

# REPowerEU: Europe maps faster decarbonization to phase out Russian gas

Coralie Laurencin, Senior Director  
coralie.laurencin@ihsmarkit.com  
+44 7580 950 979

Alex Barnes, Senior Advisor  
alex.barnes@ihsmarkit.com  
+44 7741 205 373

Michael Taschner, Executive Director  
Michael.taschner@spglobal.com





**The topic of ESG and its impact to the business is all over the place these days. Anyone doing business is offered many sources of information from many different dimensions such as NGOs, political parties, the Government, ESG Advisors and Legal Consultants.**

**Potential impact of the reaction to the Energy Crisis in the European Union on Issuers. Energy efficient production as well as low-carbon intense ways to produce energy is significantly impacting the Environmental pillar. Carbon sensitivity is a key aspect in the mitigation of climate related risks.**

Within the framework of the REPowerEU action plan developed by the European Commission, EU is working on both its energy independence and its ecological transition to achieve its carbon neutrality objective. This ambitious plan will have consequences for issuers in terms of their ESG strategies and environmental actions.

While the ultimate goal remains unchanged, i.e. to achieve at least a 55% reduction in net greenhouse gas emissions by 2030 and to become carbon neutral by 2050, with REPowerEU, the European Union wants to give a boost to "Fit for 55"<sup>1</sup> with earlier and more ambitious targets for renewable energy and energy efficiency.

Through legislative proposals and recommendations to the Member States, Europe is increasing the pressure to adopt the "Fit for 55" proposals quickly. The revision of the EU Emissions Trading System (ETS), the implementation of the Carbon Border Adjustment Mechanism (CBAM) and the Energy Taxation Directive (ETD)<sup>2</sup> are also key to consider.

With regard to funding, EUR 300 billion in total (mostly from existing funds) should be made available.

Thanks to this research from S&P Global, find out what measures the European Union is taking to better understand what's at stake.

---

<sup>1</sup> Full implementation of "Fit for 55" proposals should trim the EU's annual fossil gas consumption by 30 percent by 2030

<sup>2</sup> It aims to increase taxes on fossil fuels and promote the use of green energy sources such as renewable hydrogen, solar and wind power.



## Key implications

The Russian invasion of Ukraine and Russia's evident willingness to use gas supply as a political tool has triggered a reorientation of Europe's energy strategy. The REPowerEU plan issued on 18 May 2022 reiterates the EU commitment to end gas imports from Russia by 2027 and focuses on a faster energy transition as a key mechanism to achieve this.

The REPowerEU plan, which follows a much less detailed document published in early March, outlines specifically how Europe can reduce natural gas demand and contains a range of ambitious proposals that build on the "Fit for 55" package of legislation. Successful implementation—leading to an accelerated pace of renewable additions, reductions in energy demand, and diversification of gas supply—will depend not only on further action at the EU level but—even more critically—on specific actions taken at the member state level.

- **Higher ambition added to the Fit for 55 package.** The European Commission has directly edited several of the proposed directives of the Fit for 55 package to include higher targets for renewable energy and energy efficiency, a rooftop solar mandate, and maximum allowable permitting timescales for renewable projects. The European Council (i.e., member states) and European Parliament will now discuss these new proposals as part of their review of the package. The package's overarching target of 55% emissions reduction is unchanged.
- **Reducing gas demand and diversifying gas supply.** The supply-side part of the REPowerEU plan repeats the target from the initial March document of an additional 50 Billion cubic meters per year of Liquefied Natural Gas imports along with an extra 10 Bcm per year of pipeline imports from suppliers other than Russia. It also adds a higher energy efficiency ambition of 13%, instead of 9% included in the Fit for 55 proposals, and fuel switching to reduce annual gas demand by 233 Bcm per year by 2030.
- **Higher implied renewable hydrogen demand.** Based on the new 45% renewable energy target, REPowerEU foresees massive growth in renewable hydrogen use by 2030: renewable hydrogen targets for 2030 would increase from 50% of industrial hydrogen demand planned by Fit for 55 to 78%, and from 2.6% of transport fuels to 5.7%. Renewable hydrogen demand would increase from 5.6 million metric tons per year (MMt/y) to 20 MMt/y, of which 10 MMt/y would be imports.
- **Mostly old rather than new money.** The fingerprints of northern European countries concerned about fiscal discipline can be seen in the REPowerEU funding proposals, which rely heavily on repurposing €225 billion of funds already available to be loaned to member states under the post-COVID-19 Recovery and Resilience Facility (RRF). The main source of new funding will be €20 billion from the sale of emissions certificates in the EU Emissions Trading System (ETS).

