

## **Comments by the Clean Air Action Group on the REPowerEU Chapter of Hungary's Recovery and Resilience Plan**

Previously, the Clean Air Action Group commented<sup>1</sup> on the draft “Hungary’s Recovery and Resilience Plan – REPowerEU Chapter”<sup>2</sup> (hereinafter: the Draft), which was released by the Hungarian government for public consultation on 27.07.2023. The government submitted the final version of the REPowerEU Chapter (hereinafter: the Chapter) to the European Commission on 31.08.2023 and published its responses to the comments received during the public consultation.<sup>3</sup> We comment on both documents below.

### **I. The version of the REPowerEU Chapter submitted to the European Commission**

#### **General comments**

The Chapter does not provide data on the overall reduction in the country’s primary energy consumption and CO<sub>2</sub> emissions if the reforms and investments listed are implemented, although these are the main objectives of REPowerEU, along with reducing dependence on Russian energy sources. Indeed, the entire plan will be called into question if the government’s policy and measures as a whole lead to an increase in the Hungary’s CO<sub>2</sub> emissions and energy use in the coming years.

There is no data on how much any of the 14 reform measures will reduce energy use and CO<sub>2</sub> emissions. And only three of the 15 investments have such data. The only data provided in the Chapter is that the reforms and investments, if implemented, will result in annual emission reductions of 0.7-0.9 million tCO<sub>2</sub>eq and a reduction in primary energy use of 365 GWh. However, in the absence of calculations or disaggregated data, it is impossible to verify the validity of these aggregates. However, if these figures are correct, this means that a total of HUF 2 346 billion (64% of which is EU money) will result in a reduction of 0.7-0.9 million tCO<sub>2</sub>eq, i.e. an expenditure of HUF 2.6-3.4 million per tonne of CO<sub>2</sub>eq. With this in mind, it would have been necessary to analyse the opportunity cost of the investments envisaged in the Chapter, as there are certainly reforms and investments that could reduce CO<sub>2</sub> emissions much more cost-effectively than those described in the Chapter. (Note that the current price per tonne of carbon quota in the EU emissions trading scheme is €82<sup>4</sup>, or around HUF 31 000 at official exchange rates.)

---

<sup>1</sup> [http://www.levego.hu/sites/default/files/RePowerEU\\_velemenymcs%202023aug.pdf](http://www.levego.hu/sites/default/files/RePowerEU_velemenymcs%202023aug.pdf)  
[https://www.levego.hu/sites/default/files/comments\\_on\\_hungarys\\_draft\\_repowereu\\_plan\\_28082023.pdf](https://www.levego.hu/sites/default/files/comments_on_hungarys_draft_repowereu_plan_28082023.pdf)

<sup>2</sup> <https://www.palyazat.gov.hu/rrf-repowereu-fejezet-velemenyezese#>

<sup>3</sup> Uo.

<sup>4</sup> <https://sandbag.be/carbon-price-viewer/>, 2023.10.22.

Hungary's annual CO<sub>2</sub> emissions are currently around 50 million tonnes. Assuming a similar unit cost to reduce emissions to zero as described in the Chapter, this would require a total of at least HUF 130 000 billion in public subsidy until 2050, i.e. almost HUF 5 000 billion per year. The latter amount corresponds to more than 12 percent of the planned central budget<sup>5</sup> in 2024. We do not see the source of this amount.

This further calls into question the sense of the Chapter.

Although EU legislation and UN requirements<sup>6</sup> only require the recording and reduction of CO<sub>2</sub> emissions in a given country, outsourced emissions (i.e. where a product or service is used in one country but the emissions are partly or entirely generated in another<sup>7</sup>) should not be excluded. If outsourced emissions were counted, Hungary's emissions would be about 30% higher<sup>8</sup>, i.e. 65 million tonnes per year. We believe we have a moral obligation to reduce outsourced emissions as well, but this is not even mentioned in the Chapter.

## 1. Reforms

The reforms in the Chapter are the same as those in the Draft. These reforms are necessary, but the reforms that are needed to meet the climate targets – as called for by the European Council and the European Commission (and listed by the Clean Air Action Group in its comments on the Draft) – are still missing. These reforms are the following:

### (15) Complete abolition of state subsidies for utility bills with a simultaneous monthly cash benefit for those in need

RATIONALE: In 2023, the government will spend HUF 2,580 billion on this "fossil fuel protection"<sup>9</sup>, and will continue support it in 2024, albeit with a much smaller amount than in 2023 - HUF 1,340 billion<sup>10</sup>, i.e. these amounts will be used to subsidise the use of the energy sources it intends to curb in principle. Clearly, it is impossible to make meaningful progress towards the targets set out in Article 1 of the REPowerEU Regulation<sup>11</sup> while the government is subsidising the energy sources to be curbed by much more than the total amount of REPowerEU support earmarked for Hungary. Thus, the utility bills' subsidies are projecting a further move away from the EU targets. Furthermore, these subsidies are also extremely unfair from a social point of view, as they favour the wealthier middle classes - and especially the wealthiest.<sup>12</sup> Therefore, in line with the European Council's Country Specific Recommendations<sup>13</sup>, and the 'polluter pays' principle enshrined in the EU's Treaty, it is necessary to abolish the subsidies of the utility bills in parallel with regular cash support for households in need.

