POLICY BRIEFING

State aid regime à la Green Deal

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The Romanian government's proposal for CE Oltenia's restructuring is a test for the European Commission's commitment to aligning state aid with the European Green Deal. Approving CE Oltenia's current restructuring plan would lock Romania into fossil fuels for decades and hinder a meaningful just transition plan for the communities in Gorj County.

Key points:

- Due to financial difficulties in paying for carbon permits and paying back a rescue aid, a Romanian electricity utility - CE Oltenia, drafted a restructuring plan to access state aid in order to continue its operations;

- CE Oltenia's proposed restructuring plan financed by state aid supports coal-based energy beyond 2030 while creating new fossil gas assets. It extends Romania's dependence on fossil fuels, leads to a 28% increase in greenhouse gas emissions by 2030 and hinders the transition of the Gorj County;

- The European Commission has a key role in supporting coherence between the Union's decarbonisation targets with local just transition planning, state aid requests for coal utilities' restructuring and coal phase out plans;

- The Commission's DG Competition greenlighting the current restructuring plan would undermine DG Regio and DG Energy's ongoing support to authorities in Gorj Country in finalising the Territorial Just Transition Plan;

- State aid for coal and fossil gas contradicts the European Green Deal's climate neutrality, just transition and zero pollution objectives;
- Public money should never pay for carbon permits – because it would mean that citizens are paying for the pollution, instead of the polluters doing so;
- In the CE Oltenia case, DG Competition has an opportunity to prove that it intends to align the new state aid regime with the European Green Deal, and implement the long-lasting objective to phase out fossil fuel subsidies by conditioning the aid to a decarbonised restructuring of the company.

THE CONTEXT - STATE AID DECISIONS DETERMINE THE FUTURE OF COAL-DEPENDENT REGIONS

Complexul Energetic Oltenia (CE Oltenia), a Romanian state-owned electricity company that produces 90% of the country's coal-fired electricity and operates all lignite mines, has been experiencing financial difficulties since about 2014. Coal power production has become so uneconomic that CE Oltenia has only been able to pay for its own Emission Trading Scheme (ETS) allowances thanks to substantial injections of public funding, including a government rescue loan of €251 million approved by the Commission in 2020 [1].

The company is now at a crossroads. Either it restructures or goes bankrupt. This is also a turning point for Romania's energy mix. The Romanian government promised a €1.3 billion state aid to support restructuring of the company, but the European Commission needs to authorise it first. Critically, that aid can either contribute to a Paris-climate-agreement-compatible coal phaseout and let Romania leapfrog from coal to a clean energy future or increase emissions while leaving communities stuck with coal and fossil gas – another dead-end solution they would pay for (with their wallets and health).

What is at stake?

The company's official restructuring plan does not foresee a coal phaseout – five coal units would still be operating in 2030, without suggesting any closure dates. Moreover, an expansion of fossil fuel assets is foreseen with two new gas units becoming operational from 2026, while solar PV would represent a mere 6% of the company's total energy supply by 2030. In other words, the potential €1.3 billion state aid aims to allow CE Oltenia to continue operating 1950 MW of lignite-based power generation and heating beyond 2030, while relying on fossil fuels for about 94% of its capacity. **This plan would cause a cumulative increase of the utility's CO2 emissions which is a clear contradiction to the European Green Deal objectives (including the one of phasing out of fossil fuel subsidies) and the EU's 2030 climate targets.**

This puts the future of Romanian lignite region, Gorj County, as well as the country's coal phase-out pathway at stake.

Territorial Just Transition Plans for coal-dependent regions to tap into grants and loans from all three pillars [2] of the Just Transition Mechanism are supposed to be submitted by the end of May 2021 – and the plans must be free from fossil fuels. However, drafting the plans for Gorj County is now on hold as the future activities of CE Oltenia depend on the terms of its restructuring. **If ultimately allowed by the Commission, the €1.3 billion restructuring support will not only lead to a 28% increase in emissions over the next ten years, but also leave Romania stuck with coal - blocking renewable energy investments, and hindering Territorial Just Transition Plans in Gorj County.** The region would miss access to the Just Transition Fund, as well as the public loan facility and InvestEU pillars of the Just Transition Mechanism, until a meaningful Territorial Just Transition Plan is submitted. In this sense, the people of Gorj County are directly dependent on the restructuring plans of CE Oltenia

The Commission's position about state aid for restructuring will give a strong signal for the future of the region. If the current plan is approved, the region will be stuck with coal beyond 2030, and will then shift to fossil gas, which will follow coal in becoming a stranded asset. This would leave the region in socio-economic and financial turmoil with a significant climate footprint. However, if a new restructuring plan with a fossil-free future is on the table, the region can finally unlock its renewables and energy efficiency potential, and plan a pathway to increase the wellbeing of communities – including new green and decent jobs.

