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REPOWERING THE EU?

Mobilising EU financial instruments and policies to accelerate the phase out of the EU's dependence on fossil fuels

CLIMATE ACTION NETWORK
Europe

Climate Action Network (CAN) Europe is Europe's leading NGO coalition fighting dangerous climate change. With over 170 member organisations from 38 European countries, representing over 1.500 NGOs and more than 47 million citizens, CAN Europe promotes sustainable climate, energy and development policies throughout Europe.

Introduction

As both the European Commission and Member States are devising plans to cut the EU's dependence on fossil fuels imports from Russia, failing to substantially accelerate the just energy transition could mean a zero-sum game: coal, oil and gas imports from Russia would be replaced with dirty imports from elsewhere. Indeed, for all its merits on ramping up renewable energy and efficiency targets, the Commission's RepowerEU plan still relies to some extent on LNG imports and fossil gas based hydrogen.

If we are serious about cutting our dependence on all fossil fuel imports, nothing short of a colossal mobilisation of resources would be needed to both frontload and increase investments in the energy transition. However, the RepowerEU communication is extremely thin on content when it comes to finance and EU funds, beyond some general references to existing EU instruments. The Commission is expected to propose an action plan in May 2022 for operationalising the REpowerEU Communication, already published in March. This is a unique chance to put forward an adequate roadmap that can mobilise all financial instruments to increase energy independence and accelerate a Paris-compatible just energy transition in tandem.

A sober look at the scale of the problem is crucial: even prior to the Russian invasion of Ukraine the "investment gap" for reaching the EU's 2030 emissions reduction targets was already significant. For example, according to a report of Agora Energiewende and Climate & Company, the entirety of EU funds (including the Next Generation EU package) could be expected to mobilise approximately €670 billion for the period 2021-27, assuming that the funds are well utilised. This contrasts with public and private investment needs of €2.4 trillion over the same period, to reach a 55% emissions reduction target by 2030.

Given the large investment gap to deliver emissions reduction, and the urgency to shrink the EU's fossil fuel dependence faster, reforming existing funding instruments and introducing new instruments is imperative. Further, a significant proportion of energy transition investments currently planned until 2027 will need to be frontloaded if we are to respond to the short-term impacts of the current crisis without simply shifting our energy imports from Russia with fossil fuel imports from elsewhere.

Hence the urgency of evaluating what it will take to phase out the EU's dependence on imported fossil fuels, looking at key short-term and medium-term measures that the European Commission and Member States could take to significantly front-load and accelerate investments in the energy transition.

In this briefing, we provide an overview of selected measures and reforms that could be part of the upcoming plan announced by the European Commission in its RepowerEU communication.

1. Harnessing the Recovery and Resilience Facility

Although the Recovery and Resilience Facility (RRF) was initially devised as a response to the pandemic, it is a readily available instrument that can be used to tackle multiple crises by accelerating the energy transition: the majority of Recovery and Resilience Plans (RRPs) have already been approved and are at the implementation stage, and they include substantial investments for the green transition. However, complementary measures should be taken for harnessing the RRF in the current context.

First, several Member States have chosen to use only the grant facility of the RRF while the loan facility, which provides cheap finance, could be tapped into to increase investments in the energy transition. Member States that have not used the loan facility should be encouraged to do so, and the allocation key between Member States for the loan part of the facility could be reviewed if needed to allow Member States who need it but already used it to access more loans.

Second, Member States should be encouraged to frontload investments in the energy transition that are already in NRRPs (National Recovery and Resilience Plans) and approved by the Commission and the Council. The Commission could accelerate the disbursements of funds that are exclusively dedicated to renewables, energy efficiency and savings, storage, grids, and sustainable mobility, as long as the "Do No Significant harm principle" principle and public participation processes are respected. Front-loading would allow Member States to reduce their reliance on imported fossil fuels faster.

Third, according to both CAN Europe's assessment and the Green Recovery Tracker, at least seven recovery plans include investments in fossil gas related infrastructure. In the light of recent developments, and although the RRF allows gas investments under certain circumstances, the Commission should establish a procedure giving Member States the possibility to easily replace those with renewable alternatives and associated infrastructure, such as storage facilities. The technical assistance facility should be ready to support Member States to do so, in a manner that respects the DNSH principle and ensures civic participation.

