The Modernisation Fund and Climate Neutrality Targets

FAQs

1. **What is the Modernisation Fund?**
The Modernisation Fund is an EU programme designed to help the lowest income Member States meet 2030 energy targets and accelerate their transition to climate neutrality through support for modernising energy systems and improving energy efficiency. The Modernisation Fund supports investments consistent with the 2030 climate and energy objectives of the Union, as well as the Paris Agreement in ten beneficiary countries: Bulgaria; Croatia; Czechia; Estonia; Hungary; Latvia; Lithuania; Poland; Romania; and Slovakia. Greece, Portugal and Slovenia have also been proposed as future beneficiaries. The Modernisation Fund is currently being negotiated as part of the legislative revision of the EU Emissions Trading System Directive (ETS Directive, Articles 1.11 and 10d). Two key elements of the European Parliament's proposals to amend the Modernisation fund include the exclusion of fossil gas financing and an amendment which will require potential beneficiaries of the Modernisation Fund to enshrine a target for climate neutrality by 2050 into law. This briefing will explore why these amendments are so important and why they should be supported by Member States.

2. **Why is the ongoing revision of the Modernisation Fund so important?**
The proposed changes to the Modernisation Fund will have far-reaching consequences for beneficiary Member States because the amount of financial support available will increase substantially – more than doubling from 2024 onwards. This means that the Fund is an opportunity to decarbonise energy systems and achieve EU climate targets as well as climate-neutrality by 2050 at the latest.

3. **How does the Modernisation Fund work?**
The majority of the resources of the Modernisation Fund (at least 70%) must be invested in priority areas specified in Article 10d(2) of the ETS Directive. Investments in these areas are known as 'priority investments' and include e.g. generation and use of electricity from renewable sources; improvement of energy efficiency and energy storage; modernisation of energy networks; and support to a just transition. Other investments which qualify for support under the Modernisation Fund, but which fall outside falling outside the priority areas are considered as 'non-priority investments'. The Modernisation Fund can cover up to 70% of the relevant costs of non-priority investments, as long as the remaining costs are financed from private sources. The Modernisation Fund cannot finance investments which involve solid fossil fuels, with very limited exceptions.

4. **What amendments to the Modernisation Fund have been proposed by the European Parliament?**
The European Parliament has proposed a range of important amendments to the Modernisation Fund, including the exclusion of fossil gas financing and an amendment that conditions support from the Fund only to eligible countries adopting their legally binding target for achieving climate neutrality by 2050 at the latest (Amendment no 224a).

5. **Why should fossil gas investments be excluded from the fund?**

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There are compelling reasons to exclude fossil gas investments from the Modernisation Fund, including:

- **Energy Security**: The war in Ukraine has shown that energy security lies with European energy production and the massive deployment of renewable energy and energy efficiency measures, which has become far cheaper than gas and absolutely vital to sever the EU from its dependency to Russian gas. This is especially important for Central and Eastern European Member States, who have witnessed how 'unsecured' Russian fossil gas has been. Relying on gas in power and heat production would mean higher costs for citizens, who already suffer from skyrocketing inflation across all the EU.
- **Risk of gas lock-in is high** and often underestimated by the Member States which today rely on coal. Only a direct switch to renewable power would secure both climate targets and social benefits. Resources from the Modernisation Fund must be fully used for this purpose.
- **The possible use of hydrogen in existing gas networks will be compromised**, leading to wasted costs and missed investment opportunities. Only a small part of the existing gas infrastructure can support green hydrogen, which itself can only constitute a solution for heavy industry, not the heat and power sectors.
- **The EU Taxonomy rules on gas risk undermining the recent EU efforts to end its dependency on fossil fuels and particularly on Russian fossil fuels**. This is because it incentivises the construction of new gas plants, which increases EU demand for gas - precisely the opposite of RePowerEU's objectives.

6. **Why should access to the Modernisation Fund be conditional upon climate neutrality targets?**
This amendment will help put in place concrete plans for reaching climate-neutrality and ensure that all projects funded under the Modernisation Fund lead to achieving this objective. Creating the enabling conditions for getting to net zero is a deeply political process and one that must be strongly 'owned' at national level. The EU's existing climate policy framework in so far as it applies to national action, is insufficient to create these enabling conditions.

7. **Why should Member States support AM 224a[1]?**
There are a number of important reasons why all Member States should support the amendment of the Modernisation Fund to ensure access is conditional upon climate neutrality targets:

- Many EU countries have adopted a national climate neutrality target, many of which are not eligible to the Modernisation Fund, including: Denmark, France, Finland, Germany, Ireland, Luxembourg, Netherlands, Spain and Sweden. Amongst beneficiaries of the Modernisaton Fund, Hungary has a net zero target, while Lithuania and Latvia have policy targets not yet enshrined in law. Amongst proposed beneficiaries, Portugal, Greece and Slovenia have legally binding net zero targets by 2050. If some countries have committed to a legally binding climate neutrality target it is only fair that other Member States do it as well.
- All EU countries must reach climate neutrality eventually, but they will not be able to do it on time without a strong governance framework, starting with setting a climate neutrality target at the national level in all Member States.
- If countries receiving money from the Modernisation Fund are not required to reach climate neutrality by 2050, there is a risk that projects financed under the fund will not be consistent with the climate-neutrality objective and that the collective EU climate-neutrality target will be missed.

[1] Long version: 224a (Article 1, first paragraph, point (14)(a), amending provision, numbered paragraph (1), first paragraph -a)

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- Importantly, the proposed amendment ensures that beneficiary Member States remain in control when it comes to setting the date for their climate-neutrality target at the national level as well as deciding on national measures and projects for achieving it.
- The proposed amendment provides guarantees for non-beneficiary Member States that their financial contribution will support the achievement of the collective climate-neutrality objective by 2050 at the latest.
- Beneficiaries to the Modernisation Fund will be more likely to agree to high sectoral climate targets under the Efforts-Sharing Regulation (ESR) after 2030 if they have endorsed a climate-neutrality objective by 2050. This will facilitate convergence of climate action efforts in the EU.

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