Legal process

In February 2021, the European Commission opened an in-depth investigation into CE Oltenia's restructuring plan, doubting its compatibility with the internal market in light of the Rescue and Restructuring State aid Guidelines. The Commission questions in particular: company's low contribution to its own restructuring costs (42% when 50% is required); the absence of financial support from the company's private shareholders; long-term viability of the new business plan – in light of the rising price for carbon permits; and the absence of significant assets divestment (that is, of assets that actually have a market value). The global aid of €1.3 billion for restructuring includes a €241.4 million grant for paying the company's Emission Trading Scheme (ETS) allowances for 2020, which was already paid in April 2021. The latter should arguably be treated as an operating aid. **A grant to help pay ETS allowances is not a restructuring measure and contradicts the polluter pays principle, thus it should not be admissible in any circumstances – a point that the Commission missed in its opening decision.**

Although the Commission's preliminary analysis does not explicitly refer to the Green Deal, to climate policies nor to the necessity to move away from fossil fuel-based energy production, we argue that these considerations must guide the final decision on the compatibility of State aid with the internal market as they are already driving market forces [3], [4].

If the competition arm of the Commission is serious about a new state aid regime that is aligned with the European Green Deal, as claimed since 2020, and about implementing the long-lasting objective to phase out fossil fuel subsidies, this case presents an invaluable opportunity to require a decarbonised restructuring of the company as a condition for the state aid. This approach can complement other EU funding instruments that Romania can use to move beyond fossil fuel-based energy production and encourage the country to put necessary regulation in place to attract renewable investments. EU and national financial resources must be allocated to socially, environmentally and economically sustainable uses that are meaningful in the European Green Deal framework – this includes ensuring that affected communities in coal regions are supported for a just transition to low-carbon local economies.

THE ROLE OF THE EUROPEAN COMMISSION IN GOOD GOVERNANCE

The Romanian example demonstrates how the lack of good governance in energy planning between local, regional, and national levels, can create a vicious circle blocking countries' decarbonisation. CE Oltenia's proposed restructuring plan hinders regional authorities in Gorj County from presenting the Territorial Just Transition Plan, which in turn delays a progressive National Energy and Climate Plan revision at national level.

The Commission has a key role in supporting coherence between the Union's decarbonisation targets with local just transition planning, approval of state aid requests for coal utilities' restructuring and coal phase out plans. Member States also have a duty under the EU treaties to cooperate sincerely with the Union's policies and contribute to their achievement.

Before the summer of 2021, those EU regions that are eligible for the Just Transition Fund are expected to submit their Territorial Just Transition Plans. Gorj County is one of the Romanian coal regions heavily dependent on the mining industry, with approximately 13,000 employees in the mining and energy sector; and is one of the six just transition regions in Romania [3]. **This is the only region in the country with substantial amounts of coal (lignite) - meaning that if the coal in Gorj is left in the ground, Romania can close its coal chapter.** The region can highly benefit from grants and loans under the Just Transition Mechanism, and other EU funds, to break free from coal that clearly has no economic future, while shifting towards a climate-friendly local economy – creating safe, clean, decent jobs and improving wellbeing for the local people.

In 2020, EU Member States submitted their final National Energy & Climate Plans (NECPs) to the European Commission.[1] According to the Just Transition Fund legislation, Territorial Just Transition Plans should be consistent with the NECPs and other national, regional transition plans - as a minimum requirement. Governments with poor, outdated and unrealistic NECPs that are not in line with the Union's 2050 climate neutrality objective and revised 2030 greenhouse gas emission reductions

[1] The NECPs are a key tool in the Governance Regulation where each Member State has to describe, in an integrated manner, its climate and energy objectives, targets, policies and measures for the period from 2021 to 2030, ensuring that the Union's 2030 targets for greenhouse gas emission reductions, renewable energy and energy savings will be met and that they are in line with the EU climate commitments.

targets, risk leaving their coal regions behind, missing out on using the Just Transition Fund.

