The Recovery and Resilience Facility and REPowerEU: a chance to restore the level-playing field?

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oxera

Overview

Energy transition in the EU: the status quo

The Recovery and Resilience Facility (RRF)

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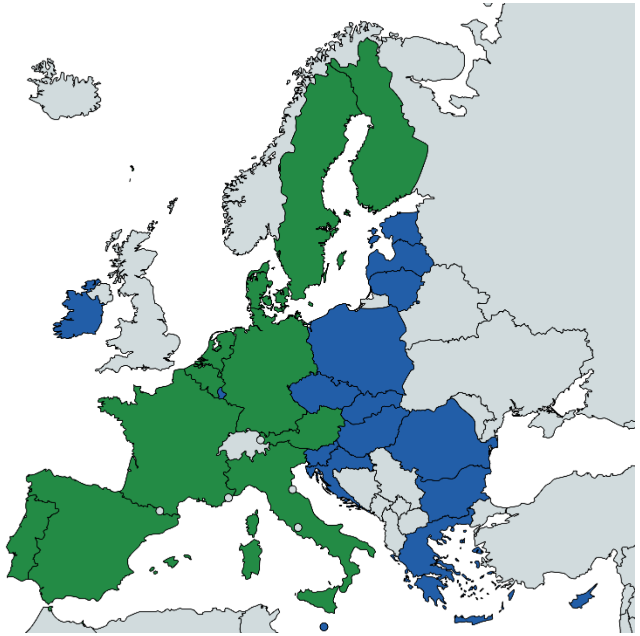
Energy transition in the EU: the status quo

Progress towards the energy transition: the status quo

There are significant differences between member states in terms of progress towards the green transition

- evidence of a **West/East divide**
  - the majority of Eastern European countries are towards the bottom of the World Economic Forum's Energy Transition Index[1]
- there are different views regarding the benefits of renewable energy;[2]
  - some indication that Eastern European countries are more concerned about the **security of supply and diversifying energy sources**[3]
- however, there are also **significant differences** in progress across Western Europe as well as within Central and Eastern Europe (CEE)
  - in Western Europe, the share of renewables in the energy mix is highest in Sweden, Finland and Denmark, and lowest in Belgium and the Netherlands; [4]
  - in the CEE, the share of renewables is highest in Latvia, Croatia and Estonia, and lowest in Hungary and Poland[4]

