



EU funds need to catalyse the transition away from fossil fuels

The Recovery & Resilience Facility (RRF), the Just Transition Fund (JTF) and the European Regional Development Fund and Cohesion Fund (ERDF/CF) together amount to over €943 billion¹.

These funds represent an unprecedented investment in EU economic recovery, structural reforms and regional development. How these funds are designed and spent depends on member state priorities and will send a signal to investors. The investments will furthermore shape Europe for decades to come - including whether it achieves or fails to meet its climate, environment and biodiversity commitments and whether this happens in a just and inclusive manner.

This briefing outlines the opportunities to use the funds effectively. Financing fossil fuels, including fossil gas projects, will fail to deliver a fairer, healthier and sustainable future for the EU's citizens.

In summary:

1. All 3 funds must exclude fossil fuels, including fossil gas, without exception
2. All 3 funds must be subject to minimum measurable do no harm criteria
3. Just transition funding should reward climate ambition and incentivise it, even while taking into account the starting points of the member states

The opportunities

The RRF will enable member states to deliver on the reforms and investments planned in their Recovery and Resilience Plans and to implement structural reforms. The level of investment envisaged presents an unparalleled opportunity to invest in the decarbonisation of all sectors of the economy and to deliver a just transition to a climate neutral EU as it includes an explicit objective to support the green and digital transitions in Europe.

Likewise, the JTF will enable regions and their communities to address the socio economic impacts arising from the transition away from fossil fuel dependency and facilitate a transition to fairer, sustainable and more prosperous, local economies.

¹ 2018 prices

To send a clear signal on the direction of transformation and commitment to climate action

Climate and environment objectives have to be defined in each case through strategic programming. The programming in turn is an opportunity to multiply the investments of public funds by signaling the direction of change in an economy and the commitment of regions and member states to meet their climate and environment targets.

Furthermore, the large volume of the funds and the types of investment made will determine the future shape and composition of the European economy. A recent [legal analysis](#) by ClientEarth recognises the significant impact of available public European funding. This has implications for the RRF and other EU funds, namely requiring the exclusion of investment in gas-reliant energy projects: fossil gas investments would be inconsistent with the emission reductions and clean energy investment required by parties to the Paris Agreement and the European Green Deal.

To seize this opportunity, fossil fuel investments must be excluded from qualifying as recovery, development and cohesion, or transition investments.

To drive a decisive leap forward, including in Europe's poorest and most challenged regions

The time for step changes is over. Europe needs to cut its greenhouse gas emissions by at least 65% by 2030.

Europe's regions deserve better than second rate investments in fossil gas. Not only are renewable energy investments equal in cost to - or even cheaper than - new fossil gas investments², they avoid the need for further transition in 10 years' time. New storage techniques as well as new battery storage are increasingly competitive against gas peaker plants³ and investing now in renewable energy solutions rather than gas makes sense to drive upskilling and capacity building for these technologies of the near and long-term future. It also avoids stranded assets. The heating and cooling sector offers a whole range of place based approaches to combine renewable energy sources with the renovation of the building sector.

A just transition requires the creation of decent, locally-available and secure jobs. It also requires that the costs of the transition do not disproportionately burden society's most vulnerable. Investments in new fossil gas will deliver neither of these requirements. Gas does not generate high

² Bloomberg New Energy Finance, 'Scale-up of Solar and Wind Puts Existing Coal, Gas at Risk', 2020, [https:// about.bnef.com/blog/scale-up-of-solar-and-wind-puts-existing-coal-gas-at-risk/?sf121491850=1](https://about.bnef.com/blog/scale-up-of-solar-and-wind-puts-existing-coal-gas-at-risk/?sf121491850=1)

³ Energy Storage News, 'BloombergNEF: 'Already cheaper to install new-build battery storage than peaking plants', 2020, <https://www.energy-storage.news/news/ bloombergnef-lcoe-of-battery-storage-has-fallen-fasterthan-solar-or-wind-i>

numbers of jobs - and if so, those are not local. Moreover, if built now, new fossil gas pipelines and boilers would need to be replaced long before the end of their operational lifetimes and it is communities and taxpayers who will be left to foot the bill. By contrast, renewables are labour intensive, solar can generate two to three times more jobs for the same investment as oil and gas⁴.

To seize this opportunity, recovery, regional development and transition funds should support and facilitate investment in renewable energy and renewable energy supply chains and energy savings, instead of investing in new fossil fuels.

To reward and incentivise real climate ambition

The impacts of the climate crisis will be worst felt by the most vulnerable, the ill-equipped to adapt and those who often live in the regions where the negative climate impacts are most catastrophic. As such, a just transition must be managed, so that the advantages can be shared in all regions. Transition, recovery and development funds should not only avoid slowing the transition, they should actively promote it in a socially just and strategic way.

