the European Parliament and of the Council amending Directive 2003/87/EC establishing a system for greenhouse gas emission allowance trading within the Union and Decision (EU) 2015/1814 concerning the establishment and operation of a market stability reserve for the Union greenhouse gas emission trading system, *European Parliament*, 18 April 2023.

[28] The criteria are currently subject to legal challenges by several civil society organisations. For more, see ClientEarth, EU Taxonomy: Environmental groups take EU to court over 'green' gas label, *ClientEarth*, 18 April 2023.

Main findings

Romania

In the 2014 to 2020 budget period, a minimum of EUR 480 million in EU funding was allocated to Romania for fossil gas projects. At least EUR 229 million of this total was disbursed for fossil gas cogeneration and the expansion of transmission and distribution networks. Only one PCI project was funded, through two Connecting Europe Facility Energy Actions.

Table 2. EU financing for fossil gas in Romania by activity and funding (EUR million, 2014–2020)

Projects/schemes	Fund	Length (km)	Power (MW)	Allocated (EUR million)	Disbursed (EUR million)	Description
Cogeneration projects	ERDF	n/a	26	9.1	4.5	4 cogeneration projects based on fossil gas
Extension of the existing Romania–Moldova gas pipeline	ERDF	165	n/a	37.9	35.9	Increasing transport capacity up to 2 bcm/year
Distribution networks	ERDF	>579	n/a	246.5	1.4	25 projects
ROHU(AT)/BRUA pipeline 1st phase	CEF	n/a	n/a	8.3	8.3	Design works and obtaining necessary permits
ROHU(AT)/BRUA pipeline 1st phase	CEF	479	n/a	179	179	Construction works
TOTAL		**>1,223**	**26**	**>480.8**	**>229.1**	

In the 2021 to 2027 budget period, almost EUR 1.7 billion is allocated for fossil gas in Romania, representing an increase of more than EUR 1.2 billion compared to the period from 2014 to 2020. Funding is planned for the expansion of transmission and distribution networks and for the conversion of CHP to gas.

Since 2021, more than EUR 450 million in EU funding has already been disbursed to Romania for fossil gas projects, including two power plants financed by the Modernisation Fund and one gas storage facility financed by the Connecting Europe Facility.

Table 3. EU financing for fossil gas in Romania by activity and funding (EUR million, 2021–2027)

Projects/schemes	Fund*	Length (km)	Power (MW)	Allocated (EUR million)	Disbursed (EUR million)	Description
Isalnita power plant	MF	n/a	850	253	253	Construction of a fossil gas-fired combined cycle power unit
Turceni power plant	MF	n/a	475	167	167	Construction of a fossil gas-fired combined cycle power unit
Coal-to-gas CHP conversions	ERDF	n/a	5.5	10	No data	Sustainable Development Operational Programme (PODD)
Conversion of transmission and distribution networks to carry fossil gas and hydrogen blends	CF	1,400	n/a	323.5	No data	Sustainable Development Operational Programme (PODD)
Bilciuresti underground gas storage facility	CEF	n/a	n/a	37.9	37.9	5th PCI list
CHPs	RRF	n/a	300	300	No data	To replace coal or modernise existing fossil gas plants
Conversion of transmission and distribution networks to carry fossil gas and hydrogen blends	RRF	1,870	n/a	400	No data	At least 20 per cent hydrogen, to replace coal and wood for individual heating
CHPs	REPowerEU	n/a	100	100	No data	Top-up of the existing recovery plan cogeneration allocation
Transmission network to carry fossil gas	REPowerEU	196	n/a	100	No data	To connect 3 new gas power plants
TOTAL		**3,466**	**1,730.5**	**1 691.4**	**457.9**	

** Cohesion Fund (CF), Connecting Europe Facility (CEF), European Regional Development Fund (ERDF), Modernisation Fund (MF), Recovery and Resilience Facility (RRF)*

Poland

In the 2014 to 2020 budget period, at least EUR 1.45 billion in EU funding was disbursed to fossil gas projects in Poland. A significant amount of this was spent on the diversification of gas sources, with four PCIs – the Baltic Pipe, the Poland–Slovakia interconnection, GIPL and Stork II – receiving approximately EUR 650 million from the Connecting Europe Facility. Transmission and distribution networks were also supported via Poland's Infrastructure and Environment Operational Programme (POIiŚ) and a REACT-EU top-up totalling approximately EUR 800 million. Although the final numbers are unknown, the initial goal was to fund 1,500 kilometres of fossil gas networks in Poland. Although gas boilers were eligible under the regional programmes, it is unclear what amount of EU funding was spent.

Table 4. EU financing for fossil gas in Poland by activity and funding (EUR million, 2014–2020)

Projects/schemes	Fund*	Length (km)	Power (MW)	Allocated (EUR million)	Disbursed (EUR million)	Description
Transmission and distribution networks and replacement of heating sources	ERDF, CF	>1,500	n/a	>1 144	>680	The total allocation includes over EUR 500 million for high-efficiency cogeneration, where gas is one of the eligible energy sources, alongside renewables
Transmission networks	REACT-EU	253	n/a	128	No data	
Gas boilers	ERDF, CF	n/a	No data	No data	No data	Regional programmes
Poland–Denmark gas interconnection (Baltic Pipe)	CEF	n/a	n/a	No data	0.38	Design work and obtaining necessary permits
Poland–Denmark gas interconnection (Baltic Pipe)	CEF	n/a	n/a	No data	33.15	Design work and obtaining necessary permits
Poland–Denmark gas interconnection (Baltic Pipe)	CEF	n/a	n/a	No data	18.3	Design work and obtaining necessary permits
Poland–Denmark gas interconnection (Baltic Pipe)	CEF	557	n/a	No data	214.92	Construction works
Poland–Czech Republic gas interconnection (Stork II)	CEF	n/a	n/a	No data	1.36	Design work and obtaining necessary permits
Poland–Slovakia gas interconnection	CEF	n/a	n/a	No data	2.82	Design work and obtaining necessary permits
Poland–Slovakia gas interconnection	CEF	59	n/a	No data	97.28	Construction works
Gas Interconnection Poland–Lithuania (GIPL)	CEF	n/a	n/a	No data	10.15	Design work and obtaining necessary permits
Gas Interconnection Poland–Lithuania (GIPL)	CEF	310	n/a	No data	266.34	Construction works
TOTAL		**>2,426**		**>1 272**	**>1 324.68**	

**Cohesion Fund (CF), Connecting Europe Facility (CEF), European Regional Development Fund (ERDF)*

In the 2021 to 2027 budget period, more than EUR 900 million in EU funding is allocated for fossil gas in Poland via the European Funds for Infrastructure, Climate and Environment (FEnIKS) operational programme. This is similar to what was available for fossil gas via operational programmes in the period from 2014 to 2020. Funding has been planned for the expansion of transmission and distribution networks, the replacement of heat sources with gas and hydrogen, and transport investments.