Classification of member states' priorities in the energy sector

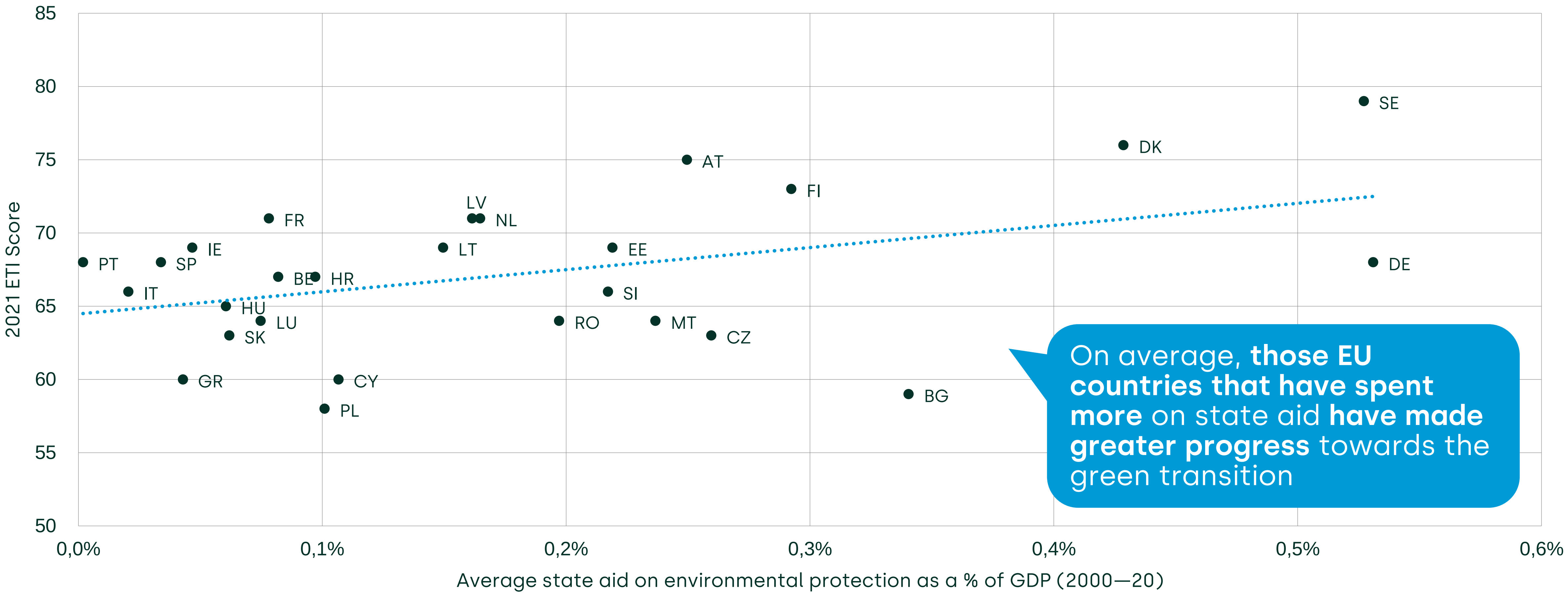


Sources: Oxera reproduction based on Mata Pérez M., Scholten, D., and Smith Stegen, K. (2019), op. cit., Figure 1.

Notes/Sources: [1] World Economic Forum (2021), 'Fostering Effective Energy Transition 2021 edition', Insight Report. [2] Mata Pérez M., Scholten, D., and Smith Stegen, K. (2019), 'The multi-speed energy transition in Europe: Opportunities and challenges for EU energy security', *Energy Strategy Reviews 26*, p. 5. [2] Ibid, pp. 2-3. [3] Ibid, p. 2. [4] The energy mix refers to the share of renewables relative to gross available energy (excluding net imports of electricity). Oxera analysis, based on data from Eurostat (2023), Simplified energy balances, available at: https://ec.europa.eu/eurostat/web/energy/data/database.

State aid in the energy sector: a driver of the energy transition?

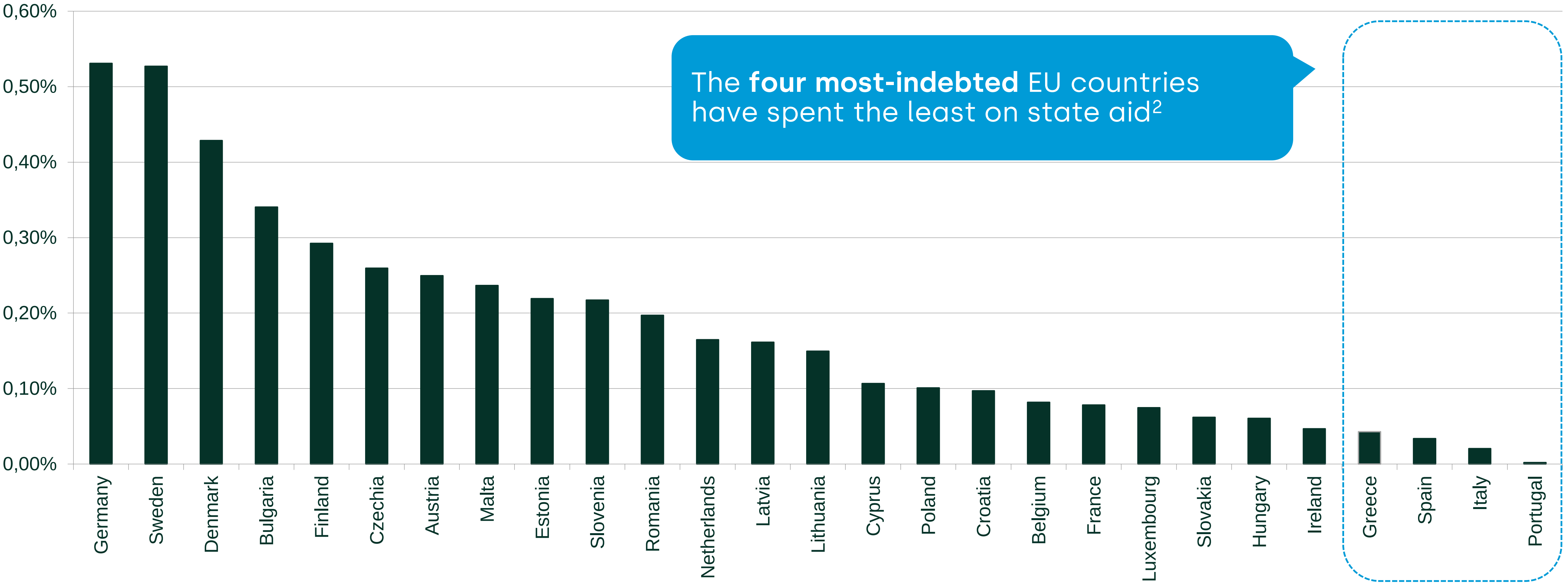
State aid on environmental protection as a % of GDP (2000—20) and the 2021 Energy Transition Index score



