Central eastern European countries along with the EU member states need to go through the energy transition and to achieve the green recovery. In order to accomplish this with EU funds, there is a question what depends on CEE Member States and what depends on the EU.

Europe is grappling with how to reconstruct the economy and societies after the COVID-19 crisis. More than one million Europeans and thousands of civil society organisations and companies believe that a sustainable and crisis-resistant recovery serving European people has to be green and just.

In central and eastern Europe (CEE), it is especially crucial for economic recovery to go hand in hand with energy transition. Czech, Slovak, Polish and Hungarian leaders called for a 'fair' EU recovery fund during their first Visegrad-4 (V4) meeting after the lockdown on 11 June in Lednice, Czech Republic. Based on their announcements, this 'fairness' is more about the allocation of money per country than about the contents of the plan.

In order to ensure that their countries get the maximum proportion possible from the funds, the V4 wants to change the main criterion of allocation (the Czech Republic wants it to be based on the GDP slump for each member), the balance between loans and funds (Hungary would prefer exclusively funds) and payments (Poland states that sources of additional payments have to be fair and progressive; richer countries need to pay more and there should be no rebates for them in the EU budget).

But besides the allocation and methodology debates, Member States also need to agree on the content principles of this recovery fund. Otherwise, this EUR 750 billion fund will be spent on lost causes, bringing Member States closer to new crises instead of towards a crisis-resilient energy transition.

Partly to encourage a national debate on the content, Friends of the Earth Hungary (MTVSZ), in its petition for a life-affirming society and economy, demands the reduction of fossil fuel dependency and resource use, private and community access to clean energy and the strengthening of local economies.

The following assessment of the European Commission's budgetary and recovery package focuses on these principles and examines to what extent the package corresponds to the Green 10 call for a green, healthy and just recovery, consistent with the European Green Deal (EGD) and the EU and Hungary's commitment to transition to carbon neutrality by 2050.

Unfortunately, the EU proposal does not meet the needs of green and just economic recovery, nor the principles of the EGD: it does not exclude support to fossil fuels, tends to rely on technological fixes, is not socially just enough and is brown rather than green.

The failures of the recovery after the 2008-2009 financial and economic crisis, when EU funds were used to reconstruct the pre-crisis polluting, health-damaging economy dependent on assembly-based manufacturing, should not be repeated. The devil is the details; let's take a look at them.

The Next Generation EU recovery package – old-style, with some techno-fixes

The new, two-year Next Generation EU package of EUR 750 billion supplements the regular seven-year EU budget of EUR 1 100 billion for the 2021-2022 period (to be spent by the end of 2024). One of its key elements is the EUR 560 billion Recovery and Resilience Facility, providing grants (EUR 310 billion) and loans (EUR 250 billion) for investments and reforms to support recovery. Member States will be able to access these in accordance with their national recovery plans, which must be tailored to their National Energy and Climate Plans (NECPs), Just Transition Plans, Partnership Agreements and operational programmes.The quality of recovery, and its climate ambition, thus continues to depend on member states.

The Next Generation EU package from a climate and energy perspective

1) The Commission intends to raise new funds to cover the 2021-2022 package from green or digital taxes. A better solution would be the fair and revenue-based distribution of burdens (e.g. the introduction of a fossil fuel consumption quota system as proposed in 'For a life-affirming economy'), but the Commission's proposal fails to address this.
2) The use of EU and domestic funds is not conditioned on the exclusion of fossil energy and polluting industries. Beneficiaries are not obliged to reduce their harmful emissions and environmental footprint. Meanwhile, several technological fixes (e.g. hydrogen and carbon capture and storage (CCS)) are supported or serve corporate interests instead of social ones.
3) The package intends to help double the annual average 1% energy efficiency renovation rate through the Renovation Wave, by doubling the financial loan budget of InvestEU. It is unknown whether any support schemes are planned to help low-income, low-credibility families obtain access to deep, complex renovation of residential buildings.
Hungarian plans are no better: there is no targeted state programme for the complex renovation of residential buildings (i.a. the serial-fabricated 800,000 10m2 x 10m2 single family houses built between the 1950 and 1980s). The Residential Energy Efficiency Loan programme, which offers residents a 0% rate on their loans, will run out shortly and has not proven to be suitable for this. The energy efficiency Obligation Scheme proposed under the NECP does not make complex renovation of residential buildings attractive to energy