Additional and considerable EU funding for fossil gas is also available through Poland's recovery plan, which details investments for the replacement of heating sources and 'energy efficiency improvements'. However, it is not possible to calculate the total amount that could go to fossil gas investments as different fuel sources are eligible to receive financial support.

Furthermore, Poland is now considering requesting EUR 1.15 billion via its REPowerEU chapter for the repurposing and construction of transmission networks and the construction works on the liquified fossil gas terminal Gdansk.

The Modernisation Fund is also set to provide a significant amount of funding for fossil gas cogeneration in Poland until 2030, having approved investment schemes that could potentially exceed EUR 1.3 billion.

Poland planned investments in which fossil gas is either the main or one of the eligible fuels worth over EUR 6 billion. Over EUR 2 billion of this is earmarked exclusively for fossil gas projects.

Table 5. EU financing for fossil gas in Poland by activity and funding (EUR million, 2021–2027)

Projects/schemes	Fund*	Length (km)	Power (MW)	Allocated (EUR million)	Disbursed (EUR million)	Description
Transmission and distribution networks, gas-powered heating systems	ERDF, CF	889	n/a	907	No data	European Funds for Infrastructure, Climate and Environment (FEnIKS) operational programme
Gas boilers	ERDF, CF	n/a	n/a	No data	No data	National and regional programmes; support for replacing heat sources and energy efficiency investments in the building sector
Gdansk LNG terminal**	CEF	n/a	n/a	19.6	19.6	Design works and obtaining necessary permits
Gdansk LNG terminal, repurposing and construction of transmission networks	REPowerEU	>250	n/a	1 150	No data	Only total allocation was provided; Poland's draft REPowerEU chapter includes construction works on the floating storage regasification terminal in Gdansk, repurposing of the Yamal-Western Europe pipeline, and the construction works on the interconnector Poland—Czech Republic
Heat sources for district heating systems	RRF	n/a	No data	300	No data	Gas is among the eligible fuels; there is no limit on gas investments

Replacement of heat sources and improvement of energy efficiency in residential buildings	RRF	n/a	No data	3 200 total allocation	No data	Gas is among the eligible fuels; gas boilers should represent not more than 40 per cent of the overall number of heat source replacementsonly
Thermal modernisation of schools	RRF	n/a	No data	290 total allocation	No data	Gas is among the eligible fuels; gas boilers should represent not more than 20 per cent of the overall number of heat source replacements
Strengthening energy efficiency of local social facilities	RRF	n/a	No data	67 total allocation	No data	Gas is among the eligible fuels, gas boilers should represent not more than 20 per cent of the overall number of heat source replacements
Hydrogen, hydrogen manufacturing, storage and transport	RRF	n/a	n/a	800	No data	
Zero- and low-emission collective transport	RRF	n/a	n/a	1 130 total allocation	No data	Gas is among the eligible fuels; the number of low-emission buses (LNG, LPG, CNG and meeting the EURO VI standard) shall not exceed 21 per cent of the overall number of delivered buses
Cogeneration for energy and industry	MF	n/a	n/a	444	44	Allows for a mixture of 'low-emission gases' like synthetic gas and hydrogen, which can include fossil gas and hydrogen made using gas
Cogeneration for district heating	MF	n/a	No data	667	66	Open to any 'gaseous fuel' (along with renewable energy sources and waste heat) in newly built or renovated CHP installations larger than 10 megawatts (MW)
Cogeneration for counties	MF	n/a	No data	222	22	Apart from renewables, gaseous fuels, gas mixtures, synthetic gas and hydrogen can also be used as fuels
TOTAL		**>1,140**		**>2 076.6**	**151.6**	Only allocation for investments exclusively in fossil gas – altogether all investments listed above, in which fossil gas is allowed, sum up to EUR 6 104 million

** Cohesion Fund (CF), Connecting Europe Facility (CEF), European Regional Development Fund (ERDF), Modernisation Fund (MF), Recovery and Resilience Facility (RRF)*

*** liquified natural gas (LNG); this term is often used to refer to liquified fossil gas*

Case studies

Romania: Hydrogen hype or just fossil-fuelled business as usual?

The Romanian government has proposed to finance the construction of a distribution network in Oltenia, an area not connected to the fossil gas network. Set to receive EUR 400 million in RRF funds, the 'hydrogen-ready' project will supposedly carry 80 per cent fossil gas and 20 per cent renewable hydrogen starting in 2026 and, eventually, 100 per cent hydrogen from 2030 onwards. The project aims to connect 78,540 households to the network.

However, the project has overlooked two things.

First, it is unclear whether sufficient quantities of renewable hydrogen will be available for the network to transmit. A much more likely scenario seems to be that the pipeline will simply continue to carry fossil gas if renewable hydrogen turns out not to be developed at the expected rate.

Second, it is unclear whether people are able and willing to pay for a hydrogen system to heat their homes.

Cooking and heating appliances will need to be replaced and gas bills will further increase, as renewables-based hydrogen is likely to be scarce and expensive in comparison to other fuel sources. Because of this, local residents are most likely to continue the current practices of heating their homes with wood and cooking with gas or electric stoves, leading to stranded assets.

This is only the beginning. A similar distribution pipeline stretching 1,400 kilometres is set to be financed by the Cohesion Fund, and transport and distribution companies are promoting the idea of blending fossil gas with hydrogen, measures that serve to maintain the status quo of the gas industry at the expense of people's best interests. This will be a missed opportunity not only for the energy independence of these citizens, but also for energy transition in Romania.