Romania's final NECP lacks climate ambition. It is unclear how the policies and measures it sets out will contribute to the achievement of the national climate and energy objectives. Many of the actions do not have deadlines for implementation. It states that Romania plans to keep almost 2 GW of coal power capacity in 2030 and to use fossil gas to a considerable extent beyond that date while neglecting the country's enormous potential for renewable energy.

The NECPs will be updated in 2023, after the Territorial Just Transition Plans become operational by the end of 2021. It is important that realistic, achievable Territorial Just Transition Plans that contribute to climate neutrality are in place, resulting in a meaningful revision of NECPs.

A restructuring plan, for CE Oltenia, that drives a green and just transition, and paves the way for a fossil free future is key to accelerate the Territorial Just Transition Planning, which will then enhance Romania's NECP.

The case of CE Oltenia makes this very clear: if the Commission's Directorate General for Competition (DG Comp) allows the restructuring plan to keep coal-based energy later than 2030 while increasing fossil gas assets, it would undermine DG Regio and DG Energy's ongoing support to authorities in Gorj to finalise the just transition plan.

SUBSIDISING MORE STRANDED ASSETS: NO FUTURE IN FOSSIL GAS

CE Oltenia has been having difficulties in paying its ETS allowances since at least 2018, even when the carbon permit prices were much lower than today. Any aid for restructuring must recognise that keeping coal assets for more than another decade is not only contradictory to the European Green Deal objectives, but also **economically unsustainable**.

According to the proposed restructuring plan, CE Oltenia's annual emissions **will increase** from 7 Mt CO_2/year in 2020 to approximately 9 Mt CO_2/year in 2030, reaching a peak of 10.7 Mt CO_2/year in 2024 [3]. Due to the increase of carbon prices, there is a serious risk that a significant part of the restructuring plan will in fact be needed to continue financing CE Oltenia's ETS allowances. This will be potentially combined with the financing of abatement equipment to meet future environmental standards, hence shifting the cost of pollution[2] onto Romanian taxpayers. **This would be an operating aid in clear breach of the polluter pays principle (requiring that environmental compliance costs are borne by the polluter), and an injustice to the citizens who would shoulder the utility's carbon pollution costs.**

Moreover, rising carbon permit prices do not leave much space for fossil gas either. Achieving climate neutrality means that the extraction and burning of all fossil fuels, including fossil gas, must stop - no new coal and gas plants must become operational after 2021. There are also major financial risks for gas investments – including political and regulatory pressure to reduce gas use more rapidly, and the increasing loss of its social licence to operate leading to divestment of private financiers, to be strengthened by tighter climate policies [5].

From an economic perspective, new gas capacities will be pushed out of wholesale electricity markets very soon – just as coal was. The first driver is the carbon price. Recent studies foresee fossil gas disappearing from the EU's electricity mix between 2030 and 2035 with a carbon price of €137/ton in 2030 [6]. The second driver is the decrease of full load hours. As long as renewable electricity generation increases, with enhanced investment due to further reductions of costs, and benefits from priority dispatch, fossil gas power plants would have to ramp down to allow feed-in of renewable electricity first.

Finally, fossil gas demand in Europe is decreasing, as several studies show, including the European Commission's own scenarios to reach the 2050 climate neutrality objective [7].

Against this backdrop, subsidising new fossil gas-fired power plants now will only drive up the costs of electricity supply in the near future – again, at the expense of local communities. Switching from coal to fossil gas in electricity and heating systems continue increasing the greenhouse effect due to carbon dioxide and methane

[2] CE Oltenia's lignite plants are notoriously exceeding the emission levels associated with the use of BAT as set by the 2017 LCP BREF BAT Conclusions. The Romanian government obtained derogations concerning the NOx levels, which has given CE Oltenia enough time to install the proper pollution control devices. Nevertheless, until 2019 the situation remained unchanged. In line with points 53, 54 of the State aid guidelines for environmental protection and energy, the provision of State aids should exclude investments needed to comply with the EU environmental acquis. For more details, see European Environmental Bureau's contribution on the case: https://mk0eeborgicuypctuf7e.kinstacdn.com/wp-content/uploads/2021/04/EEB-contribution-to-State-Aid-Oltenia-case_SENT.pdf

emissions [8] while not even generating as many new jobs as renewables, plus the resulting employment is often not local [7].