2. Better use of cohesion, regional development and just transition funds

With a total budget of almost €400 billion for the period 2021-27 split among four funds (Cohesion Fund, European Regional Development Fund, European Social Fund, Just Transition Fund) cohesion policy funds represent about 40% of the MFF 2021-27 (excluding additional Next Generation EU resources), and 22% total MFF and NGEU resources.

Despite a nominal 20% target for green transition investments in the previous MFF (2014-2020), less than 10% of EU cohesion and regional development funds were mobilised to finance clean energy infrastructure. As Operational Plans for the period 2021-27 are currently being drafted and negotiated with the Commission, EU Member States must prioritise rolling out investments that can decarbonise their energy and transport systems to reduce their reliance on all fossil fuels. Although the absorption of cohesion, regional development and just transition funds is slower compared to the RRF, these funding instruments are crucial for the EU to reduce its reliance on both domestic and imported fossil fuels in the medium-term, to 2027, and for Member States to revise their National Energy and Climate Plans coherently to deliver the EU's Paris Agreement commitment.

3. Climate-proofing State Aid

The Commission announced the relaxation of State aid rules in the short-term, including a fast-track process for Rescue and Restructuring Aid, prioritising gas utilities, and the adoption of a Temporary Crisis Framework to provide a life-line to companies affected by high gas prices, prioritising energy-intensives. The planned relaxation of State aid rules should not repeat the mistakes of the pandemic period. Indeed, unconditional bailouts of companies most exposed to fossil fuel prices, such as gas utilities and steel, cement and chemicals industries, may provide a necessary immediate relief but are in fact locking them into a high carbon intensity business model and disincentivising their necessary restructuring and transition. Relaxed State aid rules with no-climate-strings attached would increase the beneficiary companies' exposure to volatile fossil fuel prices, while getting them off-track to achieve current emission reduction targets.

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 for fossil gas will avoid lock-in to fossil fuels, and will not contradict the Union's 2030 emission reduction targets in the recently adopted State aid Climate Energy and Environmental Aid Guidelines (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 in the mid-term.

Further, EU State aid rules still allow the financing of fossil gas infrastructure via national budget, as the CEEAG openly describes gas as a transition fuel in various chapters[1]. A re-evaluation is necessary for disincentivising Member States to subsidise new fossil gas infrastructure.

4. Excluding fossil gas from all EU funding instruments

The Commission should walk the talk of ending the EU's reliance on imported fossil gas, and ending fossil fuel subsidies, by permanently excluding the possibility to finance fossil gas related infrastructure using EU money. The majority of EU funding instruments (including cohesion policy funds, the InvestEU pillar of the Just Transition Mechanism, and Next Generation EU) still allow the financing of fossil gas related infrastructure. To put it plainly, taxpayers' money is used to deepen our reliance on imported fossil fuels in full contradiction with the RepowerEU stated goals.

5. Phasing out fossil fuel subsidies

As analysed in a report by the European Court of Auditors, Member States have failed to substantially reduce fossil fuel subsidies while, most significantly, 15 Member States still allocate more subsidies to fossil fuels than they do to renewable energy. This constitutes a major obstacle for delivering a fast energy transition as the consumption of fossil fuels is incentivised to the detriment of renewable energy sources, perpetuating the EU economies' dependence on imported fossil gas, oil and coal. At the same time, many governments have reacted to the current energy crisis triggered by the invasion by indiscriminately increasing fossil fuel subsidies. Short-term measures such as fuel tax cuts are not only undermining the medium term goal of cutting the EU's energy dependence on imported fossil fuels, but are equally poorly targeted and failing to protect vulnerable households.