Photo by Milan Trivić via Midjourney

Fossil gas chokes Poland's Clean Air Programme

Launched in 2018, the Clean Air Programme is Poland's flagship initiative to reduce air pollution by changing heat sources in single-family buildings. Financed by the state budget and EU funds, the programme has a total budget of almost EUR 22 billion until 2029. The 2023 budget is over EUR 530 million. The goals of the programme are to replace 3 million highly polluting heat sources and renovate 3 million buildings (there are over 6 million single-family buildings in Poland).

Thanks to its scale and budget, the Clean Air Programme will have a significant impact on Poland's energy transformation and has great potential to reduce the country's dependence on fossil fuels. However, these efforts could be undermined if the financing of fossil gas boilers continues (high-class coal boilers were only excluded from public funding in January 2022).

Until 31 August 2026, EUR 3.1 billion from Poland's recovery plan will be used to top up the Clean Air Programme under investment B1.1.2 ('Replacement of heat sources and improvement of energy efficiency in residential buildings').[29] Altogether, nearly 1.5 million houses will benefit. Of this total number, 791,000 houses will have their heat sources replaced (a maximum of 40 per cent of the heat source replacements under this measure can be gas-fired boilers). Another 700,000 houses will undergo renovation so that they can be supplied with a renewable energy heating source.

Additionally, up to EUR 1.86 billion from cohesion policy funds will support the Clean Air Programme, albeit in this case no threshold for fossil gas boilers has been set.

This means that hundreds of millions of euros may be invested in the installation of new gas boilers, thus increasing Poland's gas demand for decades to come. Gas systems purchased today will not be replaced for years, thus locking households in to using fossil fuels and contributing to harmful emissions.

Such a scenario undermines the European Green Deal objectives of moving towards a climate neutral economy. It also means high energy bills for citizens and increased reliance on limited supplies of imported gas.

In the Polish context, fossil gas has been traditionally presented as a clean alternative to coal, based on the assumption that it leads to lower emissions and less smog. Before the dramatic increase in gas prices from 2021 to 2023, gas boilers were the most in-demand heat source purchased under the Clean Air Programme. However, since Russia's invasion of Ukraine in February 2022, heat pumps have displaced gas boilers as the most popular heating option on Poland's market. If this trend continues, demand for gas boilers will remain below the 40 per cent limit set by the programme. But the programme's current design, instead of prioritising heat pumps, maintains support for fossil-gas-powered heat sources, thus wasting its potential to become a key driver of a truly clean transition.

Conclusion and recommendations

The EU's addiction to fossil gas imports has made it vulnerable to Russia and has influenced both the price and availability of gas globally. But the EU's funding schemes have yet to adapt to this new reality.

Different gas schemes and projects are eligible to receive EU funding, including transmission and distribution networks, the replacement of heating sources and power generation. This means that it remains possible to finance the diversification of supply sources – even though it is no longer considered an issue – as well as projects and schemes that will directly lead to consumption of fossil gas. Not only is it still possible to use EU public money to finance fossil gas, but Romania and Poland have also actually increased their allocations for this fuel in the current EU budget period compared to the previous one.

Both countries still plan to make significant investments in fossil gas amounting to billions of euros, which will drive the expansion of transmission and distribution networks and the replacement of heating sources with fossil gas.

[29] Program Czyste Powietrze, Inwestycje KPO, w których uczestniczymy, *Program Czyste Powietrze*, accessed 20 March 2023.

In some cases, these fossil gas projects have been justified by dubious claims about their potential to transport and burn what the EU calls 'low-carbon or renewable gases' in the future. But although renewable hydrogen is set to play some role in hard-to-abate niche sectors, its availability will be limited. Proven renewable energy sources and direct electrification are more cost-effective and efficient than hydrogen, whose role in heating has already been debunked. Consequently, the use of fossil gas infrastructure for renewable sources in the future will be untenable. Therefore, all gas projects financed today will lead to carbon lock-in or stranded assets.

With the current criteria in place, the EU's funds and are ill-suited to respond to the energy crisis.

The EU cannot meet its increased climate ambitions as long as significant public funds can still be leveraged to support fossil gas investments either directly or by converting existing projects to 'low-carbon and renewable gases'. Any project or scheme that adds new gas consumption blatantly contradicts the EU's policy attempts to steeply decrease gas use in the EU before 2030.

The rules on spending the EU's public funds must be urgently revised to exclude support for explicit fossil gas investments or any projects that lead to additional gas consumption.

Annex – Romania: detailed description of available EU funds and programmes for fossil gas

In 2021, Romania ranked among the largest producers of fossil gas in the EU with one of the most extensive proven gas reserves in the region.[30] Even though Romania once boasted the third lowest energy import dependency rate in the EU, since 2019 the country has shifted from electricity exporter to net importer, primarily due to an ageing power sector that cannot satisfy national demand.[31]

Except for wind and solar infrastructure, almost all units are in need of modernisation. Due to a change in subsidy schemes, investments in sustainable renewables have stalled since 2015. Romania intends to increase the share of gas in its energy mix, not only for power generation but also for heating.

EU budget 2014 to 2020

Cohesion policy funds

From 2014 to 2020, EUR 186 million was allocated for gas spending in Romania through cohesion policy funds. However, projects contracted by the end of 2022 amounted to EUR 293.5 million in EU funds, overshooting the original figure by over EUR 107 million.[32]

Gas investment was permitted under Romania's 2014 to 2020 Operational Programme for Large Infrastructure (POIM), which was allocated EUR 10.8 billion in funds from the Cohesion Fund, the European Regional Development Fund (including its REACT-EU[33] top-up) and national contributions.[34] Under POIM, it was possible to finance the expansion of gas transmission and distribution networks and fossil gas cogeneration in Romania.

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30 Global Energy Monitor, Romania and fossil gas, *Global Energy Monitor Wiki*, accessed 20 March 2023.