STATE AID MUST BE COHERENT WITH EU SUPPORT FOR JUST ENERGY TRANSITION

Romania does not need to continue relying on coal for the next decade. Opportunities for the energy transition are found in the country's already limited reliance on coal (approximately 20% of yearly electricity production), its potential for energy efficiency and for installing competitive solar and wind capacities. The country can also benefit from a series of funding instruments in order to modernize its energy system to quickly and significantly reduce its negative climate impact, as well as ultimately addressing historical economic discrepancies.

State aid to the energy sector must be coherent with all the EU funding for a just transformation towards a decarbonised economy. Lower income member states, like Romania, now have a once in a lifetime opportunity with the revamped EU Budget, the Recovery and Resilience Facility, and the Modernisation Fund to leave fossil fuels behind [9]. State aid decisions taken by the European Commission should not undermine the potential to accelerate decarbonisation and socio-economic transformation, that the EU itself should be supporting.

A recent leak[3] contradicts CE Oltenia's restructuring plan by indicating that the Romanian government has developed a series of measures that would allow the country to exit coal by 2032. However, there has been no official confirmation yet.

We expect the European Commission to send clear signals of support for Romania to tap into all the EU funding opportunities, and align its energy policy with the European Green Deal. DG Competition now has a chance to do so by encouraging the Romanian government to opt for a restructuring plan for CE Oltenia that is free of coal energy by 2030, and free of gas by 2035 - at the latest.

In the Annex some examples are listed of major EU funding opportunities available to Romania for a just energy transition and a decarbonised economy.

[3] Leaked Romanian government document, Flagship reforms of the Romanian Recovery and Resilience Plan: https://media.hotnews.ro/media_server1/document-2021-05-21-24812623-0-document-reforme-pnrr.pdf

THE MANY PERKS OF A RESTRUCTURING PLAN THAT BREAKS FREE FROM COAL

Based on the current NECP, in 2030 Romania will have one of the dirtiest electricity grids in the EU because of the notable role that coal is still playing in the energy mix [10].

The restructuring plan for CE Oltenia can help build a coal-free pathway. Delaying the setting of a coal exit date will have dire consequences for workers, local community and businesses, the national electricity grid and other stakeholders. **A solid plan to exit coal by 2030 at the latest can bring clarity on how the coal capacity will be replaced in an economically viable, socially and ecologically acceptable way, what funding will be accessed and which are the priorities.** The phase-out date could be communicated through the restructuring plan itself or as an end result of a Coal Commission, similar to other bodies of this type in other EU Member States.

Recent studies show that the sooner a phase-out takes place in Romania, the cheaper it will be for the government to ensure a smoother energy transition [11]. Buying carbon permits through state aid is a wasteful and illegal use of public funds that will delay a real transition. Recent studies show that **Romania, both in terms of renewable energy resources and existing technologies, could potentially exploit 144 TWh/year of renewable energy, meaning that its entire energy needs could be supplied exclusively from renewable energy** (along with energy efficiency measures) [12]. Romania could also reduce the price impact of the phase-out by implementing end-use energy efficiency measures.

At this stage, efforts should be made to increase renewable energy capacity, to create stable, green and decent jobs not only in Gorj, but country wide. CE Oltenia and its subcontractors are responsible for up to 35,000 jobs[4] and these qualified individuals can be a valuable asset in the Romanian energy transition [11].

Existing and upcoming EU funding can support modernisation and innovation in the Romanian energy system. This can, for instance, mean considering utility-scale battery storage[5] investments in the restructuring plan of the company, to improve the stability of the energy supply.

[4] CE Oltenia is the main business entity in Gorj county, with approximately 12000 employees. The company is indirectly involving in its activity around 23000 employees from various subcontracting companies.
[5] Romania has approx. 5000 MW in renewables, but only 2 MW in storage