## Reducing the call on Russian gas

The driver behind REPowerEU is a consensus that the European Union must eliminate its dependence on Russian natural gas imports for geopolitical and energy security reasons. Concerns had already been raised about Gazprom's role in contributing to high gas prices starting in autumn 2021, months before Russia's invasion of Ukraine—an event that understandably moved the issue to center stage.<sup>3</sup>

The European Commission proposes to eliminate the need for Russian gas imports (155 Bcm in 2021) by 2027 using a combination of supply diversification and gas demand reduction—with a focus on the latter. Plans to reduce natural gas demand will be based on fuel substitution (i.e., renewables, electrification, renewable hydrogen, biomethane, nuclear, and coal) along with increased energy efficiency. Overall, the planned reduction in gas demand is 233 Bcm by

2030, of which 116 Bcm had already been envisaged in previous “Fit for 55” package of proposals.

The overall impact of the proposals—to turbocharge the transition away from fossil fuels in Europe—will help offset the increased emissions from coal that are also contemplated, through higher utilization rates and the delayed phaseout of existing plants, so that the European Union will still be on track to meet its 55% reduction in greenhouse gas (GHG) emissions target by 2030 on its way to net zero by 2050.

The figures shown in **Table 1** are projections included in the REPowerEU documents and should be considered indicative or aspirational at this point: the policy measures that will drive most of the gas demand reductions (high prices will also play a role) will still need to be either included in new EU legislation or regulations or else implemented at the member state level.

**Table 1 : Measures to eliminate dependence on Russian gas**

Measures	"Additional gas supply by 2030 (Bcm)"	"Gas demand reduction by 2030 (Bcm)"	Comments
<b>July 2021 Fit for 55 proposals</b>		116	Increased use of renewables including electrification, biomethane, and hydrogen; energy efficiency; and reduced consumption to meet 55% GHG emissions reduction by 2050
<b>Short-term REPowerEU measures</b>			
Additional LNG imports	50		
Additional pipeline imports	10		
Increased coal burn/delayed phaseout of coal		24	Coal generation 105 TWh higher in 2030 compared with Fit for 55 projections
Abandon phaseout of nuclear		7	Recent decisions in Belgium and France
Fuel switching in commercial and residential sectors		9	Driven by high gas prices
<b>Midterm REPowerEU measures to 2027</b>			
Biomass in power generation		1	
Energy efficiency		37	Increased energy efficiency target from 9% to 13% savings; behavioral changes such as reducing thermostats by 1oC to save 10 Bcm
Sustainable biomethane	17		Doubles the biomethane target of 18 Bcm included in Fit for 55
Reduced use in industry		12	Increased electrification, use of hydrogen, and fuel switching
<b>Long-term REPowerEU measures (2027 and beyond)</b>			
Renewable hydrogen		27	See hydrogen section
<b>Total REPowerEU measures</b>	<b>77</b>	<b>117</b>	
<b>Total REPowerEU plus Fit for 55</b>	<b>77</b>	<b>233</b>	

Source: Commission Staff Working Document Implementing the REPowerEU action plan: Investment needs, the hydrogen accelerator and achieving the bio-methane targets, 18 May 2022; IHS Markit

<sup>3</sup> The REPowerEU documents can be found here: [https://ec.europa.eu/commission/presscorner/detail/en/ip\\_22\\_3131](https://ec.europa.eu/commission/presscorner/detail/en/ip_22_3131)



## Increasing natural gas supply from non-Russian sources

The supply-side part of the REPowerEU plan repeats the target from the initial 8 March document of an additional 50 Bcm per year of LNG imports along with an extra 10 Bcm per year of pipeline gas imports from suppliers other than Russia (a group currently consisting of Norway, Algeria, Libya, and Azerbaijan). A significant share of the intended growth in LNG supply has already happened with the surge in EU imports that began in late 2021; EU LNG imports are already on track to be up by nearly 20 Bcm year on year for January through May only. Of course, this implies EU buyers securing additional LNG supplies in a tight market—implying high import prices for spot cargoes, and thus high prices in Europe as well, given the role of LNG imports as a price setter.