31 CEE Bankwatch Network, The energy sector in Romania, *CEE Bankwatch Network*, accessed 20 March 2023.

32 European Structural and Investment Funds, Lista proiectelor contractate - programul operațional infrastructură mare, *European Structural and Investment Funds*, 28 February 2023.

33 The Recovery assistance for cohesion and the territories of Europe (REACT-EU) is not a new funding source but a top-up to the 2014 to 2020 European Regional Development Fund and European Social Fund allocations. It can be used until the end of 2023, as per the original allocations. See more at European Commission, REACT-EU, *European Commission*, accessed 24 April 2023.

34 Ministry of European Investments and Projects, Program Operational Infrastructura Mare, *Ministry of European Investments and Projects*, accessed 20 March 2023.

These projects were supported via two priority axes: 'Promoting clean energy and energy efficiency in order to support a low-carbon economy' (priority axis 6) and 'Intelligent and sustainable electricity and natural gas transport systems' (priority axis 8).

Under priority axis 6, specific objective 6.4, 'Increasing savings in primary energy consumption produced in high-efficiency cogeneration systems', which supported cogeneration power plants below 8 megawatts (MW) in the industrial sector, the target was to finance five projects with a total power of 20 MW using EUR 34 million allocated from the European Regional Development Fund.[35] Four fossil gas projects with a total power of 26 MW were financed with EUR 17.8 million, of which EUR 9.1 million came from EU funds (supplemented with EUR 1.6 million in national contributions and EUR 7.1 million in private contributions).[36]

Under priority axis 8, specific objective 8.2, 'Increasing the degree of interconnection of the National Natural Gas Transport System with other neighbouring states', the plan was to construct 160 kilometres of transmission networks and 336 kilometres of distribution networks using EUR 144 million allocated from the European Regional Development Fund.[37] A transmission pipeline 165 kilometres in length was built to increase transport capacity with Moldova by up to 2 billion cubic metres (bcm) per year, a project that received EUR 37.98 million in EU funding. However, the distribution networks now reach 579 kilometres in length, spanning 10 projects in total. A further 15 projects have been greenlighted, summing up to EUR 246.5 million in EU funding for distribution infrastructure. None of the projects have been completed. The current budget and the length of the pipelines far exceed the initial proposal.

The REACT-EU top-up supported Priority Axis 10 focused on alleviating the impacts of COVID-19 in Romania. Through specific objective 10.2, 'Increasing energy efficiency and using renewable energy sources to prepare for a green, digital and digital recovery resilience of the economy', EUR 8 million in EU funds was allocated for an additional 6 MW in cogeneration facilities. However, no projects have been financed as of April 2023.

The Connecting Europe Facility

From 2014 to 2020, two energy actions totalling EUR 187.3 million in Connecting Europe Facility energy funding were allocated to Romania. Both actions were used to fund the first phase of the BRUA pipeline, which connects Bulgaria with Austria via Romania and Hungary. Works covering the project design and obtaining the necessary permits were provided with EUR 9.3 million, and construction works with EUR 179 million.

EU budget 2021 to 2027, the RRF and REPowerEU

Cohesion policy funds

From the EU's 2021 to 2027 long-term budget, the only Romanian scheme that allows fossil gas investments is the Sustainable Development Operational Programme (PODD), financed with EUR 5.2 billion from the European Regional Development Fund, the Cohesion Fund and national contributions. Gas projects are eligible for financing under the fourth priority, 'Promoting energy efficiency, smart energy systems and networks and reducing greenhouse gas emissions', which has a total allocation of EUR 1.1 billion,[38] with almost one-third allocated to fossil gas projects.

Two actions under the fourth priority are relevant for fossil gas financing. Via Action 4.2, 'Reducing [greenhouse gas] emissions and increasing energy efficiency in thermal energy systems', EUR 10 million in EU funding is allocated for the coal-to-gas conversions of 'small' CHPs. Action 4.6, 'Conversion, modernisation and expansion of gas transmission and distribution networks to add renewable and low-carbon gas to the system', allocates another EUR 323.5 million from EU funds for 1,400 kilometres of transmission and distribution networks to carry a blend of fossil gas and hydrogen to one of the country's coal regions.

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35 Ministry of European Investments and Projects, Program Operational Infrastructura Mare.

36 European Structural and investment funds, Lista proiectelor contractate - programul operațional infrastructură mare.

37 Ministry of European Investments and Projects, Program Operational Infrastructura Mare.

38 Ministry of European Investments and Projects, Sustainable Development, *Ministry of European Investments and Projects*, accessed 20 March 2023.

The Connecting Europe Facility

In the period from 2021 to 2027, the Connecting Europe Facility provided EUR 37.9 million in financing for the construction of the Bilciuresti underground gas storage facility, a project on the fifth PCI list. Other projects on this list include the second phase of the BRUA pipeline and another gas storage unit in Romania. The second phase of the BRUA pipeline includes an increase in the capacity transmitted between Romania and Hungary to enable bidirectional capacity of 4.4 bcm/year, and infrastructure to connect Romania's Black Sea fossil gas extraction sites to the pipeline. According to the project's proponents, the value of the project is EUR 440 million. Fortunately, this project has yet to receive funding from the Connecting Europe Facility. Furthermore, Romania has proposed no less than 10 hydrogen projects for inclusion on the sixth PCI list. All of them are relabelled as existing or planned fossil gas pipelines.

The Recovery and Resilience Facility

The European Commission approved Romania's recovery and resilience plan totalling EUR 27.2 billion in October 2021. According to the Commission's assessment, the plan has a 'strong focus on the green transition, with flagship reforms on the phasing-out of coal and the decarbonisation of road transport', while 'reforms and investments are expected to significantly decarbonise the energy sector and unlock the potential for renewables deployment'.[39]

From the EUR 1.6 billion allocated for the energy pillar, EUR 700 million is designated for power and heat generation and distribution networks carrying a blend of fossil gas and hydrogen. From this suballocation, EUR 400 million will be provided to a 'pilot' project involving a 1,870-kilometre distribution network carrying a blend of fossil gas and at least 20 per cent renewable hydrogen to replace coal and wood for individual heating. The remaining EUR 300 million will be invested in new fossil gas CHPs either to replace coal or to modernise existing gas facilities, which will have to comply with a maximum emissions level of 250 grams of CO_2 per kilowatt hour (kWh), and be equipped to use renewable gases in the future.