Notes: The Energy Transition Index (ETI) as defined by the World Economic Forum. See World Economic Forum (2021), 'Fostering Effective Energy Transition 2021 edition', Insight Report, April, available at: https://www3.weforum.org/docs/WEF_Fostering_Effective_Energy_Transition_2021.pdf.
Sources: Oxera analysis, based on data from Eurostat and the World Economic Forum.

State aid on environmental protection: differences between Member States

Average state aid expenditure on environmental protection as a % of GDP (2000—20)[1]



Notes/Sources: [1] The figure shows state aid that falls within the scope of the Commission's guidelines on State aid for climate, environmental protection and energy, based on Eurostat (2023), State aid Scoreboard 2021, available at: https://webgate.ec.europa.eu/comp/redisstat/databrowser/explore/all/all_themes. [2] Eurostat (2022), 'Government deficit/surplus, debt and associated data', 21 October, available at: https://ec.europa.eu/eurostat/databrowser/view/gov_10dd_edpt1/default/table?lang=en.

The energy crisis, and the differences in the response

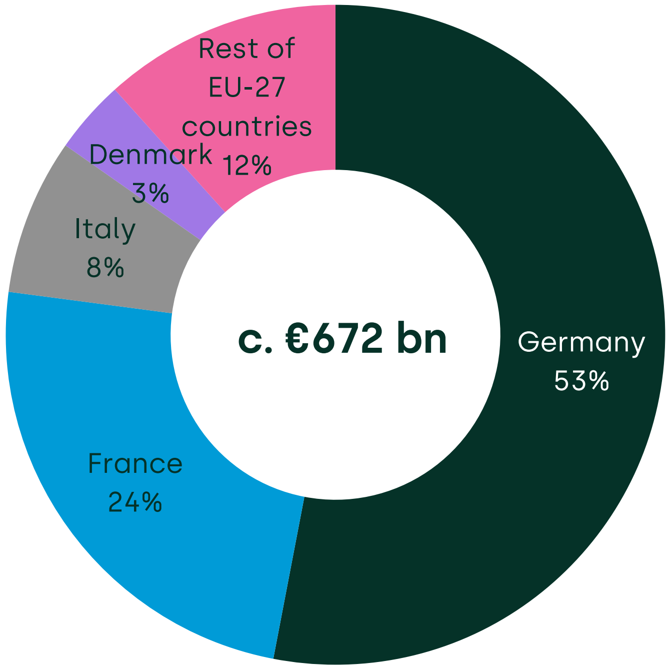
In response to the energy crisis, there have been **significant differences between member states** in the level of **expenditure** on **state aid**

- as noted by Cornago and Springford (2023), the response to the energy crisis has shown that less-indebted countries can provide more generous subsidies[1]
- as of January 2023, **Germany and France** together accounted for c. **77%** of the c. €672bn of state aid approved under the Temporary Crisis Framework[2]

There are differences between Member States regarding the benefits of relaxing state aid control for green investments

- it has been widely reported that views differ, particularly between the Netherlands and Italy versus France and Germany, regarding the benefits of relaxing state aid rules to subsidise green investments;[3]
- on 23 December 2022, six Member States sent a joint non-paper to the Commission, highlighting the risks of relaxing state aid rules[4]

Share of state aid approved under the Temporary Crisis Framework



Source: Oxera analysis based on [Commissioner Vestager's letter to the economic and financial affairs ministers on 13 January 2023](#).