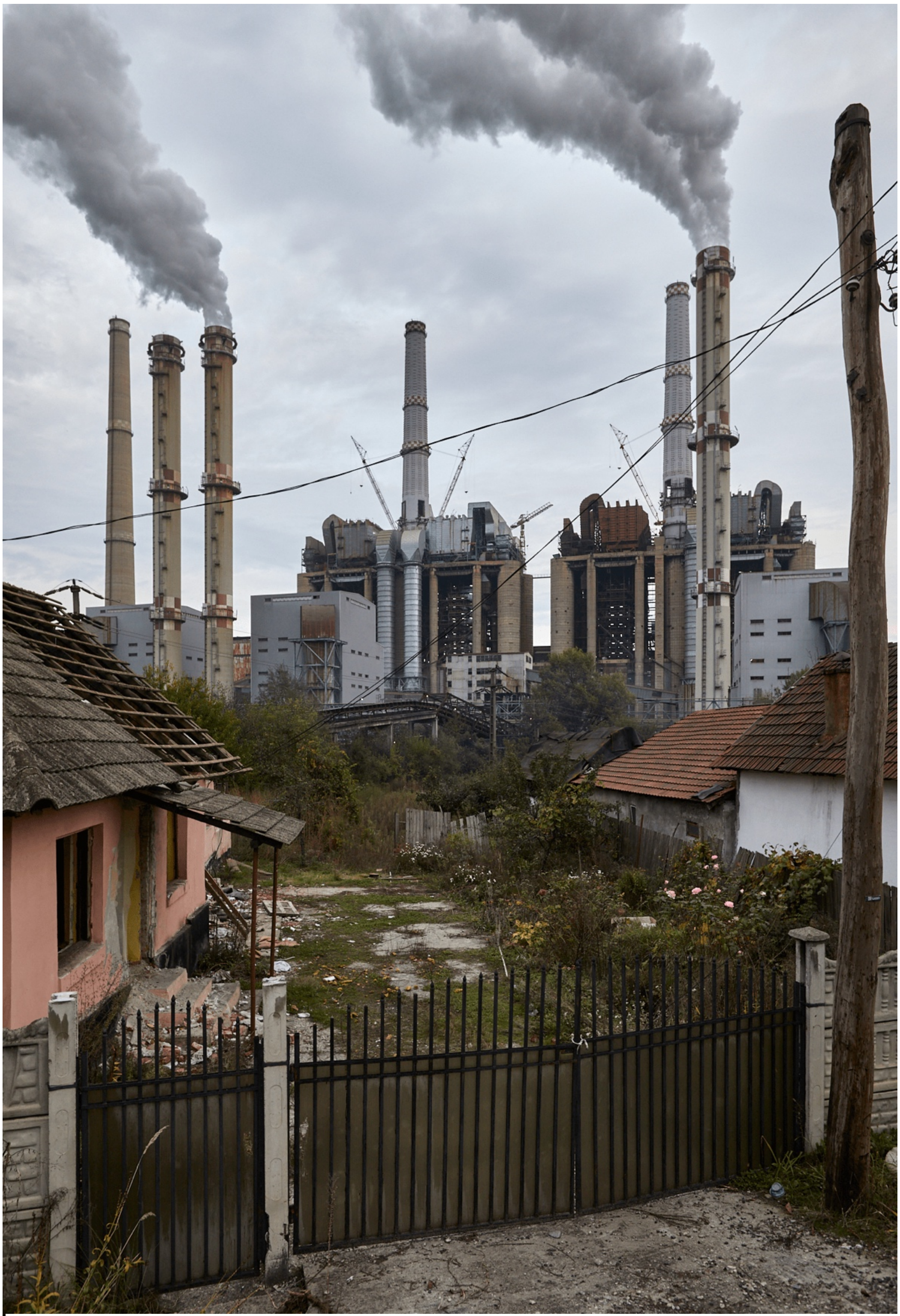
The restructuring process of CE Oltenia is a piece in the puzzle of the entire energy sector, which needs to become more resilient, decentralized, and decarbonised. Romania's energy mix is favourable for eliminating coal rapidly since only a fifth of electricity production relies on coal - a fraction of the country's renewable potential. If energy demand is reduced by drastic improvements in energy efficiency, coal power can leave the grid. Better interconnections with the neighbouring countries are essential to compensate for the deficit or extra energy.

A part of the available funds, as well as the restructuring aid, should be used to create safe, future-proof, decent jobs by reskilling workers and, where not possible, to fund pension schemes in order to avoid that the cost of CE Oltenia's inaction falls on the workforce.