The Commission has also established an EU Energy Platform for the voluntary common purchase of gas, LNG, and hydrogen, which aims to create a mechanism for member states and/or gas buyers to cooperate in procuring imported gas or hydrogen instead of competing and driving prices up. The possibility of this voluntary initiative eventually becoming a central purchasing organization (with voluntary membership) is noted.<sup>4</sup>

The concept of joint purchasing runs up against a few obstacles. One is EU competition law; joint selling or purchasing has generally been regarded as anticompetitive in the past and would need to be reviewed and accepted by the Directorate General for Competition (DG Competition). The second obstacle is general caution within the gas industry, which has concerns about how joint buying would be implemented and how it would interact with the functioning of the wholesale gas market and contractual relationships with gas sellers.

<sup>4</sup> Please see Commission Staff Working Document Implementing the REPowerEU action plan: Investment needs, the hydrogen accelerator and achieving the bio-methane targets, 18 May 2022, <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=SWD%3A2022%3A230%3AFIN>, retrieved 23 May 2022.

## Gas infrastructure requirements

Another key issue addressed in the REPowerEU plan is the need to adapt gas infrastructure to allow for the import of more LNG and to increase capacity to move gas from west to east to replace Russian flows. Previous concerns along these lines led to the adoption in 2009 of the security of supply regulation, which required that all cross-border pipeline connections be able to flow gas physically in both directions. This regulation also mandated that member states have sufficient infrastructure to cope with the failure of their single-biggest supply source (the so-called N-1 rule). This has already significantly improved the ability of gas to flow where it is needed within the European Union, so relatively little further investment is required.

The traditional focus of efforts to expand and deepen the integration of EU gas (and electricity) infrastructure has been the identification of projects of common interest (PCIs) under the Trans-European Networks for Energy (TEN-E) Regulation. Current PCIs being implemented are relevant here, and additional needs have been identified: deployment of floating storage and regasification units (FSRUs) in Finland, Estonia, Germany, and the Netherlands; along with the expansion of pipeline capacity among Turkey, Greece, and Italy; between Greece and Bulgaria; and in Northwest Europe.

Notably, the repurposing of Recovery and Resilience Facility (RRF) loan funding to support REPowerEU objectives opens the door for these funds to be spent on gas infrastructure projects—which did not meet the energy transition criteria previously specified in the RRF. Concerns about investment in gas infrastructure causing a “lock-in” of fossil fuels are addressed, with the plan emphasizing the necessity to ensure that new gas infrastructure can be repurposed (mainly for hydrogen) in the future.



## Energy efficiency

Increased energy efficiency is highlighted as another driver of reduced gas demand. However, based on past performance, this is an area that is open to question. The European Union met its 2020 energy efficiency targets (expressed as a reduction in energy demand) only as a result of the COVID-19 pandemic. The Fit for 55 package already foresees a more ambitious reduction in final energy demand, which previously envisioned cuts of one-fifth by 2030 compared with 2019 levels. The REPowerEU proposals increase targeted efficiency savings from 20% to 25% compared with 2019 levels. While proposals to revise the Energy Efficiency Directive also aim for tougher enforcement measures, it remains to be seen whether reductions in energy demand can be met simply by increasing the ambition of the target. Higher than previously expected gas prices also have an impact—the Commission’s modeling expects gas demand to be reduced by 40 Bcm per year by 2030 as a result.

Also emphasized are measures to be taken at the member state level to encourage lower gas consumption through public information campaigns.

## Higher target proposed for renewable hydrogen

REPowerEU foresees massive growth in renewable hydrogen use by 2030 as part of the overall effort to reduce gas consumption. Within the new 45% target for renewable energy, the subtarget for renewable fuels of nonbiological origin (RFNBOs)—a category including hydrogen and its derivatives—would see renewable hydrogen increasing by 2030 from 50% of industrial hydrogen to 78%, and from 2.6% of transport fuels to 5.7%.<sup>5</sup>

