Modernisation Fund - memo for ENVI Committee members

The objective of the Modernisation Fund is to support the modernisation of the energy sector in low-income Member States in the EU.

What does the European Commission propose to change in the current EU ETS reform (Modernisation Fund part) as part of the Fit for 55 package?

The key changes proposed by the Commission compared to the current Directive are:

- Exclusion of all fossil fuels (and not just solid fossil fuels as in the current Directive) from the scope
- The augmentation of the Fund through the creation of a second Modernisation Fund (MF2) with an additional 2,5% of the total number of allowances for the period 2024-2030. The eligibility criterion is different compared to the old MF (MF1) to reflect the change in the definition of a low-income MS in the EU since 2013, which was the base year inMF1. MS are eligible for MF2 if their GDP per capita in 2016-2018 was lower than 65% of the EU average. This choice in effect maintains the eligibility for all 10 MS that already had access to the MF1 and also renders Greece and Portugal eligible for MF2.
- Decrease the share of the Fund allowed for non-priority projects from 30% to 20%

What do we recommend?

The Modernisation Fund is a strategic source aimed at accelerating the renewable-oriented transition in the low income Member States in the EU including the CEE region. Such a transition is more urgent than ever in the context of the ongoing energy price crisis, exacerbated by the war in Ukraine and the need to become independent from Russian fossil fuel imports. Therefore it is absolutely essential to have an augmented Modernisation Fund with an even stronger focus on clean energy transformation, excluding investments in all infrastructure using fossil fuels and nuclear energy.

Hence, for the upcoming vote in ENVI on 16-17 May, we urge you to fight for this Fund to become clean and help your country make a faster transition towards climate neutrality through:

1. **Rejecting all amendments which decrease the size of the new Modernisation Fund** (MF2) below 2,5% or change the corresponding eligibility criterion, namely amendments 11, 50, 826, 827, 830,838, 1234, as well as any compromise amendment in the voting list with the same effect.
2. **Rejecting all amendments which render investments in fossil gas eligible**, namely amendments 1243-1248, 1259-1263, 1266-1268 & 1287, and any compromise amendment in the voting list with the same effect.
3. **Supporting all amendments which raise the share of the Modernisation Fund dedicated to priority investments to 100%**, thus eliminating “grey” non-priority investments, namely amendments 75 and 1251, and any compromise amendment with the same effect.
4. **Supporting all amendments that exclude nuclear energy infrastructure** from the Modernisation Fund, namely amendments 74, 1241, and 1242 and any similar compromise amendment.
5. Making Modernisation Fund a **more visible issue in the European Parliamen**t by making an intervention and in your **national debate** by speaking about it to the media and monitoring the way your MS uses its share from the MF.
6. Being **active during trilogues** to advocate for the increase of the size of the Fund, but removing eligibility for fossil gas and nuclear energy infrastructure as well as non-priority projects.
7. Support the same recommendations during the **Plenary vote** on the ETS Directive in June 2022.

More reading:

- [How the EU Modernisation Fund can be a driver for the fossil-free energy transformation]

In case of questions please do not hesitate to contact the following persons:

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General information on the Modernisation Fund

The current scope of the Fund

The Modernisation Fund supports investments in:

- generation and use of electricity from renewable sources;
- improvement of energy efficiency (including in transport, buildings, agriculture, waste, and except in energy efficiency related to energy generation using solid fossil fuels);
- energy storage;
- modernisation of energy networks (including district heating pipelines, grids for electricity transmission, an increase of interconnections among Member States); and
- support for a just transition in carbon-dependent regions in the beneficiary Member States (including support to the redeployment, re-skilling, and up-skilling of workers, education, job-seeking initiatives, and start-ups, in dialogue with social partners).

The Modernisation Fund cannot finance investments that involve solid fossil fuels unless such investments relate to efficient and sustainable district heating in Bulgaria and Romania (Member States with a GDP per capita below 30% of the Union average in 2013).

In practice:

900 m EUR spent so far in 2021, among which 123 m EUR was already allocated to 3 programs that allow for using gas in heating and energy (high-efficiency co-generation). Full expected funding for these multiannual programs, according to files submitted by Poland and Slovakia, reaches 1,4 bn EUR (see table here, after scrolling down the site). See briefing on The role of the Energy Efficiency Directive (EED) for public finance mechanisms, where we describe the roots of this problem.

The eligible Member States

According to the funding Regulations which is ETS Directive, the countries that meet the definition of beneficiary Member State are Bulgaria, Croatia, Czechia, Estonia, Hungary, Latvia, Lithuania, Poland, Romania and Slovakia[1]. [ETS Revision proposal adds Greece and Portugal].

Which current provisions are problematic?

a. The non-priority section (30% of the Fund, dedicated to projects/programs falling outside the priority areas described above) criteria allow explicitly for using fossil gas in the modernisation which creates a risk of gas-lock-in.
b. Non-priority section (30% of the Fund) is quite open for interpretation, which risks non-strategic use of the Fund.
c. Fossil gas investment also can be justified as a priority project/program if there is a holistic energy system modernisation, in line with energy efficiency first principle (understood as obeying current “highly efficient district heating” and “high-efficiency cogeneration” definitions[2]) - see examples for Poland and Slovakia quoted above.
d. Supporting nuclear energy generation is eligible.

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[1] MS with GDP per capita in 2013 below 60% of the EU average

[2] embedded in Energy Efficiency Directive (those might change in course of EED recast)