REPowerEU chapter

In March 2023, Romania published a draft proposal of its REPowerEU chapter,[40] comprised of two reforms and seven energy investments. The total amount Romania is requesting from the REPowerEU plan is EUR 1.397 billion. According to the draft proposal, Romania plans to use EUR 200 million in EU funds to finance new fossil gas power and heat generation as well as transmission networks. Romania intends to top up the existing cogeneration allocation in its recovery plan to finance new gas CHPs capable of operating on blended hydrogen (EUR 100 million) and to build new transmission networks connecting three future gas power plants in Romania (EUR 100 million). The plan is to connect two coal-to-gas power plants of 470 MW and 850 MW (both financed from the Modernisation Fund) and a 1,700 MW power plant, replacing the largest hard coal power plant in Romania, Mintia, which has not been in operation since 2021.

The draft proposal also includes some other controversial measures not related to fossil gas, such as a proposal to use EUR 121 million for unsustainable hydropower development in Romania. Prior to the publication of the draft proposal, Romania's government communicated that it also intended to include the Iernut gas power plant, which has been under construction since 2016. However, it was not included.

The Modernisation Fund

The Modernisation Fund is an open door for gas infrastructure in Romania. Two gas power plants (total power 1,300 MW) in the Oltenia coal region have already received EUR 420 million from the Modernisation Fund.

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39 EUR-Lex, Commission Staff working document, Analysis of the recovery and resilience plan of Romania, *EUR-Lex*, 2021.

40 Ministry of European Investments and Projects, Consolidarea sistemului energetic național: MIPE lansează în consultare publică capitolul REPowerEU, care va aduce României 1,4 miliarde de euro pentru independența energetică, *Ministry of European Investments and Projects*, 17 March 2023.

According to an emergency ordinance of the government, three forthcoming programmes financed by the Modernisation Fund will allow investments in fossil gas and related technologies (transmission and distribution networks for fossil gas and hydrogen, gas and hydrogen power plants, gas storage, and carbon capture and storage/utilisation).[41] The allocated amounts for these programmes are not yet known. Romania's transmission system operator for gas recently announced that it is seeking to finance a 'hydrogen-ready' pipeline with a value of EUR 46 million through this fund.[42]

Annex – Poland: detailed description of available EU funds and programmes for fossil gas

In comparison with other EU Member States, Poland still relies heavily on coal for its energy production – coal was responsible for over 70 per cent of Poland's electricity production in 2021.[43] Although Poland still perceives gas as a transitional fuel, the role of gas in Poland's transition is likely to decline as a result of Russia's invasion of Ukraine in February 2022. Although major investments in gas infrastructure are still on the table and there are still significant barriers to renewables deployment, it is evident that Poland is now increasing the share of renewables in its energy mix.

EU budget 2014 to 2020

Cohesion policy funds

Poland implemented the Partnership Agreement for 2014 to 2020 through the largest number of programmes in the EU: eight national and 16 regional. To avoid double-funding or funding gaps, Poland's government adopted a document entitled 'Demarcation line between national and regional programmes',[44] which indicates sources of funding for different types of interventions. According to this, the development of gas distribution, storage and transmission could be funded exclusively through national operational programmes. The main source of funding for fossil gas investments in the period from 2014 to 2020 was the Infrastructure and Environment Operational Programme (POIiŚ), which had a total budget of EUR 28.2 billion.

It was possible to finance investments in the construction and reconstruction of transmission and distribution networks for fossil gas through priority axis 7E, 'Increasing energy efficiency and security of supply through the development of smart energy distribution, storage and transmission systems'. An official database of EU-funded projects in Poland – the EU Grants Map[45] – generates over 150 projects with the keyword 'gas' implemented under the 2014 to 2020 Multiannual Financial Framework. The total value of these projects, which benefitted from an EU contribution of EUR 800 million, EUR 1.73 billion. This figure includes infrastructure investments (transmission, distribution) under POIiŚ and investments in heat sources. However, the amount of money actually spent on gas that can be verified is that which relates directly to gas infrastructure.

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41 Key programme 2: Replacing coal and balancing the power grid – support for development of gas-turbine combined cycle power plants (CCTG), which can be adapted to hydrogen; Key programme 3: Modernisation and construction of new energy infrastructure sections — Support for the modernisation and construction of new sections in the networks of transmission and distribution of electricity and natural gas, including for the transition to transmission and distribution networks of natural gas capable of receiving green hydrogen and for the construction and modernisation of storage facilities for natural gas and to increase the level of interconnection of the electrical transmission network; Key programme 7: energy efficiency for EU-ETS installations: CCS/CCU technologies, modernisation for BAT compliance. Retrieved from Official Journal of Romania no. 459 from Ordonanta de urgenta privind stabilirea cadrului instituțional și financiar de implementare și gestionare a fondurilor alocate României prin Fondul pentru modernizare, precum și pentru modificarea și completarea unor acte normative, 9 May 2022.

42 Matei Ionescu, 'Premieră. Transgaz licitează construcția unui gazoduct de importanță națională care ar putea transporta și hidrogen', *Economedia*, 27 February 2023.

43 Marcin Dusiło, Energy transition in Poland. 2022 Edition, *Forum energii*, 2022.

44 Poznań City Administration – EU Funds, Linia demarkacyjna pomiędzy programami krajowymi i regionalnymi, *Poznań City Administration – EU Funds*, accessed 20 March 2023.

45 Ministry of Development Funds and Regional Policy, Mapa dotacji, *Ministry of Development Funds and Regional Policy*, accessed 20 March 2023.

This is because, on the one hand, not all of the funding has necessarily supported fossil gas, since many of the projects with the key word 'gas' are anti-smog investments in municipalities in which gas boilers were eligible alongside renewables-based technology or those that supported the development of fossil-based heat sources as part of wider projects (i.e. building renovation). However, on the other hand, investment in gas involves far more than just gas transmission, distribution and storage, and millions of euros have been spent on increasing gas demand by investing in fossil gas heating. Therefore, the true expenditure on gas is not known.