The Commission has used its PRIMES model to calculate how much hydrogen will be used in 2030 based on its new proposed targets, updating its original calculations for the Fit for 55 Package and taking account of higher energy prices. The original targets implied 5.6 million metric tons (MMt) of renewable hydrogen by 2030; the new targets add an extra 14 MMt of renewable hydrogen (or its derivatives, such as renewable ammonia). This compares with current EU hydrogen demand of 6.1 MMt (mainly “gray” hydrogen at present). In total, the plan is for 10 MMt of renewable hydrogen to be imported by 2030 (either as renewable hydrogen or its derivatives such as ammonia), with another 10 MMt (up from 5.6 MMt)

to be produced within the European Union, for an ambitious total of 20 MMt. End uses for hydrogen are represented in **Figure 1**, comparing the Fit for 55 targets with the new proposals, and demonstrating the new urgency given to the import of renewable hydrogen:

The new targets will need to be included in the revised Renewable Energy Directive (RED II), which will be the subject of negotiation between the Commission, the European Parliament, and the European Council representing the member states. Currently, the Parliament is in the process of finalizing its proposals; its draft report has suggested targets of 5% of transport fuels by 2030 and 70% for industry demand for hydrogen by 2035—both lower than the new proposed REPowerEU targets.

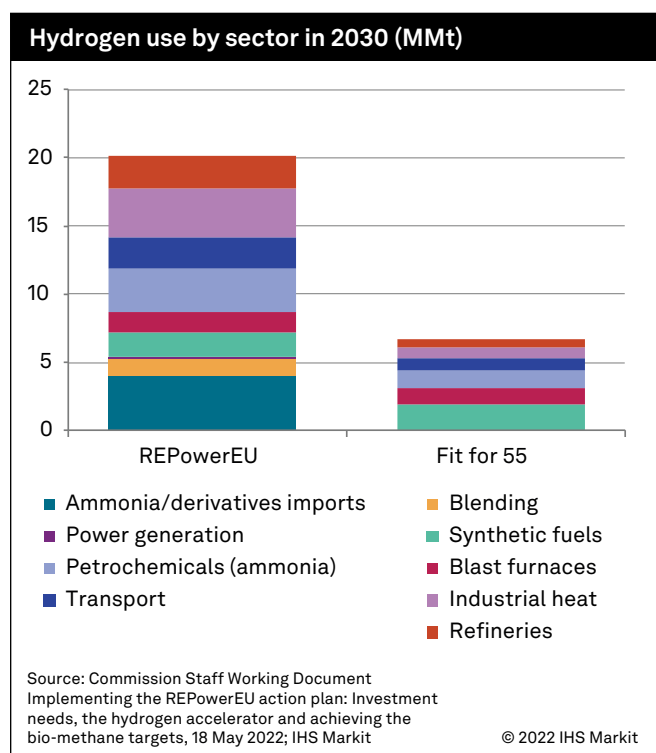


Figure 1

Defining what counts as “renewable” hydrogen will be a major bone of contention.<sup>6</sup> The Commission has the power to define these standards—and thus determine which hydrogen projects will be considered for public funding support—via delegated acts (which can be vetoed by the Council and Parliament, but not amended).

<sup>5</sup> For an explanation of the original Fit for 55 hydrogen targets, see the IHS Markit Strategic Report: **Understanding EU hydrogen targets in the context of the “Fit for 55” package**.

<sup>6</sup> See the IHS Markit Webinar: **Review of the status of definitions for hydrogen—A global comparison**. <https://connect.ihsmarkit.com/master-viewer/show/phoenix/4356416>

The Commission has just published a consultation on its draft proposed delegated act.<sup>7</sup> This represents a softening of its earlier proposals on issues such as additionality (ensuring renewable hydrogen uses new sources of renewable electricity instead of cannibalizing existing ones) and temporal correlation (ensuring that renewable hydrogen is produced at the same time as the renewable electricity is generated). The new proposals also include a phasing in period to 2027. This is in response to concerns from the Parliament and industry bodies, such as Hydrogen Europe, that the Commission's original proposals would delay the rollout of renewable hydrogen. The counterargument is that less strict rules could lead to nonrenewable grid power being used to produce "renewable" hydrogen, giving it an unacceptably high carbon footprint. It remains to be seen how this conflict will be resolved, but the outcome will materially affect the rollout of renewable hydrogen production in the European Union as well as the prospects for international projects targeting the EU renewable hydrogen market, as the rules will also apply to imports.