To seize this opportunity:

- **The ERDF and JTF must explicitly exclude all fossil fuels from financing and as an absolute minimum, include a do-no-significant-harm criterion for all investments. This can be achieved by maintaining the Commission's proposal in article 6 (h) ERDF and 5 (d) of the JTF Proposal and by adding an additional exclusion (to apply to all investments under the ERDF and JTF) for any investment which doesn't meet the screening criteria set out in the EU Taxonomy, or the EIB's energy lending criteria for investments.**
- **The JTF should include an allocation mechanism which reflects a member state's ambition and which incentivises further climate ambition. This could be achieved through a modification of Article 3b as proposed by the European Parliament (see Annex), or an addition to the allocation criteria set out in Annex I of the JTF Regulation⁵.**

⁴ IEA, Job creation per million dollars of capital investment in power generation technologies and average CO2 abatement costs, IEA, Paris <https://www.iea.org/data-and-statistics/charts/job-creation-per-million-dollars-of-capital-investment-in-power-generation-technologies-and-average-co2-abatement-costs>

⁵ See suggestion in the report, "Towards a more just allocation of the Just Transition Fund" by The Green Tank. This would see a new criterion on the transition speed from coal and lignite added to Annex I of the JTF, increasing the shares of Greece, Portugal, Slovakia, Hungary, Slovenia and Bulgaria, while those of Germany, Romania and Czechia decrease. Available here: <https://thegreentank.gr/en/2020/07/03/how-just-is-the-just-transition-fund/>

- **Do no significant harm should apply to all investments under the recovery, transition development funds. The criterion should be objective, meaningful and measurable**

The threats

To open the RRF, JTF and ERDF to fossil gas investments is to make a grave mistake. As outlined in this [briefing](#)⁶, public funding is limited and should be directed at best in class solutions and must exclude the possibility of financing fossil gas infrastructure. To do otherwise would risk crowding out investments that deliver a real transition and would set up further transition requirements in the medium term.

New fossil gas infrastructure built from today onwards will become stranded, raising transition costs, or will derail Europe's climate commitments

According to Paris Agreement-compatible models, fossil gas use will need to cease in Europe by 2035⁷. It is technologically very difficult to retrofit fossil gas infrastructure for 100% renewable gases, including Hydrogen, as well as being prohibitively expensive. Green hydrogen - which is the only type that can be considered compatible with climate commitments⁸ - will not be available in sufficient quantities to replace Europe's gas need and in nearly all instances, including residential heating, direct electrification will be more efficient and cheapest in the medium to long term. Moreover, green hydrogen production and use (which will need to be prioritised for industrial and chemical applications) will be in different locations than current fossil gas infrastructure.

Fossil gas investments will crowd out best in class solutions and miss an opportunity to build a competitive Europe at the cutting edge of progress

Viable policy alternatives, such as heat pumps, need targeted public support to scale up and to achieve their potential to provide cheap and efficient heat and power to end users. Investing public funds into fossil gas infrastructure will instead limit the funding available for these alternatives and will lock-in a polluting model. Meanwhile it will miss the opportunity to scale up European supply chains for technologies of the future, decreasing Europe's future competitiveness and independence.

⁶ "EU Gas Infrastructure Does Not Need More Subsidies", October 2020. Briefing developed with inputs from policy experts at CAN Europe, CEE Bankwatch, E3G and WWF European Policy Office: <https://www.caneurope.org/publications/press-releases/2024-briefing-fossil-gas-should-not-receive-public-funds>

⁷ "Building a Paris Agreement Compatible (PAC) energy scenario", CAN Europe and EEB, 2020 - scenario datasets as published in the PAC scenario technical summary of key elements. Version 1.0, as of 30 June 2020

⁸ Blue Hydrogen results in significant residual emissions, with emissions of 30-120 gCO₂ /kWh, in addition to the methane emissions during production and transportation of fossil gas

Fossil gas will send a negative signal about just transition that will have repercussions for generations

What the EU Regional Development and Just Transition Fund defines as an eligible investment will have implications for what is considered energy transition and just transition compatible in future discussions. Making fossil gas eligible for support will set a dangerous precedent with long-term ramifications for future policy discussions on ETS and associated funds, as well as state aid and national just transition support. It is vital to get the definition right from the start.

Fossil gas does not create jobs and will not provide a cheaper or more energy secure source of power or heat in the medium and long term. Fossil gas infrastructure will become stranded if the EU meets its climate commitments, at great cost to taxpayers and energy users. Moreover, due to rising carbon costs and decreasing costs of renewable energy sources, alongside innovative and battery storage advances, fossil gas will quickly become less competitive than renewable alternatives. Indeed, renewables such as wind and solar PV are already the cheapest source of new electricity generation in many countries⁹. As a fossil fuel it continues to pollute and drive climate change. Fossil gas cannot therefore be consistent with just transition.

