European Parliament

REPowerEU chapters in recovery and resilience plans

The European Parliament's Committees on Budgets (BUDG) and Economic and Monetary Affairs (ECON) support the use of the Recovery and Resilience Facility (RRF) as the main funding tool of the European Commission's REPowerEU plan. During its November I plenary session, Parliament is due to debate and vote on the BUDG and ECON committees' joint report, which includes various changes to the Commission proposal to amend the RRF Regulation. Once endorsed, the report would become Parliament's mandate for interinstitutional negotiations.

Background

In response to the hardships and global energy market disruption caused by Russia's war on Ukraine, the Commission presented the REPowerEU plan. Its aim is to end the EU's dependence on Russian fossil fuels and accelerate the green transition. While investment needs in energy are already considerable, REPowerEU further increases them (an additional €210 billion between now and 2027, to be met by the private and public sectors). To contribute to their financing, the Commission is proposing to use the RRF, the major investment tool the EU has put in place to help Member States emerge from the pandemic crisis. An EPRS analysis shows that, overall, the National Recovery and Resilience Plans (NRRPs), through which the RRF is implemented, already have a strong focus on energy, investing €88.49 billion (17.9 % of their resources) to support multiple investment and reform measures in the area of energy efficiency, clean energy, and infrastructure.

European Commission proposal

The Commission proposal introduces targeted amendments to the RRF Regulation, to accelerate and deepen energy reforms and investments across the EU. In particular, Member States that modify their NRRPs would have to submit a dedicated REPowerEU chapter focusing on REPowerEU objectives. Measures improving energy infrastructure to meet immediate security of supply needs for oil and gas would have a targeted exemption from the obligation to apply the 'do no significant harm' (DNSH) principle relating to the environment. Moreover, measures included in the new chapters would be exempted from contributing to the digital target requirement (at least 20 % of the national allocation), while the climate target requirement (at least 37 %) would apply.

The proposal envisages that REPowerEU chapters be financed by: i) resources still available for RRF loans (estimated at around €225 billion); ii) additional resources for grants through revenues generated by the market stability reserve under the emissions trading system (ETS, €20 billion); and iii) voluntary transfers from various EU budgetary tools under shared management (up to €52.3 billion). Member States should communicate their non-binding intention to submit a loan request to the Commission within 30 days after the entry into force of the amended RRF Regulation. The aim is to ensure orderly redistribution of the remaining resources, including to Member States that have already requested their entire RRF loan allocation. The deadline to request RRF loans is 31 August 2023.

European Court of Auditors

According to the European Court of Auditors (ECA), the proposal provides a comprehensive overview of the context and main challenges, but has various weaknesses. In particular, the proposed funding – notably the €20 billion of fresh resources – may be insufficient to cover estimated needs, while the delivery mechanism based on measures proposed by Member States may fail to finance projects of strategic importance for the EU as a whole. Moreover, the unchanged key for allocating resources would not reflect Member States' specific needs in the context of REPowerEU.

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Council position

On 4 October 2022, the Council agreed its position, which puts forward several changes to the Commission proposal. The source of funding of the additional €20 billion in grants would be different: 75 % would come from the Innovation Fund, and 25 % from the frontloaded auctioning of ETS allowances (and not from the ETS market stability reserve). The Council has also modified the allocation of that additional €20 billion: a new distribution key, linked to cohesion policy, national dependence on fossil fuels, and the increase in investment prices, would replace the standard RRF distribution key. The Brexit Adjustment Reserve and the Just Transition Fund would be added to the list of EU instruments from which Member States can transfer resources voluntarily. Another change to the proposal would enable Member States to include in their REPowerEU chapters measures from their original plans that are no longer achievable on account of their RRF grant allocation having been revised downwards in June 2022. Lastly, the Council requires that Member States provide the Commission with a justification when they wish to derogate from the DNSH principle for investments in infrastructure and facilities to meet immediate security of supply needs for oil and gas.

European Parliament position

On 23 June 2022, Parliament adopted a resolution on the implementation of the RRF based on an own-initiative report by its BUDG and ECON committees. Various points focus on the RRF's role in mitigating the consequences of Russia's war on Ukraine, highlighting the need to enhance the contribution of EU funding instruments, notably the RRF, to tackling such challenges. On 25 October 2022, the BUDG and ECON committees adopted their joint report on the Commission proposal by a large majority (with 80 votes in favour, 6 votes against, and 4 abstentions). The report supports the inclusion of REPowerEU chapters in NRRPs, introducing various amendments to the text proposed by the Commission. New provisions are designed to ensure that REPowerEU chapters prioritise investment schemes aiming to tackle energy poverty for vulnerable households, small businesses and micro-enterprises, while devoting at least 35 % of the chapters' grant and loan resources to measures that have a multi-country dimension or effect. With regard to investments improving energy infrastructure and facilities to meet immediate security of supply needs, the report allows for such investments only in relation to gas, not oil. As regards possible derogations from the DNSH principle for such investments, the report adopts a stricter stance than the Council position, by maintaining the DNSH principle as applicable by default unless very narrow cumulative conditions are met (e.g. measures have to be in operation by 31 December 2024).

Other amendments reinforce the consultation of stakeholders, such as non-governmental organisations and social partners. An earlier auctioning of national emissions allowances under the ETS would finance the additional €20 billion in grants, replacing the use of the ETS market stability reserve. The distribution key for REPowerEU grants would depend on Member States' energy dependency rate, the increase in energy-related costs for households, and the share of fossil fuels in gross inland energy consumption. Member States would be able to request pre-financing worth up to 20 % of the chapters. The additional transfer possibilities from cohesion and agricultural funds have been deleted. Cohesion funds could, however, be earmarked for measures contributing to REPowerEU, without any transfer to the RRF. The Commission is asked to identify additional funding for REPowerEU measures, including through the use of unspent EU resources, in particular from the 2014-2020 period. Regarding loans, the report provides for legal consequences to result from the Member States' declaration of intention. The possibility of obtaining loans for Member States that have not declared their intention within the deadline would be conditional on the availability of resources following the approval of the loan support requests for Member States having done so within the deadline.

The joint committee report is expected to be debated and voted during the European Parliament's November I part-session, and would be Parliament's mandate for negotiations with the Council.

First-reading report: 2022/0164(COD); Committees responsible: BUDG and ECON, jointly under Rule 58; Rapporteurs: Siegfried Mureşan (EPP, Romania); Eider Gardiazabal Rubial (S&D, Spain); Dragoş Pîslaru (Renew, Romania). For further information see our EPRS briefing.