Notwithstanding the point above about definitions of renewable electricity, the revised targets will require a massive scale-up of renewable electricity generation. The Commission calculates an additional 500 TWh of renewable electricity per year, which is about half the level of current EU renewable electricity generation including hydropower, to produce the 10 MMT of hydrogen within the European Union by 2030. Most of the additional renewables will be nonhydro generation, such as wind and solar. The Commission assumes that installed electrolyzer capacity would need to increase by 48% from 44 MW of hydrogen (under the previous target) to 65 MW to meet the revised targets.

The new hydrogen targets also imply considerable investment, with total costs estimated by the Commission at between €335 billion and €471 billion, with €200–300 billion of this devoted to additional renewable electricity production. EU support for investment will come from the Innovation Fund, which receives revenue from the sale of EU Emissions Trading System (EU ETS) allowances (EUAs). As previously planned, the Commission is proposing using carbon contracts for differences (CCFs) as a channel for funding support, although the details on how these would work in practice are

not yet clear and will be left up to member states. Ironically, REPowerEU is also proposing releasing more EUAs into the market to mitigate the impact of high carbon and energy prices, which could lower the carbon price both directly (by increasing the supply of EUAs) and indirectly (by impacting the carbon market expectations of future prices, since market participants may perceive that more EUAs will be released whenever prices reach a politically uncomfortable level). Reducing the carbon price would increase the amount of subsidy governments would have to pay to support hydrogen projects.

State aid from individual member states will also be possible for important projects of common European interest (IPCEIs) and under the revised Guidelines on State aid for climate, environmental protection and energy (CEEAG) and the General Block Exemption Regulation (GBER). State aid eligibility is determined by DG Competition, which is notoriously fierce in protecting market competition; the acid test will be how many hydrogen projects meet its standards.

To encourage renewable hydrogen imports, the Commission proposes increased international engagement with potential suppliers such as North Africa, the Middle East, Sub-Saharan Africa, the United States, Chile, and Australia. This engagement is part of a broader EU external engagement strategy. The Commission hopes to facilitate three major hydrogen import corridors from the North Sea (i.e., the United Kingdom and Norway), North Africa, and Ukraine (the latter "when conditions allow"). A Global European Hydrogen Facility could facilitate EU coordination regarding international hydrogen projects as well as work on international hydrogen standards.<sup>8</sup> It is not clear if the Commission intends this to be a central buying platform (and channel for support in the form of CCFs or other mechanisms) along the lines of the German initiative H2Global. The Commission says the Global European Hydrogen Facility would need to be "coherent with intra-EU measures and market functioning." The Commission has already approved H2Global under state aid rules, so some form of coordinated buying function is possible.

Last, the Commission foresees the need to accelerate the development of hydrogen infrastructure such as pipelines and import facilities in the European Union. This includes the use of the revised TEN-E Regulation,

---

<sup>7</sup> See European Commission, "Production of renewable transport fuels – share of renewable electricity (requirements)," [https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/7046068-Production-of-renewable-transport-fuels-share-of-renewable-electricity-requirements\\_en](https://ec.europa.eu/info/law/better-regulation/have-your-say/initiatives/7046068-Production-of-renewable-transport-fuels-share-of-renewable-electricity-requirements_en), retrieved 23 May 2022. The rules will also apply to RFNBOs used in industry once RED II is amended.

---

<sup>8</sup> See the IHS Markit Webinar: [Review of the status of definitions for hydrogen: A global comparison](https://connect.ihsmarkit.com/master-viewer/show/phoenix/4356416). <https://connect.ihsmarkit.com/master-viewer/show/phoenix/4356416>



which in the past has supported gas and electricity infrastructure PCIs and will now be extended to include hydrogen. The Commission will work with the EU Agency for the Cooperation of Energy Regulators (ACER), with the European Network of Transmission System Operators for Gas (ENTSO-G), and with industry to develop a first list of PCIs by fourth quarter 2023, along with projects of mutual interest (PMIs) between the EU and third countries.

