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NOTE

From:	General Secretariat of the Council
To:	Delegations
Subject:	The Recovery and Resilience Facility (RRF) and REPowerEU - Presidency Issues Note

Delegations will find attached the Presidency Issues Note on "The Recovery and Resilience Facility (RRF) and REPowerEU – contributions to the green transition and independence from Russian fossil fuels" for the ECOFIN Council meeting on 14 March 2023.

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Presidency Issues Note for the ECOFIN

The Recovery and Resilience Facility (RRF) and REPowerEU – contributions to the green transition and independence from Russian fossil fuels

REPowerEU: Reducing EU's dependence on Russian fossil fuels and accelerating the green transition

Russia's unprovoked war of aggression against Ukraine has disrupted the European economic recovery after the COVID-19 crisis and triggered an unprecedented energy crisis in the Union. At the time of the invasion, Russian gas corresponded to 40-45 percent of the EU's total gas imports. Since then, this share has been significantly reduced and is currently estimated to be less than 15 percent.

To support EU Member States in rapidly reducing their dependence on Russian fossil fuels, while at the same time accelerating the green transition, the Commission presented the REPowerEU plan in May 2022. The bulk of the plan is intended to be implemented through the Recovery and Resilience Facility (RRF) where a major part of the financing is proposed to be taken from unused loans under the facility.

Other initiatives contributing to synergies

Apart from the RRF and its amending regulation, the Council has adopted several proposals in relation to the energy crisis and the green transition during the past years.

With regards to the energy crisis, the Council agreed on several actions to counteract high energy prices and ensure security of supply during the autumn and winter. Those include electricity demand reduction targets, a temporary solidarity contribution on fossil fuel companies and a levy on the excess revenues of low-cost power producers. In mid-March the Commission will present a proposal for a structural reform of the electricity market's design.

While the current energy crisis was sudden, the green transition has been high on the political agenda for years and the EU's ambitions are substantial in this area. The Green Deal was launched in 2019 and the Fit for 55 initiatives were proposed in 2021. By the end of 2022, two fundamental cornerstones of the Fit for 55 packages were agreed – the Carbon Border Adjustment Mechanism, and the revision of the ETS system. In February this year the Commission presented a communication on a "Green Deal Industrial Plan for the Net-Zero-Age".

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Current challenges and the way forward

With the amending RRF regulation in force, Member States are encouraged to add a REPowerEU chapter to their Recovery and Resilience Plans during the spring. These updates will in many cases be complemented by additional adjustments related to objective circumstances (e.g., the impact of inflation and supply chain disruptions), or a revised allocation of grants, or loan applications.

Supply chain disruptions and high inflation are, however, likely to persist for some time, and this will continue to be a challenge for the implementation of the plans. According to the Commission's latest forecast, inflation in the EU is estimated to remain elevated throughout the year with large differentials among Member States.

While the facility's link to the Commission's communication on the Green Deal Industrial Plan should not disrupt the implementation of the plans, it could influence Member States' revisions of their plans, especially considering the tight timetable. At the same time, the RRF and REPowerEU provide an opportunity for Member states to enhance their position in terms of potential growth prospects, competitiveness, and the green transition – a chance that should not be lost.

Questions for discussion:

- How do you intend to design your REPowerEU chapter to complement other initiatives at EU and national level to foster the energy and green transitions? What do you see as the main opportunities and challenges?

- How do you work to ensure a timely and effective implementation of your Recovery and Resilience Plan and the REPowerEU chapter in these uncertain times of high inflation and supply chain disruptions?