Levegő Munkacsoport

Magyar Természetvédők Szövetsége
Föld Barátai Magyarország

Budapest, 13 June 2023

To:
**Normunds Popens**
**Director-General**
**Directorate-General For Regional & Urban Policy**

**Céline Gauer**
**Head of the Recovery and Resilience Task Force**
**European Commission**
Brussels

Subject: Environmentally harmful subsidies and disrespect of the "polluter pays" principle regarding the use of EU funds foreseen in Hungary based on preliminary information about the NECP review

Dear Director-General Normunds Popens,
Dear Head of Task Force Céline Gauer,

In May 2022, our organizations, the Clean Air Action Group and NSC-Friends of the Earth Hungary, together with other Hungarian green NGOs, participated in a meeting with representatives of the Hungarian Ministry of Energy, to discuss the preliminary plans about the Hungarian National Energy and Climate Plan (NECP) review, as part of a longer-term public consultation process.

Based on the preliminary information received from the Ministry at the meeting and from various government announcements or interviews on energy investments and measures, it can be expected that the reviewed NECP – to be largely financed with upcoming EU funds (RRF, Cohesion funds, Modernization Fund) – will be based on several worrying investments, contradicting the principles of economy, efficiency and effectiveness as defined by Article 33 of the Financial Regulation[1]. . Several of the planned EU-funded projects might cause direct environmental harm, lock-in climate-damaging technologies, – thus violating the polluter pays" principle" enshrined in the Treaty on the Functioning of the European Union. This should be of special concern in an era, when public financial resources should be primarily supporting ambitious climate targets and the green and just energy transition, benefiting the citizens directly, and in the long term. Moreover, in these cases, EU funding would benefit first of all private companies in a way that would seriously distort the market, leading to unfair competition, and thus it would contradict the EU's aim set in the Treaty on the European Union, according to which the EU "shall work for the sustainable development of Europe based on … a highly competitive social market economy …".

[1] Regulation (EU, Euratom) 2018/1046 of the European Parliament and of the Council of 18 July 2018 on the financial rules applicable to the general budget of the Union

A few of the concerning items are the following:

**A significant part of the upcoming EU funds (including RRF, REPowerEU and Modernisation Fund) is potentially to be used for environmentally harmful Hungarian projects, locking in fossil fuel technologies for several more decades**:

- Improvements on an oil refinery owned by MOL – an extremely profitable regional leader oil company, having produced significant extra profit during the energy crisis.[2] The Hungarian media has already reported about the planned EU funding for MOL.[3]
- Gas infrastructure investments, including 3 new gas power plants (CCGTs). It is likely still under negotiation whether EU or national public funds can partly finance them or not.
- Investments in hydrogen capacities (mostly storage), with the declared goal of using hydrogen produced with nuclear energy (only the use of "green" hydrogen, produced with renewable energy should be acceptable as part of the green energy transition).

**Significant EU funds (including RRF, REPowerEU and Modernisation Fund) may be potentially used/planned for private companies and industrial actors, contradicting the „polluter pays principle", and under-prioritizing citizens as well as just transition goals:**

- Direct subsidies for industrial parks for renewables and energy efficiency measures. Such remunerative investments should be financed from private sources, not from public funds.
- Indirect subsidies by financing major electric grid improvements, which, to a significant degree (50%) are aimed at accommodating increasing industrial electrification demand to an unnecessary level. In our opinion, such investments should be financed by private sources, instead of public funds.
- The above-mentioned oil-refinery investment, the beneficiary of which is a lucrative private oil company. Such investments should also be financed by the companies concerned instead of public funds.
- The planned 3 new gas power plants (CCGTs, in JT regions) jeopardise just transition. The government wanted a CCGT as a new condition for the NECP-committed phase-out of the lignite-fired Mátra Power Plant.
- The amounts dedicated to the just green transition of citizens (e.g. residential energy efficiency, heating decarbonization, etc.) are inferior to the amounts dedicated to the private sector (most of the Hungarian Just Transition Fund's planned beneficiaries are SMEs and probably predominantly large companies), and some important measures – with significant health and air quality benefits – present in earlier strategies are likely to be removed (e.g. replacing the residential use of lignite as a heating fuel).
- Subsidies benefiting private companies have a huge potential to further increase the current level of corruption in Hungary.

[2] https://xpatloop.com/channels/2023/02/soaring-mol-hungary-earnings-unveiled.html
[3] https://www.portfolio.hu/unios-forrasok/20230112/fontos-dontes-szuletett-az-ep-ben-700-millio-eurot-kap-magyarorszag-590142

In addition, instead of prioritizing energy demand reduction, the plans count with an **insignificant decrease in energy demand**, and in the case of electricity, not even the intention of demand reduction is present in the plans.

We call the attention of the Commission to the above-mentioned concerns and ask to strictly require the application of the principles of economy, efficiency and effectiveness as well as „the polluter pays principle" and consider long-term social and climate benefits when negotiating about the above-mentioned projects, especially those financed by EU funds. We believe that the interests of the Hungarian residents would be much better served if the majority of EU funds were devoted primarily to energy efficiency and, within that, overwhelmingly to reducing the residential energy demand, instead of large-scale investments that deplete our natural resources. In the long term, this would ensure the country's (and the EU's) energy independence and the containment of inflation due to the increase in energy prices.

Yours sincerely,

Katalin Tarr
Policy Officer
Clean Air Action Group

András Lukács
President
Clean Air Action Group

Alexa Botár
Climate and energy program director
MTVSZ/NSC-FoE Hungary

Ákos Éger
Executive President
MTVSZ/NSC-FoE Hungary

Cc:
Johannes Luebking, Principal Adviser for European Semester Coordination
Veronica Vecchio, RECOVER.C.1.

**Clean Air Action Group, H-1085 Budapest, Mária utca 56.** www.levego.hu, levego@levego.hu
**MTVSZ/NSC-FoE Hungary, H-1091 Budapest, Ulloi ut 91.B**. www.mtvsz.hu, info@mtvsz.hu