Additional gas infrastructure such as pipelines and LNG import terminals, which the Commission sees as necessary to eliminate dependence on Russian gas, will be built with conversion to hydrogen in mind. As well as the conversion of pipelines, the Commission foresees the potential to “modify regasification facilities” so that they can accept the 4 MMT of renewable ammonia the Commission expects to be imported by 2030. Ammonia is seen as a good candidate for the import of renewable hydrogen.<sup>9</sup>

The Commission has already proposed rules to enable the repurposing of natural gas infrastructure for hydrogen use, and rules on access to hydrogen infrastructure under the proposed hydrogen and decarbonized gas market package. Much will depend on how national regulators interpret these rules to allow transfer of assets between regulated gas companies and future hydrogen network operators (with hydrogen transmission likely ending up being operated by gas transmission operators in many cases). The proposed rules on separating ownership of pipelines from production or supply of hydrogen are quite onerous and may make it difficult for hydrogen producers and consumers to manage their infrastructure risk in the absence of government backing for infrastructure projects.<sup>10</sup> More thinking seems to be needed here.



## Higher targets and swifter planning for renewable power

In July 2021, the Commission proposed that the European Union aim for 40% renewables in energy demand in 2030; with the REPowerEU plan, the Commission has increased this target to 45%.<sup>11</sup> This level of ambition is a massive step up from the 20% target of 2020. RED II also includes subtargets (for heating, transport, buildings, and industry) but they have not been revised as part of REPowerEU and will need to be added by the legislators during the review of the RED II.

Solar power is the primary focus of REPowerEU, much more than wind energy. The 2030 solar target is increased to just under 600 GW, higher than the 470 GW March communication target (this implies a much faster pace of annual additions to 45 GW, up from 24 GW in 2021), and there is a rooftop mandate for commercial and public buildings from 2026, followed by a residential buildings mandate from end-2029.<sup>12</sup> By comparison, RePowerEU does not include any new targets or initiatives to boost wind energy.

Permitting is the Achilles' heel of renewable development. In most markets, wind projects need seven years to obtain planning permission. REPowerEU includes a bold proposal to tackle permitting delays to ensure that no renewable plant takes longer than two years to receive planning permission, with faster timescales for plants located

<sup>9</sup> Whether LNG tanks can cope with ammonia would require a detailed technical analysis, as ammonia is toxic and corrosive. Ammonia is stored at -33.6°C, compared with -160°C for LNG and -253°C for liquid hydrogen.

<sup>10</sup> See the IHS Markit Webinar: [Review of the EU Hydrogen and Gas Decarbonization Package and update on other hydrogen-related legislation.](https://connect.ihsmarket.com/master-viewer/show/phoenix/4285208)

<sup>11</sup> From a procedural point of view, it is worth noting that the new renewable energy, energy efficiency targets, timescales on planning, and rooftop mandate are now part of the Commission's RED II proposed updates, the Energy Efficiency Directive, and the Energy Performance of Buildings Directives (EPBD) proposals issued in July 2021. REPowerEU does not simply make recommendations; it has included these new measures in text that will now be discussed in Parliament and Council as part of the Fit for 55 package.

<sup>12</sup> See the IHS Markit Insight: [The EU Solar Energy Strategy spurs industry optimism, gives few details on supply chain.](https://connect.ihsmarket.com/master-viewer/show/phoenix/4372931)



in designated “go-to” areas, which member states will be required to define within two years (see Table 2). While proposing preferred zones for renewable development has been mooted before without much success, tabling specific permitting time frames may well lead to a compromise that would materially reduce permitting timescales, at least in markets where the guidance is implemented quickly.

Finally, to counter the persistent problem of legal challenges to permitting, the updated version of the proposed renewable directive specifies that renewables, their connection to the grid, the grid itself, and storage are defined as being “in the overriding public interest.” The German government is in the process of adding this language into its constitution, which is expected to dramatically reduce the number of legal appeals to planning decisions.

**Table 2 : Permitting timescales proposal**

Location of renewable project	Maximum permitting duration
Renewables in go-to areas	1 year (+3 months in extraordinary circumstances) No need for environmental impact assessment (EIA) except for biomass plants
Repowering, new plants < 150 kW, colocated storage, and their grid connection in go-to areas	6 months (+3 months)
Renewables outside go-to areas	2 years (+3 months)
Repowering, new plants < 150 kW, colocated storage, and their grid connection outside go-to areas	1 year (+3 months)
Solar PV on artificial structures (old or new)	3 months

## Market design: Continued interventions allowed for the coming winter

Since the approval of the Third Energy Package for gas and electricity in 2009, Europe’s power design has relied on markets operating with minimal government intervention. There is now increased appetite for regulatory intervention owing to the recent electricity price spikes and associated affordability concerns.