A large volume of EU funds risks going to fossil gas projects

Under the current MFF, EU funds have gone to coal boilers¹⁰. Without a strong signal, excluding fossil fuels and including strict emissions performance limits for investments, the EU will make the same mistake, this time by locking in fossil gas.

At €672.5 billion, over €200 billion and €17.5 billion respectively, the RRF, ERDF and JTF must not be opened to fossil gas investments. The consequences for the delivery of a just transition and Europe's climate commitments could be devastating.

Moreover, the nature of the recovery, just transition and regional development funds means they target most the countries with the furthest to go towards climate neutrality. These countries must make the greatest leaps forward and their citizens are most at risk of being left behind. EU funds must therefore be directed to real climate solutions, even if the short term financial costs are higher.

⁹ Bloomberg New Energy Finance, 'Scale-up of Solar and Wind Puts Existing Coal, Gas at Risk', April 2020, <https://about.bnef.com/blog/scale-up-of-solar-and-wind-puts-existing-coal-gas-at-risk/>

¹⁰ See article on Malopolska website, "Słaboszów i Kłaj na wojnie z kopciuchami", November 2020, <https://www.malopolska.pl/aktualnosci/fundusze-europejskie/slaboszow-i-klaj-na-wojnie-z-kopciuchami>

Recommended next steps and opportunities

1. **Exclude fossil fuels as a general rule.**

The RRF, ERDF and JTF together send an important signal to investors and communities about Europe's commitment to a just transition and to its climate goals.

Failing to exclude fossil fuels will set a dangerous precedent in particular for what a just transition and structural reform is and what EU funds can support. Moreover, it will rob communities of the *dedicated* support they have to address the socio economic impacts of the transition, with significant reputational risks for both the EU and the Member States who have committed to leave no one behind in the transition.

2. **Do no significant harm must be embedded as an objectively-defined, meaningful and measurable criterion for all investments under the RRF, JTF and ERDF**

In the ERDF and the JTF this can be achieved through an addition to the respective articles on the exclusion list during the Trilogue negotiations that would exclude any investments not meeting the standards defined in the EU taxonomy delegated acts or, until 2022, the EIB energy lending criteria.

For the RRF the technical operationalisation of the Do No Significant Harm principles has to be put into the law and refer to guidelines (Delegated Act) building on EU taxonomy criteria.

3. **The options to ensure the Just Transition Fund rewards climate action and ambition should be explored, including through the European Parliament's Green Rewarding Mechanism**

This could, if well-framed (see annex I), be an additional help to those member states starting from the most challenging points but aiming relatively high to leave fossil fuels behind and deliver a just transition for their communities. As a minimum, the allocation criteria should be revised such that a proportion of funding is reserved for member states committing to, or planning for, a coal phase out by or before 2030.

Annex

Adaptation suggestions for the conditionality in Article 3b (EP) to make it operational and effective at both rewarding and incentivising meaningful climate ambition.

Option A

“50% of the total of the amounts referred to in the first subparagraph of Article 3(2) and the first subparagraph of Article 3a(1) shall be allocated in accordance with the speed with which the Member States will adopt and implement measures to reduce their greenhouse gas emissions by 2030 as set out in their NECPs submitted before 2021 versus their average emissions in 2016-2018, divided by their latest average GNI per capita.

The remaining funds should be allocated according to the criteria in Annex I. The annual allocation should reflect any revision of the NECPs.”

Option B:

“50% of the total allocation of the amounts referred to in the first subparagraph of Article 3(2) and the first subparagraph of Article 3a(1) should be allocated to Member States according to the following criteria:

25% of the amount mentioned in the first sentence of this article shall be allocated in accordance with the speed with which the Member States adopt and implement measures to reduce their greenhouse gas emissions by 2030 as set out in their NECPs versus their average emissions in 2016-2018, divided by their latest average GNI per capita.

25% of the amount mentioned in the first sentence of this article shall be allocated in accordance with the speed with which the Member States adopt and implement measures to reduce their energy consumption by 2030 as set out in their NECPs versus their average consumption in 2016-2018, divided by their latest average GNI per capita.

25% of the amount mentioned in the first sentence of this article shall be allocated in accordance with the proportional increase in renewables in a Member State to 2030 as part of the energy mix as set out in their NECPs versus their average energy production in 2018, divided by their latest average GNI per capita.

25% of the total amount referred to in the first subparagraph of Article 3(2) and the first subparagraph of Article 3a(1) shall be reserved for allocation to Member States with coal in their energy mix in 2016-2018 and which shall be allocated according to average GNI per capita to those Member States with a coal phase out date announced before end of 2030, in line with efforts to limit global temperature rise to 1.5°C.

The remaining funds should be allocated according to the criteria in Annex I. The annual allocation should reflect any revision of the NECPs in relation to the reduction factors in sub paragraphs 1, 2, 3 and 4 of this article”