According to the managing authority of POIiŚ, all investments in gas infrastructure from 2014 to 2020 supported under the operational programme are worth EUR 1.54 billion,[46] with an EU contribution of EUR 680 million. The REACT-EU allocation topped up Polish gas investments with another EUR 132 million,[47] which means that altogether over EUR 800 million in EU funding supported gas transmission and distribution infrastructure in Poland in the 2014 to 2020 period. This should allow Poland to build over 1,500 kilometres of new transmission and distribution pipelines.[48] Gas transmission system operator GAZ-SYSTEM S.A., along with gas distribution system operator the Polish Gas Company (PSG), were the only beneficiaries of the 10 largest gas infrastructure projects (worth nearly EUR 1 billion in total) listed in Kohesio, a database managed by the European Commission that documents projects funded under the EU's pohesion Policy from 2014 to 2020.[49] The most expensive gas infrastructure projects co-financed through POIiŚ were the 168-kilometre Pogórska–Wola–Tworzeń gas pipeline[50] (EUR 208.6 million, of which the EU contributed EUR 136.2 million from the European Regional Development Fund) and the Leśniwice–Wronów section of the Gustorzyn–Wronów gas pipeline[51] (EUR 150.5 million, of which the EU contributed EUR 128 million from the European Regional Development Fund).

The 'demarcation line' limiting funding of gas infrastructure to national programmes, effectively to POIiŚ, does not mean that no support for gas was granted through the 16 regional programmes. Regional programmes allowed financing for gas-powered heating systems. However, gas was only one of the heating sources that could be funded, so it is not possible to identify the exact amount spent on fossil gas projects through regional programmes.

The Connecting Europe Facility

From 2014 to 2020, nine actions were supported with EUR 824.7 million of Connecting Europe Facility energy funding in Poland. These included studies and construction works for the Poland–Denmark interconnection (Baltic Pipe), the Poland–Slovakia interconnection and Gas Interconnection Poland–Lithuania (GIPL).

EU budget 2021 to 2027, the RRF and REPowerEU

The European Commission's Partnership Agreement with Poland (2021 to 2027),[52] which paves the way for investments from cohesion policy funds, includes 16 regional programmes and eight national programmes. Additionally, a number of Interreg programmes are being implemented. Investments in fossil gas infrastructure are permitted only under national programmes, as was the case for the 2014 to 2020 period. It is possible to support the construction, expansion or upgrade of 'smart' gas networks, the construction or expansion of gas storage, and the development of distribution systems based on local liquefied fossil gas stations.

At the national level, support for fossil gas is granted through the European Funds for Infrastructure, Climate and Environment (FEnIKS) operational programme for the period from 2021 to 2027.[53]

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46 Average exchange rate for Polish zloty to euro from 2014 to 2022: 1 EUR = 4.36 PLN (based on yearly average rates calculated by the National Bank of Poland)

47 Ministry of Development Funds and Regional Policy, Budżet REACT-EU na energetykę został zakontraktowany, *Infrastructure and Environment Programme*, 27 June 2022.

48 Ministry of Development Funds and Regional Policy, Inwestycje gazowe nie zwalniają tempa, *Infrastructure and Environment Programme*, 8 May 2020.

49 European Commission, EU projects in Poland, *Kohesio*, accessed 20 March 2023.

50 European Commission, Project: Pipeline Pogórska Wola-Tworzeń, *Kohesio*, accessed 20 March 2023.

51 European Commission, Project: Gustorzyn-Wronów gas pipeline – construction of the Leśniwice-Wronów section, *Kohesio*, accessed 20 March 2023.

52 Ministry of Development Funds and Regional Policy, Umowa Partnerstwa, *European Funds Portal*, 21 July 2022.

53 Ministry of Development Funds and Regional Policy, Fundusze Europejskie na Infrastrukturę, Klimat, Środowisko 2021-2027, *Ministry of Development Funds and Regional Policy*, 6 October 2022.

According to the FEnIKS managing authority, the maximum overall support for fossil gas cannot exceed EUR 907 million, which is 3.75 per cent of this programme's budget. Of this, the majority should contribute to increasing the country's energy security by investing in gas transmission networks and changing heat sources in single-family houses (a top-up of the Clean Air Programme[54]). The following investments related to fossil gas are included in the FEnIKS programme:

- **Specific objective 2.1. Promoting energy efficiency and greenhouse gas emission reductions.** From the EUR 3.72 billion allocated under the Cohesion Fund and the European Regional Development Fund:
  - EUR 1.7 billion will support residential building renovation (including of single-family houses through the Clean Air Programme) and EUR 546 million will be used to renovate public infrastructure and buildings. While in general, the hierarchy of heat sources should apply, the Clean Air Programme will be granted an exception, which means there will be no limit to the number of gas boilers supported through this scheme. However, the maximum gas spending of EUR 907 million permitted under FEnIKS, which prioritises gas infrastructure investments, still applies. Also, beneficiaries are not obliged to complement heat source replacement with building renovation, which if implemented together would lead to decreased energy consumption.
  - EUR 209 million will support the replacement of coal-fired heating systems with fossil-gas-based systems.
  - EUR 1.17 billion will be spent on high-efficiency cogeneration units for district heating systems, of which EUR 274 million is designated for systems with low life-cycle emissions. Renewable energy solutions will be promoted, but fossil gas units remain eligible for funding.
- **Specific objective 2.3. Developing smart energy systems and networks and energy storage systems outside the Trans-European Energy Network (TEN-E).** A European Regional Development Fund allocation of EUR 700 million will be invested in the distribution and transmission of fossil gas. These investments will be 'future-proof' based on the assumption that fossil gas will be replaceable with 'decarbonised' gases. The development of renewable gas storage facilities should be supported under this scheme as well.
- **Specific objective 2.8. Promoting sustainable multimodal urban mobility as part of the transition to a zero-carbon economy.** A Cohesion Fund allocation of EUR 460 million will support the acquisition of clean public transport vehicles. Although zero-emission vehicles will be promoted, liquified fossil or petroleum gas, compressed fossil gas and plug-in hybrid electric buses are also eligible for funding if zero-emission vehicles are not feasible.