The REPowerEU communication goes beyond the October 2021 toolbox on energy prices set forward by the Commission, by advocating for further measures to support consumer affordability.<sup>13</sup> The intervention proposals for the gas market are less developed and more speculative than what is proposed for electricity.

- In the short term, market intervention is seen as being desirable in order to protect consumers. Specifically, the Commission clarifies that current circumstances can justify member states capping gas and power retail prices, introducing windfall taxes on power producers that benefit from high prices and subsidizing the costs of marginal plants (e.g., gas-fired plants), and reducing wholesale power prices in regions with limited interconnection until the end of next winter. The Commission recognizes that support is needed beyond the residential market.
- Limited change in the wholesale market is envisioned for the long term in order to improve operations and thus better outcomes for consumers. A major structural redesign of the EU power market, as has been mooted by France and other member states, is not currently on the agenda.

Given the recent “drip-drip” of Russian gas supply reductions, REPowerEU prepares for the possibility of a widespread disruption of gas supply from Russia by proposing a coordinated plan for managing gas demand across Europe, including the possibility to introduce wholesale price caps on an EU-wide basis. The conditions that would trigger such decisions are not detailed, and the proposal does not identify the precise circumstances under which price caps would be introduced. Any such mechanisms would require legislation approved by Parliament and the member states. Such a proposal is contentious, as the unintended effects of capping the wholesale price of gas—reducing the ability of the European Union to attract LNG supplies and further distorting gas and electricity markets—may give legislators pause.

<sup>13</sup> See the IHS Markit Insight: Europe’s energy markets: Intervention in the short term but no change of market design. <https://connect.ihsmarket.com/master-viewer/show/phoenix/4372435>

## Limited new money to finance REPowerEU

No more than €20 billion of new funding has been earmarked to finance the public component of the REPowerEU package, the total cost of which is estimated to be €300 billion (with total costs including private sector financing significantly higher). A large share of the €300 billion is suggested to come from loans available in the post-COVID-19 RRF, by repurposing the €225 billion from the RRF, or from the reallocation of grants already earmarked under different EU programs (e.g., common agricultural policy [CAP] and the Cohesion Fund). The big question is whether member states will be willing to take on more debt, even under the relatively low interest rates envisioned for RFF loans, given the substantial deterioration in public finances experienced since 2020. Mobilizing private investment will be key.

In terms of new funds, grants worth €20 billion will be made available from the sale of roughly 250 million EUAs currently held in the market stability reserve (MSR). Using carbon EUAs housed in the MSR—most of which were previously destined to be canceled and not enter the market—in order to finance EU policy will be seen as unfortunate precedent by participants in the EU ETS. The perception that EUAs in the MSR are available at the discretion of the Commission to finance EU initiatives will be seen as a reduction of the ambition of the carbon market.

### **Conclusion:**

The decisions taken by the EU will likely have a direct impact on your company. Beyond the economic opportunities linked to the development of infrastructures or measures resulting from energy efficiency, the evolution of the energy mix towards more renewables and the carbon pricing mechanisms will have a concrete effect first on the "E" of your ESG strategy. It will be a matter of evaluating or changing your assessment of environmental risks and opportunities, revisiting your CO<sub>2</sub> emission reduction targets, particularly scope 2 and 3, or even embarking on the construction of a net zero trajectory.

## About S&P Global Market Intelligence

S&P Global Market Intelligence integrates financial and industry data, research, and news into tools that help track performance, generate alpha, identify investment ideas, understand competitive and industry dynamics, perform valuation, and assess risk.

### CONTACT US

#### The Americas

+1-877-863-1306

#### EMEA

+44-20-7176-1234

#### Asia-Pacific

+852-2533-3565

Copyright © 2022 by S&P Global Market Intelligence, a division of S&P Global Inc. All rights reserved. No content, including by framing or similar means, may be reproduced or distributed without the prior written permission of S&P Global Market Intelligence or its affiliates. The content is provided on an "as is" basis.

[spglobal.com/marketintelligence](https://spglobal.com/marketintelligence)