companies; the system has to be adapted to this.
4) As regards renewable energy, the Commission's proposal treats renewables and techno-fixes like CCS and hydrogen similarly, which is rather worrying. Hydrogen-based technologies are underdeveloped and risky. Most hydrogen now originates from fossil sources and increasing its use would thus aggravate dependence on fossil fuels, as would CCS. Hydrogen can only play a marginal role in the energy transition. The EU Taxonomy on sustainable investments can thus be crucial in developing a sustainable energy mix.
Hungarian plans for renewables are just as concerning. The low target of 21% of renewables in gross final energy consumption (as stated in the NECP) is problematic mainly because the gross final energy consumption is expected to increase, and because an unsustainably high share of biomass is maintained in the strategy for achieving this target.

Where they smell money… the seven-year EU budget and Hungary

Lessons from the past – to what extent was Hungarian spending climate-friendly?
More than half of Hungarian public investments (55% between 2015 and 2017) were covered by EU cohesion policy funds. Between 2014 and 2020, Hungary was eligible for EUR 29.64 billion in cohesion money and spent about 13% of it (EUR 4 billion) on climate action (adaptation and transition to a low-carbon economy).
Although according to EU budget rules, Member States should have spent 15-20% of funds on climate action, Hungary only used 12% for climate and energy (renewable energy systems, energy efficiency, electricity infrastructure, gas infrastructure and research and innovation in climate).
Moreover, the scale and impact of climate-friendly investments supported is much smaller than that of investments without a climate focus (e.g. education, employment, economic development, social infrastructure). Due to the lack of proper safeguards, conditions and monitoring, these investments have often supported the use of fossil energy (e.g. road development), thereby contributing to the destruction of the climate.
However, both the 2014-2020 Hungarian operational programmes and the NECP adopted in January 2020 failed to address several climate-friendly goals supporting energy transition. One such goal is the energy efficient reconstruction of residential buildings, which in Hungary are responsible for 24% of primary energy consumption.
Against this background, it is important for the climate-friendly emissions-reduction measures of current operational programmes not to be sacrificed to crisis-management reallocation.

How can EU funds be spent on energy transition and green recovery by 2030?

According to government estimates, the implementation of the 2030 goals of the Hungarian NECP would cost EUR 44.5 billion (EUR 3.2 to 3.4 billion annually, or 2-2.5% of the annual GDP), which is ten times the amount spent on climate protection from EU funds in Hungary since 2014. By comparison, the EUR 25-28 billion post-COVID economic crisis management package will require EUR 6 billion from the state budget, i.e. 4.55% of Hungary's GDP this year.

Of course, climate action cannot solely be covered from EU and national funds (grants and loans); considerable private capital needs to be mobilised accordingly. However, it is in our common interest that EU funds (or loans) cover a high percentage of climate-friendly, crisis-resilient investment across central and eastern Europe. For this, smart planning of the new EU budget is needed.

Obviously, the current level of support for the energy transition falls very short of what is needed to reach carbon neutrality. The 2021-2027 operational programmes of Cohesion Policy that will be elaborated in the coming months could fill this gap.

Therefore, MTVSZ – Friends of the Earth Hungary, along with many other Hungarian and European NGOs, proposes to devote 40-50% of the 2021-2027 EU budget to climate- and environment-related purposes (climate mainstreaming), for the sake of a green and just recovery.

The Hungarian and other CEE governments should therefore support more transparent, climate- and environmentally-friendly planning and use of EU funds through strong support for the European Green Deal and green recovery, and apply the same principles to the development and implementation of domestic and EU-wide budgetary and recovery plans.

Friends of the Earth Hungary, just like other Bankwatch member groups, follows domestic Cohesion Policy planning (including for the Partnership Agreement and operational programmes) and related public participation processes closely to help integrate the above aspects in line with the long-term interests of our societies.

Source: bankwatch.org