According to the indicative timetable[55] of calls for proposals for the FEnIKS programme for 2023 and 2024, EUR 403 million[56] is earmarked under action FENX.02.03 Energy infrastructure (EFRR/FS.CP2.III) for:

- **Construction, expansion and modernisation of intelligent gas networks (transmission)** – EUR 339.7 million, call for proposals planned for: 1 August 2023 to 30 June 2025;
- **Construction, expansion and modernisation of smart gas networks (distribution)** – EUR 63.7 million, call for proposals planned for: 1 February 2024 to 18 March 2024.

If this allocation for gas networks is fully spent, it would consume 58 per cent of the allocation for specific objective 2.3, 44 per cent of the entire gas spending planned under FEnIKS or 2 per cent of the overall budget of this, EU's largest cohesion policy programme.

Similar to the programmes from the 2014 to 2020 period, in the cohesion policy programmes covering 2021 to 2027, investments in transmission, storage and distribution infrastructure are limited to national programmes.

But this does not mean that regional programmes are fossil-free. A back door for fossil gas exists, again through the support of heat source replacement and energy efficiency investments in the building sector. For example, according to priority 2: EU Funds for Green Wielkopolska, intervention 2.1.1.1.1 under the regional programme for Greater Poland (Wielkopolska),[57] 'Improving energy efficiency in the public and residential sectors with the installation of RES equipment and the replacement and/or modernisation of heat sources or connection to district

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54 National Fund for Environmental Protection and Water Management, Clean Air Programme 2023, *National Fund for Environmental Protection and Water Management*, accessed 20 March 2023.

55 Ministry of Development Funds and Regional Policy, Nabory wniosków, Fundusze Europejskie na Infrastrukturę, Klimat, Środowisko, *Ministry of Development Funds and Regional Policy*, 3 April 2023.

56 Amount in PLN = 1.9 billion; the EUR conversion is based on the InforEuro exchange rate (1 EUR = 4.7103 PLN) accessed during the month the timetable was published.

57 Wielkopolska Regional Operational Programme, Program SFC2021, *Wielkopolska Regional Operational Programme*, accessed 20 March 2023.

heating and/or cooling networks', gas-powered heat sources are eligible under certain conditions. In these instances, they should be 'justified by limitations in terms of technical feasibility, economic viability of connecting to the district heating network, or implementation of an installation powered by [renewable energy sources]'. Also, installation of a gas boiler 'should be connected to the thermo-modernisation of the building… to reduce the demand for fossil fuel energy, greenhouse gas emissions and reduce energy poverty'.

Although the European Commission does not oppose financing for gas boilers if the hierarchy of heat sources is respected and 'decarbonised gases' are preferred over fossil gas,[58] cases of fossil gas being 'smuggled' into the 'fossil-free' Just Transition Fund have occurred.

In a 'detailed description of priority axes' contained in the regional programme for Lower Silesia (Dolnośląskie),[59] gas boilers are eligible for support 'when [renewables or district heating are] technically or economically impossible or unreasonable', even though the action – FEDS.09.04 Economic transformation – is financed exclusively from the Just Transition Fund.[60] This is in violation of just transition principles of transforming coal-dependent regions towards achieving a climate-neutral economy. Specifically, it breaches article nine of the Just Transition Fund Regulation (2021/1056): 'The JTF shall not support… investment related to the production, processing, transport, distribution, storage or combustion of fossil fuels.'[61]

Furthermore, the conditionality applied for new gas boiler installations is vague, e.g. terms such as 'economic viability' and 'economically unreasonable' are used. Despite decreasing prices for renewables, heat pumps can still be significantly more expensive than gas boilers, especially given that fossil gas prices remain dynamic. This means that in many cases the installation of gas-powered heating could be considered 'economically justified', even though this approach contradicts the supposed transformational nature of EU funds. In effect, the back door for gas financing remains very much open.

The Connecting Europe Facility

In the current 2021 to 2027 period, only one project in Poland has received energy funding through the Connecting Europe Facility: the Gdansk liquified fossil gas terminal, which received EUR 19.6 million to cover work for the design and obtaining the necessary construction permits.

The Recovery and Resilience Facility

Poland's recovery plan[62] was approved in June 2022. Although it aims to catalyse the green transition and increase the share of renewables in Poland, fossil gas investments under the plan may still be significant. However, it is not possible to calculate the overall amount of RRF financing that could go to fossil gas in Poland, as gas is always listed as one of the potential sources that could be financed. Some fossil gas projects that might be financed involve new CHP-fuelled district heating, the replacement of heat sources for individual heating and hydrogen support. No investments in transmission or distribution networks for gas are contained in the recovery plan.

Fossil gas is eligible for funding if projects comply with a number of conditions, including aligning with the EU's technical guidance for the 'do no significant harm' principle in Component B (green energy and energy-intensity reduction) and Component E (green, smart mobility) of Poland's recovery plan.

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58 See: reaction of DG REGIO to Polish Green Network's criticism of the scale of gas investments in EU funds for Poland (in Polish), Regio Poland (Komisja Europejska #funduszeUE (@RegioPoland), 'W #FunduszeUE i #FENiKS jest zasada hierarchii źródeł ciepła: OZE wypiera gaz, chyba że instalacja zielonej energii jest niewykonalna technicznie lub nieopłacalna. Gazowe sieci mają zapełniać się biometanem do 10% w 2030r. Wsparcie na produkcję biometanu priorytetem', *Twitter*, 16 December 2022.

59 Regional Programme of the Lower Silesian Voivodeship, Szczegółowy Opis Priorytetów FEDS 2021-2027, *Regional Programme of the Lower Silesian Voivodeship*, accessed 20 March 2023.

60 Marshal's Office of the Lower Silesian Voivodship, Szczegółowy Opis Priorytetów Programu Fundusze Europejskie dla Dolnego Śląska 2021-2027. Projekt do konsultacji, Pracodawcy, 246, 20 February 2023.

61 EUR-Lex, Regulation (EU) 2021/1056 of the European Parliament and of the Council of 24 June 2021 establishing the Just Transition Fund, *EUR-Lex*, 30 June 2021.