Notes/Sources: [1] Cornago, E. and Springford, J. (2023), 'Europe needs both fiscal and energy solidarity', *Centre for European Reform*, March, p. 2, available at: https://www.cer.eu/sites/default/files/pbrief_energy_solidarity_EC_JS_14.3.23.pdf. [2] Oxera analysis based on Commissioner Vestager's letter to the economic and financial affairs ministers on 13 January 2023. [3] Cornago, E. and Springford, J. (2023), op. cit., p. 2. [4] On 2 February 2023, the original joint statement by Denmark, Finland, Ireland, the Netherlands, Poland and Sweden was also signed by the Czech Republic, Hungary, Latvia and Slovakia. See Euractiv (2023), 'Eleven EU countries urge 'great caution' in loosening state aid rules', 15 February, available at: https://www.euractiv.com/section/economy-jobs/news/eleven-eu-countries-urge-great-caution-in-loosening-state-aid-rules/.

The Recovery and Resilience Facility (RRF)

The Recovery and Resilience Facility (RRF)

At least 37% of RRF funding should be dedicated to the **green transition**[1]

According to the Commission, coordinated action at EU level is **more effective**, not least due to significant **spillover effects** across countries[2]

- EU-wide GDP effects are **one third greater** when taking into account spillover effects from individual country measures;
- spillover effects account for **the majority** of the impact on GDP in **small economies** with smaller Next Generation EU allocations[3]

Countries with the lowest GDP per capita receive more funds (in GDP terms) under the RRF in general

- countries with highest RRF amounts as a percentage of GDP are Greece, Romania, Croatia and Italy[4]

Countries that plan to allocate the **greatest share** of their RRF **to** the **green transition** are **below the EU-27 average** in terms of their share of renewable energy

- e.g., Netherlands, the Czech Republic, Belgium and Bulgaria[4]

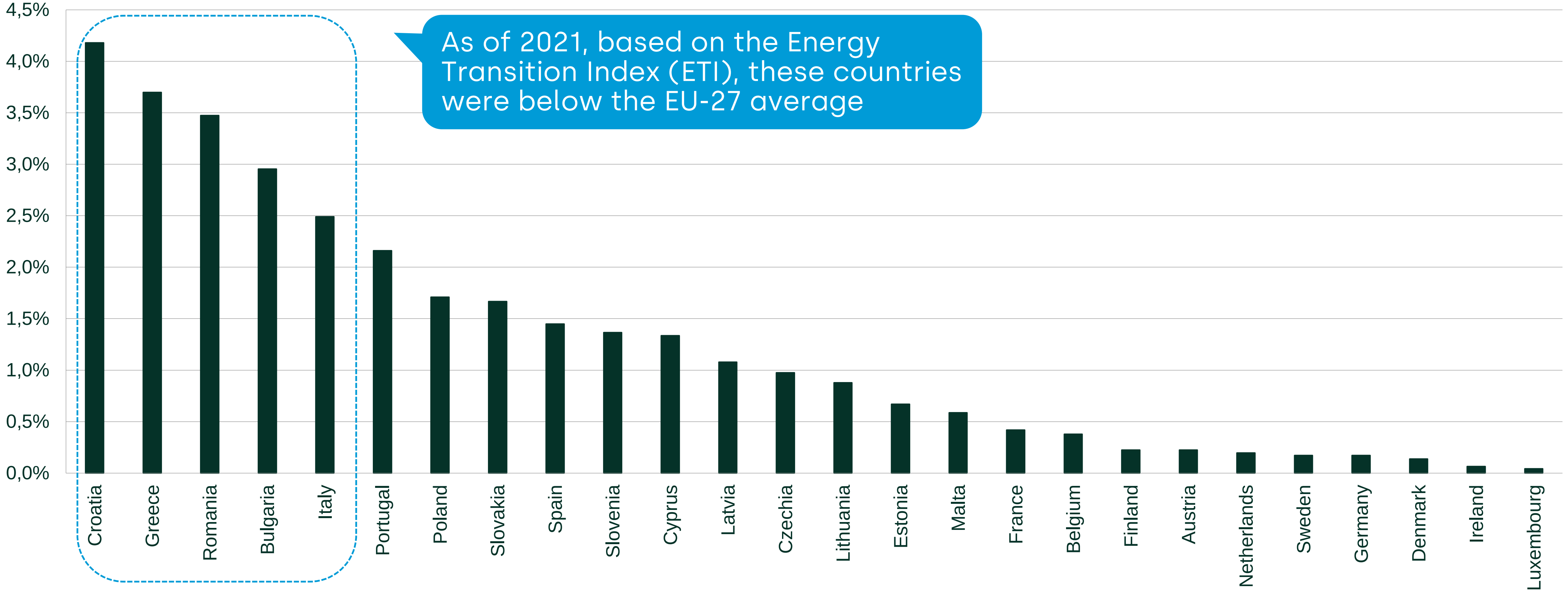
Initial studies confirm that **the RRF is likely to have the greatest impact on growth** in economies with **below-average GDP per capita** (and **those hit the hardest by the pandemic**)