We want a restructuring plan that will eliminate some of the oldest and most polluting coal power plants in Europe from Romania's energy mix. And this has to be done by reinforcing the adequacy of the energy system while preventing major financial losses, and lock-in to fossil gas for decades to come. CE Oltenia can benefit more from the Modernisation Fund if it aligns its restructuring with criteria for 'priority investments' in renewables, energy efficiency, energy storage and the modernisation of energy networks, and grids for electricity transmission.

The restructuring plan should be integrated with the Territorial Just Transition Plans drafted for the Gorj region, where CE Oltenia operates, facilitating the region's access to the Just Transition Fund and other pillars of the Just Transition Mechanism. The design process of the plan should be transparent, inclusive, ensure relevant stakeholders' participation and a series of debates aiming to find best viable solutions due to its major impact at local level, as well as at national level - shaping Romania's energy policies. The plan should develop robust economic alternatives and develop policy measures that will guide a transition towards other jobs for workers. The plan should prioritize renewable energy, especially solar energy where there is still room to increase production capacity.

Furthermore, the debates around CE Oltenia restructuring, and the lack of a decarbonisation plan, should force the Romanian authorities to reassess the National Energy Strategy and National Energy and Climate Plan (NECP) and come up with revised strategies that are in line with the EU's commitment to the Paris climate agreement objectives [10].


Rovinari Power Plant, Romania / Photo by: Mihai Stoica/Bankwatch

Annex

Major EU Funding Streams available for Romania's socio-economic transformation to a decarbonised economy

Cohesion Policy Funds

According to Romania's Partnership Agreement, the Cohesion Policy Funds (including European Regional Development Fund, Cohesion Fund and European Social Fund) allocation for Romania is € 30.7 billion [13].

The country should allocate 30 percent the European Regional Development Fund (ERDF), to investments under the Policy Objective 2 "a greener, low-carbon Europe by promoting clean and fair energy transition, green and blue investment, the circular economy, climate adaptation and risk prevention and management", and 6 percent to investments in the area of sustainable urban development and community-led development as mentioned under Policy Objective 5 [14]. Romania will receive € 18.72 billion from the ERDF.

The € 42.5 billion Cohesion Fund (CF) allocates 37 per cent of the financing mainly to projects that contribute to the climate objectives. Romania's share of the CF is worth € 4.6 billion.

Another important element of the Cohesion Policy is the € 88 billion European Social Fund (ESF+), focused on job creation, unemployment, poverty and exclusion [15]. The financial resources of this fund can be used by regions that need to transition away from high-carbon industries to put in place reskilling programmes for workers affected by changes in the labour market. These reskilling programmes need to be coherent with the territorial just transition plans so that they can deliver on the specific needs of the region. Romania will be receiving € 6.59 billion, according to its Partnership Agreement.

The Just Transition Fund (JTF) is added in the EU long term budget as a new fund - however, the development of its spending plans (Territorial Just Transition Plans) is part of the national programming for all Cohesion Policy Funds. Romania will receive € 1.9 billion in grants from the JTF.

Recovery and Resilience Facility

According to Romania's draft Recovery and Resilience Plan from 7 April 2021 [16], the envisioned reforms and investments for the economic recovery are structured around six pillars of intervention totalling an investment need of approximately EUR 41.4 billion, more than the EUR 30.4 billion allocated to Romania through the EU's Recovery and Resilience Facility (RRF).

The financial allocation for the Green Transition pillar is € 15.3 billion, respecting the 37 per cent spending target for green transition - as detailed in the EU's Technical guidance for the facility. However, the plan contains proposals to expand the existing fossil gas infrastructure and adapt it for the use of hydrogen and other gases that it refers to as 'green gases', which is highly controversial in terms of its added value and transformative potential for Romania's achievement of the Green Deal's goals. The plan sets no targets or milestones for this investment proposal, and it provides no details on the amount of hydrogen that will be distributed through the new infrastructure.

The plan states that the objective of this investment proposal is to decarbonise the energy sector, but continuing to pour considerable amounts of resources into fossil gas infrastructure will make it difficult to switch to cost-effective, clean energy alternatives, thus increasing the costs of the energy transition and undermining efforts to implement a fair and sustainable green transition. This risks Romania to miss many opportunities in terms of decarbonising electricity production – instead of exploiting Romania's significant potential for offshore wind energy generation, the focus still remains on dated solutions based on fossil gas [17].

