Brussels, 23 March 2022

Att: Ministers of Economy and Finance
of EU Member States

Mr Valdis Dombrovskis
Executive Vice-President
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Mr Paolo Gentiloni
European Commissioner for the Economy
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Re: Financing the acceleration of the energy transition in light of the war in Ukraine

Dear Ministers of Economy and Finance,

Dear European Commissioners,

We are writing to share CAN Europe's recommendations regarding the use of the Recovery and Resilience Facility (RRF) in order to accelerate the transition to renewable energy, as part of the effort to build energy security and climate security in Europe. With these proposals, our objective is to maximize the potential of the Facility to end the EU's dependence on fossil fuels. We therefore propose to adjust national Recovery and Resilience Plans (NRRPs) to reflect the consequences of the war on energy security and the need to further accelerate the energy transition, while preserving the important social and environmental measures that are part of NRRPs.

First, as documented among others in CAN Europe's assessment of NRRPs[1] and by the Green Recovery Tracker[2], several Member States are intending to use the RRF for financing fossil gas related investments. In light of the Re-powerEU strategy and the urgent need to reduce the EU's dependence on imported fossil gas, we consider that **the European Commission should encourage Member States to replace fossil gas related investments with investments in renewables, energy savings, energy efficiency, storage and clean mobility. The European Commission should establish a process to fast track and provide technical guidance for such replacements in NRRPs.**

Second, unlike other EU funds the RRF can be readily mobilized to finance investments that can reduce fossil fuel consumption in the short-term. Indeed, NRRPs already include substantial investments in the energy transition. **The stake is to frontload NRRPs' investments and reforms benefiting the energy transition, something which the European Commission should encourage and incentivise**. For example, the European Commission could accelerate disbursements needed for those specific budget lines in order to fast-track their roll-out.

[1] https://caneurope.org/reaching-for-a-green-recovery-what-holds-back-progress-in-ten-eu-recovery-resilience-rrf-plans-covid-climate/
[2] https://www.greenrecoverytracker.org/sectoral-analysis

Third, the loan facility of the RRF is an untapped resource as several Member States either chose not to use it or are only partially harnessing it. As such, Member States should consider, and the European Commission strongly encourage, **the use of the RRF's loan facility to roll out additional investments for a socially just energy transition to deliver ambitious National Energy and Climate Plans**. Indeed, despite the Next Generation EU package, the investment gap for the energy transition remains large, and every single readily available resource should be mobilised to phase out the EU's energy dependence on imported fossil fuels as fast as possible.

Beyond our specific recommendations on harnessing the RRF for accelerating the EU's decarbonisation and energy security we also wish to draw your attention on the following additional elements:

- Although cohesion policy funds can only have a medium-term impact, it is crucial for Member States to table ambitious Operational Programmes for the EU Budget 2021-27, coherent with their NRRPs. As documented in a previous CAN Europe report[3], less than 10% of EU funds were mobilised to finance clean energy infrastructure under the previous MFF, and such low roll-out cannot be repeated if the EU is to achieve 2030 climate targets while reducing its energy dependence on imported fossil fuels. The onus is both on Member States and the Commission to ensure that sufficient resources are dedicated to renewables, energy efficiency, energy savings, and sustainable and inclusive mobility infrastructure (in particular public transport and rail).
- Both the EU and Member States are still providing fossil fuel subsidies (including concessional finance) of various forms. On the one hand, **Member States should be encouraged more forcefully by the Commission (notably in the European Semester) to phase out fossil fuel subsidies** that are fueling their dependence on imports of coal, oil and fossil gas while locking households into unsustainable and expensive energy sources[4]. On the other hand, **the European Commission should permanently exclude any possibility to finance fossil gas projects in the totality of EU funds**. Instead, low-income households should be firmly and rapidly supported in order to shift to green and sustainable heating and cooling systems, to insulate their homes, and to have access to cheap and attractive decarbonized transport options – with a particular focus on public transport and active transport modes.
- The relaxation of State Aid rules for Member States to provide financial support to ailing businesses facing higher energy costs (announced by the Commission as part of the RepowerEU communication) should not repeat the mistakes made during the pandemic period. Indeed, unconditional bailouts of fossil fuel energy production utilities and energy intensive industry companies may provide immediate relief but are in fact locking them into a high carbon intensity business model and disincentivising their necessary restructuring and transition. As such, **the European Commission should tie any relaxation of State Aid rules for supporting or bailing out carbon intensive industries with strict climate and social conditionality rules.** The requirement to prove that any aid will avoid lock-in to fossil fuels and will not contradict the Union's 2030 emission reduction targets in the recently adopted State aid CEEAG must apply to short term relaxed state aid rules, as well as rescue and restructuring aid. Member States must be required to publish restructuring plans and emissions reduction commitments for the companies receiving aid, proving that such aid will help reduce their exposure to fossil fuels.

We would be pleased to discuss our recommendations our recommendations with you in a call or meeting at your earliest convenience.

Sincerely Yours,

Chiara Martinelli
Director, Climate Action Network Europe

[3] https://caneurope.org/content/uploads/2020/04/Funding-Climate-and-Energy-Transition-in-the-EU.pdf
[4] https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=60760