Source: Afman, E., Engels, S., Langedijk, S., Pfeiffer, P., and Veld, J. (2021), 'An overview of the economics of the Recovery and Resilience Facility', *Quarterly Report on the Euro Area*, December, p. 15, available at: https://economy-finance.ec.europa.eu/system/files/2023-03/ip167_en_chapter%20I.pdf. Watzka, S., and Watt, A. (2020), 'The Macroeconomic Effects Of The Eu Recovery And Resilience Facility', *IMK Policy Brief No. 98*, October, p. 10-11, available at: https://www.imk-boeckler.de/fpdf/HBS-007880/p_imk_pb_98_2020.pdf.

Sources: [1] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility. [2] European Commission (2022), 'Recovery and Resilience Facility'. [3] Pfeiffer, P., Varga, J., and Veld J. (2021), 'Quantifying Spillovers of Next Generation EU Investment', *Discussion Paper 144*, July, p. 3, available at: https://economy-finance.ec.europa.eu/system/files/2021-07/dp144_en.pdf. [4] European Commission (2023), Recovery and Resilience Scoreboard, Country Overview, available at: https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/country_overview.html?lang=en.

The Recovery and Resilience Facility (RRF): allocation to the green transition

Amount of the RRF plan in each member state allocated to the green transition as a % of each member state's GDP in 2019



Note: Data is not available for Hungary.
Sources: Oxera analysis, based on data from the Commission. See European Commission (2023), Recovery and Resilience Scoreboard, Country Overview, available at: https://ec.europa.eu/economy_finance/recovery-and-resilience-scoreboard/country_overview.html?lang=en.

REPowerEU: contributing towards reducing dependency on Russian gas

The REPowerEU Plan aims at **tackling the climate crisis**, and **ending** the EU's **dependence on Russian fossil fuels**

In 2021, Russia accounted for c. 41% of all EU imports of natural gas

- reliance on natural gas imports in the EU from Russia has **steadily increased** in the last ten years, rising from c. 30% (2012) to c. 41% (2021);[1]
- however, there are **significant differences** between Member States: as of 2021, the Czech Republic (100.0%), Latvia (100.0%) and Hungary (95.0%) were most dependent on Russian imports[2]

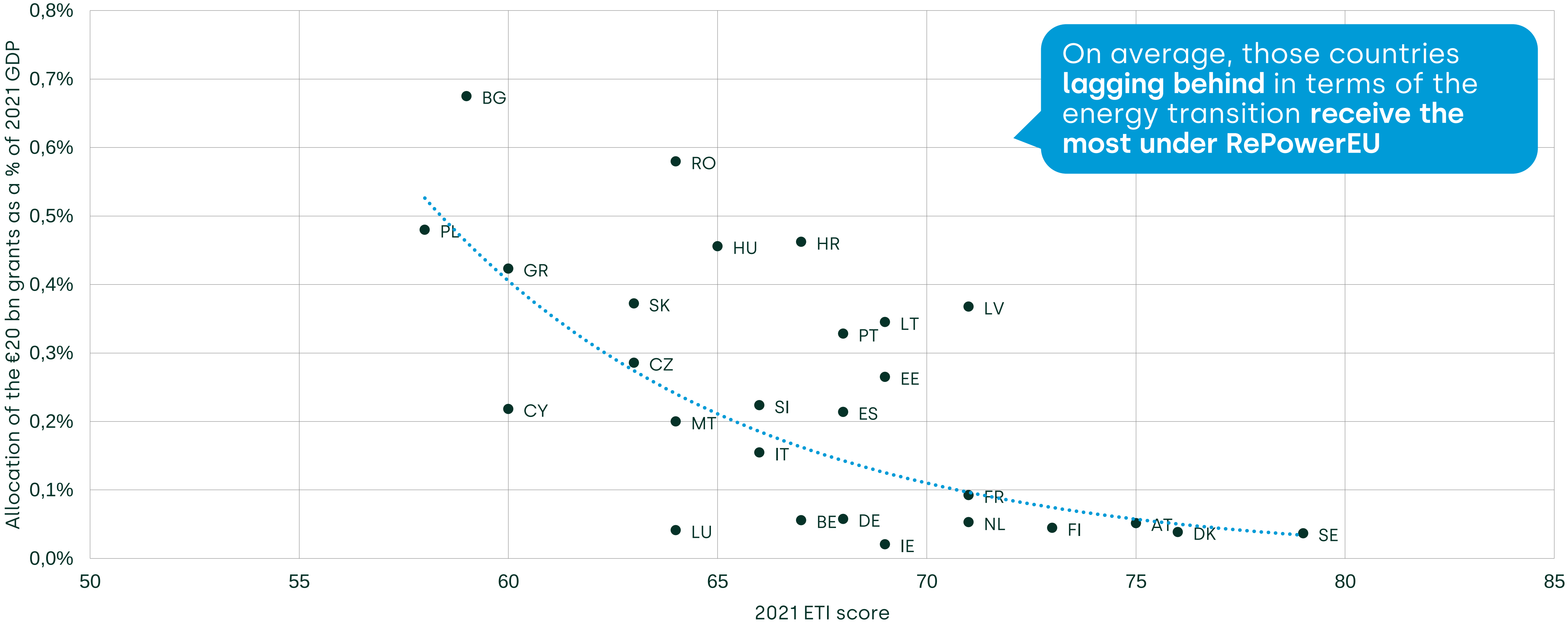
The allocation of the **€20bn of grants** among EU member states takes into account a number of metrics, including (among others) the country's GDP and the share of fossil fuels in the energy mix[3]