62 Ministry of Development Funds and Regional Policy, Krajowy Plan Odbudowy i Zwiększania Odporności, *European Funds*, June 2022.

Under Component B, nearly EUR 4.7 billion is earmarked for specific investments that could support fossil gas (while some investments specify a maximum gas share, others set no limit):

- **Investment B1.1.1: Investment in heat sources in district heating systems -** permits the use of fossil gas (emissions below 250 grams CO_2e/kWh) in 'highly efficient' CHPs only. The allocation for all investments is EUR 300 million, which is estimated to be enough to finance roughly 90 new units. There is no limit on the share of gas projects allowed.

- **Investment B1.1.2: Replacement of heat sources and improvement of energy efficiency in residential buildings** – facilitates the thermo-modernisation of single-family and multi-family buildings. Altogether, nearly 1.5 million houses will be upgraded. Of these, 791,000 will have their heat sources replaced (a maximum of 40 per cent of the overall number of heat source replacements under this measure can be gas-fired boilers) and another 700,000 will undergo renovation to receive a renewables-based heat source. An allocation of EUR 3.2 billion will cover the replacement of heat sources, retrofitting and renewable energy technology installations under the following state programmes: the Clean Air Programme (single-family buildings, EUR 3.1 billion) and the Thermo-modernisation and Renovation Fund (multi-family buildings).

- **Investment B1.1.3: Thermal modernisation of schools** – provides for the replacement of heat sources in schools. The share of gas boilers cannot exceed 20 per cent. An allocation of EUR 290 million will allow for the retrofitting of 90 school buildings.

- **Investment B1.1.4: Strengthening the energy efficiency of local social activity facilities** – as with the previous investment, heat sources for facilities such as libraries and cultural centres will be replaced. Again, gas boilers cannot exceed 20 per cent of the overall number of heat sources replaced. An allocation of EUR 67 million is intended for the replacement of 21 heat sources and retrofitting of 85 buildings (with heat source replacement).

- **Investment B2.1.1: Hydrogen, hydrogen manufacturing, storage and transport** – permits funding for all types of hydrogen, but 'the quantity of bunkered grey [produced from fossil fuels] hydrogen shall decrease over time'. An allocation of EUR 800 million will be used to develop, among other things, 25 hydrogen refuelling stations and 320 facilities, including electrolysers.

Another allocation of more than EUR 1.13 billion from Poland's recovery plan is earmarked for decarbonisation of the transport sector. 'Investment E1.1.2: Zero and low-emission collective transport (buses)' is allocated for the purchasing of 1,738 new buses, of which 21 per cent (365 buses, or EUR 237.5 million in allocation) are permitted to be 'low-emission' gas-fired buses running on liquified fossil/petroleum gas or compressed fossil gas, provided they meet the EURO VI standard.

As shown above, the structure and logic of Poland's recovery plan makes it impossible to calculate the exact allocation for fossil gas. But even if Poland invests less than its maximum caps on fossil gas infrastructure due to the decreasing attractiveness of the fuel due to growing prices and availability issues, overall spending on gas is likely to be significant.

REPowerEU

On 18 April 2023, the Ministry of Development Funds and Regional Policy published a draft of Poland's REPowerEU chapter containing proposed amendments to its recovery plan.[63] Poland plans to spend an additional EUR 25.28 billion (EUR 2.76 billion in grants and EUR 22.52 billion in loans) on new investments and adjusted measures from the original recovery plan.

While investments under the grant part and most investments under the loan part are in line with experts' recommendations (support for energy communities, grid modernisations, zero-emission public transport), the Ministry of Climate and Environment earmarked EUR 1.15 billion for investment 'G2.1.1 Building natural gas infrastructure to further diversify supply and ensure energy security in a national and regional context'. It includes:

- deployment of the marine part of the floating storage regasification unit in Gdansk and the offshore part of the liquified fossil gas terminal – the unloading station and offshore gas pipeline

- deployment of the onshore gas pipelines (part of the floating storage and regasification unit programme)

[63] European Funds Portal, Konsultacje rewizji Krajowego Planu Odbudowy, *European Funds Portal*, 18 April 2023.

- re-purposing of the Yamal—Western Europe Transit Gas Pipeline System (merging it with the domestic transmission system)

- construction and operationalisation of the Stork II gas interconnector – which will connect Poland with the Czech Republic

The final design of the REPowerEU chapter depends on the outcomes of public consultation (open until 9 May 2023), the opinion of the recovery plan's monitoring committee (due in May 2023) and negotiations with the European Commission (scheduled for the second half of 2023).

The Modernisation Fund

The Modernisation Fund is another possible source of funding for fossil fuels projects in Poland. As confirmed by the European Investment Bank, Poland has thus far submitted three investment schemes supporting high-efficiency cogeneration involving the possible use of fossil gas. Their estimated overall budget is EUR 1.33 billion until the end of 2030,[64] allocated as follows:

- **MF 2021-2 PL 0-002 Cogeneration for energy and industry**[65] (EUR 444 million in total, of which EUR 44 million has already been requested by Poland) allows for a mixture of 'low-emission' gases like synthetic gas, hydrogen, fossil gas and hydrogen made from gas;

- **MF 2021-2 PL 0-003 Cogeneration for district heating**[66] (EUR 667 million in total, of which EUR 66 million has already been requested) permits any 'gas fuel' (along with renewable energy sources and waste heat) for newly built or renovated CHP installations larger than 10 MW. This will likely result in fossil gas projects of no less than 50 MW in installed power, thus benefiting enterprises in the energy sector;

- **MF 2022-2 PL 0-002 Cogeneration for counties**[67] (EUR 222 million in total, of which EUR 22.2 million has already been requested) facilitates the construction of new installations operating under high-efficiency cogeneration conditions or the reconstruction of existing plants: power, heating and CHP not operating under conditions of high-efficiency cogeneration in smaller Polish towns. In addition to renewables, gaseous fuels, gas mixtures, synthetic gas and hydrogen can also be used as fuels.

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64 Modernisation Fund, What can be financed, *Modernisation Fund*, accessed 20 March 2023.

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