Connecting Europe Facility

Connecting Europe Facility (CEF) is a financing instrument dedicated to the development of infrastructure networks in specific sectors such as transport, telecommunications and energy. The proposed budget for CEF in the EU long term budget (2021-2027) amounts to approximately € 42 billion and 60 percent of its envelope will be dedicated to climate objectives [18]. In the energy sector, CEF will focus on developing the trans-European energy networks, on achieving the long-term climate and energy objectives by integrating renewable energy in a cost-effective manner through cross-border projects and on the security of supply through smart and digitalised infrastructure.

Horizon Europe

European Union’s research and innovation sector will be financially supported through the Horizon Europe dedicated programme. The proposed budgetary implications of this programme amount to € 95.5 billion for the 2021-2027 period, with no specific allocation per country – instead, the money goes to successful projects, regardless of the applying country [19]. The programme aims at strengthening the EU's science and technology sectors, boosting the industrial competitiveness and innovation and delivering on the long-term climate and energy objectives [20], [21]. As regards the just transition dimension, the funding opportunities available through this programme can be used in creating research and innovation clusters in regions affected by the transition away from a carbon intensive industry which will subsequently translate in new jobs and possible solutions for decarbonising the economy.

Invest EU

Invest EU is a new programme under the 2021-2027 long term budget which will boost private and public investments and it will consist of the Invest EU Fund, the Invest EU Advisory Hub and the Invest EU Portal. It is designed to integrate a variety of EU financial instruments in a single structure, has a proposed financial allocation of € 15.2 billion which is supposed to trigger more than € 650 billion in additional investment. It will focus on innovation and digitisation, on sustainable infrastructure investment in sectors such as transport, energy, waste, deployment of innovative technologies that support the environmental and social sustainability objectives, supporting also the social sector through investments in skills, education and training related services, social infrastructure, inclusion and health and SMEs through a better access to finance [22].

ETS Revenues and Funds

For the fourth phase of the EU Emission Trading System (2021 – 2030), 90% of the revenue from the auctioning of allowances is distributed to the member states in accordance to their share of emissions, while the remaining 10% is allocated to the least wealthy countries, including Romania, through the Solidarity Provision [23].

At least 50% has to be used for climate and energy related purposes, in the current phase of the EU Emission Trading System.

Much of this revenue can be used to support a just transition, and it is explicitly stated in the Directive that, “Member States should also use auction revenues to contribute to a just transition to a low-carbon economy by promoting skill formation and reallocation of labour in social dialogue with the communities and regions affected by the transition of jobs” [24].

There is a derogation (under article 10c of the EU ETS Directive) allowing for transitional free allocation for power generators, and is designed to support the ‘modernisation, diversification and sustainable transformation of the energy sector’ in the EU’s lowest-income member states (including Romania). This is called Article 10 C derogation. Although it is not possible to directly support a just transition in coal regions only through this instrument - due to specific conditions for bigger scale funding, some projects from Article 10C could have a beneficial effect, as long as they don’t lead to a prolongation of the status quo and are correlated to other measures addressing the topic directly [25].

Modernisation Fund

The Modernisation Fund is an instrument set up through the revision of the ETS Directive, which will support investments in small-scale energy projects, energy efficiency, and the modernisation of energy systems in the member states with a GDP per capita smaller than 60% of the EU average. The fund will be financed through the auction of up to 2% of the total EU ETS allowances (EUAs), and it is recognised in the European Green Deal Investment Plan [26] as one of the key funding instruments, potentially providing some €25 billion to support Beneficiary Member States in their transition to a climate-neutral society.

Each member state has a fixed allocation: Romania has 11.98%. However, it can be increased through transfers from the Solidarity Provision. Beneficiary Member States can use at least 70 percent of their allocation of the Fund to finance ‘priority investments’ in renewables, energy efficiency, energy storage and the modernisation of energy networks, including district heating networks, grids for electricity transmission and interconnections [27].

Innovation Fund

The Innovation Fund is the second instrument introduced by the revision of the ETS Directive, planned to support innovation in low-carbon technologies and industrial processes. The fund can be used to finance up to 60% of a project’s costs and its resources will come through the auction of up to 450 million allowances. The

Innovation Fund can be used to support projects from all member states. Among the themes that are supported there are some which can play an important role in the just transition, such as low carbon technologies and processes in sectors covered by the ETS, products substituting carbon intensive products of sectors covered by the ETS or innovative renewable energy and energy storage technologies. [28]

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