Although the EU and Member States have committed to phase out fossil fuel subsidies by 2025 at the latest, accelerating the energy transition to phase out the EU's dependence on imported fossil fuels requires bringing this date forward. An accelerated phasing out of fossil fuel subsidies should be coupled with measures to protect low-income households through targeted financial schemes to accelerate the installation of sustainable heating and cooling systems, home insulations, and access to cheap decarbonised transport options, including public transport. Concrete plans to end fossil fuel subsidies in a just and fair way are more important

[1] See NGO letter by CAN Europe and NGO partners on fossil fuels in the draft CEEAG: https://caneurope.org/content/uploads/2021/10/NGOs_CEEAG-letter-to-the-Commission-FINALF.pdf

now than ever to both stop fossil fuel import dependency and to follow the agreed Glasgow Climate Pact with actions where a phase-down of inefficient fossil fuel subsidies globally was agreed at the COP26.

6. Improving climate mainstreaming methodologies

Even though at least 30% of the EU budget needs to be dedicated to the climate transition, the methodologies used to define what constitutes climate spending (i.e. climate mainstreaming) remain extremely loose as have been heavily criticised both by the European Court of Auditors and the European Parliament's Budget Committee.[2] While a significant proportion of investments financed by the EU, for instance in the scope of the cohesion policy funds, are nominally contributing to the 30% climate transition spending targets, they are, in many cases, weakly contributing to emissions reduction objectives or climate adaptation - if at all.

To maximise the positive impacts of the EU budget and its individual funds on the energy transition, and to deliver an accelerated phase out of the EU's dependence on fossil fuels, the European Commission needs to significantly tighten climate mainstreaming methodologies: investments tagged as contributing to the 30% overall spending target for the climate transition need to have a demonstrable impact on the reduction of fossil fuels use, carbon emissions, and adaptation to climate change.

7. A new fiscal framework to support the climate transition

Even in a scenario of exemplary mobilisation of EU funds, the "green investment gap" would remain large, particularly for delivering an accelerated energy transition to rapidly shrink fossil fuel imports. Filling the green investment gap requires both the mobilisation of national budgets and of private finance (see below on the EU taxonomy).

Concerning national budgets, the EU fiscal framework is currently heavily skewed towards austerity and would risk resulting in significant budget cuts, impeding the mobilisation of sufficient public finance for investments in a socially just energy transition once the waiving of the block's debt and deficit rules ends ("general escape clause").

Both CAN Europe and other organisations have proposed a just and green investment rule that would exclude climate and just transformation related expenditures from the calculation of deficit limits. Along with additional reforms proposed by CAN Europe for a transformed fiscal framework, this would ensure that sufficient public funds are available to finance an accelerated phase out of fossil fuels in a socially just manner.

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[2] Climate earmarking consists in the methodologies used to tag expenditures that are considered to contribute to climate and environmental targets. For example, concerning the ERDF, the Cohesion Fund and the Just Transition Fund, these are detailed in Annex 1 of the Common Provisions Regulation: https://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=CELEX:32021R1060&from=EN#d1e32-252-1.

If reforming the EU fiscal framework for ensuring sufficient national expenditures in the energy transition was already an imperative prior to the war, it is becoming a sine qua non after the war. The Commission's plan announced in the RepowerEU communication should include ambitious proposals in this direction.

8. Excluding gas and nuclear from the EU taxonomy

In addition to the mobilisation of additional public finance, filling part of the climate investment gap through private finance means that the EU's sustainable finance strategy, of which the EU taxonomy is a cornerstone, cannot afford greenwashing and investment incentives in fossil fuels.

However, in total contradiction with the RepowerEU agenda for phasing out the EU's dependence on fossil gas, the European Commission has tabled to the European Parliament a Complementary Delegated Act (CDA) to the EU taxonomy that would classify fossil gas as a green activity.

Even before the invasion of Ukraine, the CDA granting a green label to fossil gas was openly undermining both the EU's own emission reduction targets under the Green Deal and the Paris Agreement. According to the European Commission's impact assessment, gas consumption in the EU will need to decline by approximately 32-37% to reach 2030 targets, and according to the International Energy Agency's 1.5°C scenario, electricity in the OECD countries must be 100% zero-emission by 2035.

Given the imperative of accelerating the energy transition even further to stop the EU's energy dependence on imported fossil fuels in general, and fossil gas in particular, the European Commission should withdraw the EU Taxonomy CDA. If the Commission refuses to do so, we call on MEPs to firmly reject the CDA.

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