Agreement on REPowerEU chapters in recovery and resilience plans

During its February II plenary session, the European Parliament is due to examine the provisional agreement reached with the Council on an amendment to the Recovery and Resilience Facility (RRF) Regulation. If approved, the RRF will become the main funding tool of the European Commission's REPowerEU plan, enabling Member States to finance additional investment and reform measures in energy under their recovery and resilience plans.

Background

In May 2022, the Commission presented the REPowerEU plan, with a view to ending the EU's dependence on Russian fossil fuels and accelerating the green transition. REPowerEU increases already huge investment needs in energy by an additional €210 billion, to be met by the private and public sectors between now and 2027. The Commission has proposed that the EU contribute to their financing through the RRF, the major investment tool that is helping Member States emerge from the pandemic crisis. According to an EPRS analysis, the energy sector already features prominently in the national recovery and resilience plans (NRRPs) that implement the RRF. Overall, 26 NRRPs devote 17.9 % of their resources (€88.49 billion) to funding numerous investment and reform measures on energy efficiency, clean energy and infrastructure.

European Commission proposal

The Commission has proposed to amend 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. Investment in 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 linked to the environment. The climate target requirement (at least 37 % of the allocation) would apply to the new chapters; the digital target (at least 20 %) would not. The assessment and approval procedure would resemble that of the original plans, but would include new REPowerEU-specific criteria. Financing of the new chapters would be provided 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 for requesting RRF loans is 31 August 2023.

Legislative procedure

The European Parliament and the Council immediately started examining the proposal, while the European Court of Auditors (ECA) identified a number of weaknesses in it, including a possibly insufficient level of funding – notably the €20 billion of fresh resources – and the risk of measures proposed by Member States not fully matching cross-border EU priorities. Both the Council position (agreed on 4 October 2022) and the Parliament's mandate for negotiations (10 November 2022, based on a joint report of its BUDG and ECON committees) put forward various changes to the Commission proposal. On this basis, the institutions started trilogue negotiations over the proposed targeted amendments to the RRF Regulation.

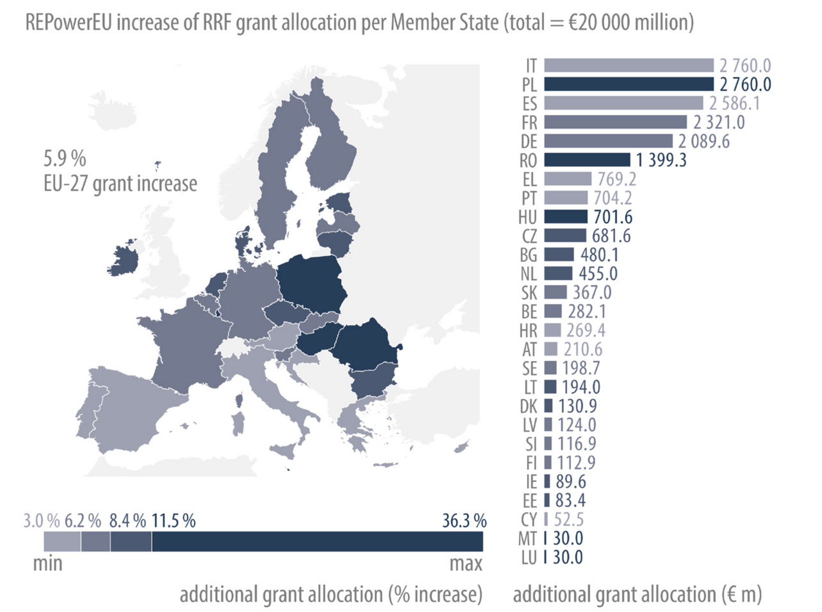
European Parliament

On 14 December 2022, the negotiating teams of the European Parliament and the Council reached a provisional agreement under which Member States applying to receive additional RRF resources through an amended NRRP will have to include new or reinforced measures to save energy, produce clean energy,

EPRS | European Parliamentary Research Service
Author: Alessandro D'Alfonso; Graphic: Stéphanie Pradier, Members' Research Service
PE 739.330 – February 2023
EN

and diversify energy supplies. The agreement confirms that sums still available under RRF loans can be requested to finance REPowerEU measures. The additional €20 billion in grants will be financed through the frontloaded sale of ETS allowances (40 %) and the resources of the Innovation Fund (60 %), both replacing the revenue generated by the ETS market stability reserve, that the Commission had proposed. Likewise, the proposal to use the original RRF distribution key to allocate new REPowerEU grants has not been retained. Instead, the formula for the distribution of these extra resources will take into account cohesion policy, Member States' dependence on fossil fuels and the increase of investment prices. Figure 1 shows how the targeted amendments to the RRF Regulation will reinforce the maximum RRF grant allocation of each Member State, both in absolute and relative terms. In addition, Member States will be able to transfer voluntarily an additional €5.4 billion in grants from the Brexit Adjustment Reserve (BAR), on top of the existing transfer possibilities of up to €17.9 billion in grants from cohesion policy funds.

Figure 1 - Increase in RRF grant allocation by Member State



Data source: EPRS, based on Commission data and provisional agreement.

Support can be granted for new reform and investment measures whose implementation starts from 1 February 2022 onwards, and for reinforcing measures already included in the original plans. By way of derogation, Member States that were subject to a reduction in their maximum financial contribution after the final recalculation of RRF allocations in June 2022 may also include measures referred to in the original NRRPs without scaling them up, and this up to an amount of estimated costs equal to the decrease in their maximum financial contribution.

On 11 January 2023, the joint BUDG and ECON committee approved the text agreed in interinstitutional negotiations, which includes various modifications to the Commission proposal in line with Parliament's mandate. For example, the text enhances the provisions on the DNSH principle that will continue to apply to all the financed measures with a targeted derogation, under strict conditions, for energy infrastructure and facilities needed to meet immediate security of supply needs. As included in the Parliament's mandate for negotiations, Member States will be entitled to receive pre-financing worth 20 % of their REPowerEU chapters. In addition, Parliament negotiators ensured that provisions support investment schemes aimed at tackling energy poverty for vulnerable households, small businesses and micro-enterprises, while devoting at least 30 % of resources to measures with a multi-country dimension or effect. Not least, and importantly for the scrutiny of the RRF, a new article on transparency on final beneficiaries would apply not only to REPowerEU chapters but also to the entire plans, obliging each Member State to create and regularly update a public portal providing information on the 100 final recipients of the highest amounts of RRF funding under its NRRP.

The agreed text introduces targeted amendments in the RRF Regulation, the current Common Provisions Regulation (CPR) and the ETS Directive (as already envisaged in the original proposal), as well as in the 2013 CPR and the BAR Regulation. The provisional agreement needs to be adopted by both the European Parliament, which is due to vote on it during its February II plenary session, and then 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.