- for **each of the eight countries** that will receive the most under REPowerEU, their **share of gas imports from Russia exceeded 40%** of their total gas imports (in 2021)[4]

Notes/Sources: [1] Eurostat (2022), EU energy mix and import dependency, 4 March. [2] Oxera analysis, based on data from Eurostat, available at: https://ec.europa.eu/eurostat/web/energy/data/database. [3] Regulation (EU) 2023/435 of the European Parliament and of the Council of 27 February 2023. [4] Based on data from Eurostat and the European Parliament. See European Parliament (2022), 'Provisional agreement resulting from interinstitutional negotiations', Committee on Budgets, 20 December, Annex Ia. Eurostat (2023), Gross domestic product at market prices, available at: https://ec.europa.eu/eurostat/databrowser/view/TEC00001/default/table?lang=en&category=na10.nama10.nama_10_ma.

REPowerEU: supporting countries left behind in the energy transition

2021 ETI score and allocation of the €20bn grants as a % of 2021 GDP



Sources: Oxera analysis, based on Eurostat, the European Parliament and the World Economic Forum. See European Parliament (2022), 'Provisional agreement resulting from interinstitutional negotiations', Committee on Budgets, 20 December, p. 38; and World Economic Forum (2021), 'Fostering Effective Energy Transition 2021 edition', Insight Report, April, available at: https://www3.weforum.org/docs/WEF_Fostering_Effective_Energy_Transition_2021.pdf.

Conclusions

Concluding remarks

There are **significant differences** among member states in their progress towards net zero, with some evidence of a West-East divide

The Recovery and Resilience Facility and REPowerEU have **the potential to narrow the gap**:

- Member States with the lowest GDP per capita **received more funds** (relative to their overall GDP) under the RRF;
- under REPowerEU, Member States **lagging behind in the energy transition** will receive more grants;
- REPowerEU prioritises those Member States that are **more dependent on Russian gas**, showing that progress towards the energy transition is not inconsistent with ensuring security of supply

However, differences in Member States' **spending on state aid** leads to questions about how to ensure a level playing field is maintained:

- expenditure on state aid in the energy sector has played a **substantial role** in determining member states' progress towards net zero;
- **significant differences in state aid expenditure** between member states poses a challenge, as recently shown by the substantial differences in spending in response to the energy crisis

According to Cornago and Springford (2023), **the EU needs to invest an additional €250-300bn a year** to meet its 2030 emissions reduction targets

Without greater investments from EU funds, **more indebted countries could struggle** to fund the transition away from fossil fuels

Source: Cornago, E. and Springford, J. (2023), 'Europe needs both fiscal and energy solidarity', *Centre for European Reform*, March, p. 2, available at: https://www.cer.eu/sites/default/files/pbrief_energy_solidarity_EC_JS_14.3.23.pdf.

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