### (16) Removal of other subsidies for the production and use of fossil fuels

<sup>5</sup> <https://njt.hu/jogszabaly/2023-55-00-00.2#CI>

<sup>6</sup> <https://www.un.org/en/climatechange/all-about-ndcs>

<sup>7</sup> [https://www.eionet.europa.eu/etcs/etc-atni/products/etc-atni-reports/etc-atni-report-7-2019-emissions-outsourcing-in-the-eu-a-review-of-potential-effects-on-industrial-pollution/@@download/file/Emission%20outsourcing\\_ETCATNI2019-7\\_NILU%20FINAL.pdf](https://www.eionet.europa.eu/etcs/etc-atni/products/etc-atni-reports/etc-atni-report-7-2019-emissions-outsourcing-in-the-eu-a-review-of-potential-effects-on-industrial-pollution/@@download/file/Emission%20outsourcing_ETCATNI2019-7_NILU%20FINAL.pdf)

<sup>8</sup> <https://ourworldindata.org/consumption-based-co2>

<sup>9</sup> <https://kormany.hu/hirek/tobb-jut-a-rezsicsokkent-es-vedelmere-az-orszaggyules-elfogadta-a-2023-as-rezsivedelmi-koltsegvetes-modositast>

<sup>10</sup> <https://www.parlament.hu/irom42/04181/04181-0471.pdf>

<sup>11</sup> <https://eur-lex.europa.eu/legal-content/HU/TXT/HTML/?uri=CELEX:32023R0435&qid=1691314558390>

<sup>12</sup> <http://real.mtak.hu/134263/1/03WeinerSzepA.pdf>

<sup>13</sup> <https://www.consilium.europa.eu/press/press-releases/2023/06/16/european-semester-2023-country-specific-recommendations-agreed/>

RATIONALE: Currently, there is a huge amount of direct and indirect subsidy for fossil fuels beyond the subsidies for utility bills. These include, among others, the failure to internalise externalities,<sup>14</sup> subsidies to individual companies (car factories, battery factories, etc.), and a number of government investments (e.g. the Lake Fertő investment<sup>15</sup>). If all the above mentioned subsidies were to be abolished, a significant part of the investment subsidies foreseen in the Chapter would become even more unnecessary (see below under “Investments” for more details), as these investments would pay off relatively quickly on a market basis. It is therefore essential to remove direct and indirect subsidies to fossil energy.

#### (17) Preparation of a comprehensive awareness-raising campaign

RATIONALE: Energy awareness among the population is still very low and there is a lack of knowledge about how and why to save more energy and use less polluting heating and cooling methods. Although saving even a few tenths of a degree Celsius of heating energy per household on average would result in significant savings at national level, the majority of the population is not even aware of the simplest energy-saving practices. For all these reasons, there is an urgent need to develop a wide-ranging awareness-raising programme involving the European Commission and NGOs at home and abroad.

#### (18) Strengthen authorities to eradicate illegal burning

RATIONALE: In Hungary, as in many countries in the region, from Poland to Bulgaria, burning municipal waste is widespread,<sup>16</sup> which is extremely harmful to health and contributes to the climate crisis.<sup>17</sup> But the relevant government agencies lack the capacity to take action against this illegal activity. These authorities must therefore be strengthened and municipalities and the police<sup>18</sup> must be given greater powers than at present to put an end to these violations.

The implementation of (17) and (18) and other relevant recommendations of the Clean Air Action Group<sup>19</sup> is essential to ensure that the implementation of (15) and (16) does not lead to an increase in illegal burning of waste and firewood theft.

## **2. Investments**

The investments in the Chapter are listed in the table below. Each is accompanied by a brief assessment by the Clean Air Action Group.

<sup>14</sup> For transport alone, externalities amount to up to 5% of GDP, or even 13% according to other calculations.

[https://transport.ec.europa.eu/transport-themes/sustainable-transport/internalisation-transport-external-costs\\_en](https://transport.ec.europa.eu/transport-themes/sustainable-transport/internalisation-transport-external-costs_en)  
[http://www.levego.hu/sites/default/files/kozuti\\_vasuti\\_kozlekedes\\_tarsadalmi\\_merlege\\_magyarorszagon\\_0.pdf](http://www.levego.hu/sites/default/files/kozuti_vasuti_kozlekedes_tarsadalmi_merlege_magyarorszagon_0.pdf)

<sup>15</sup> <https://sites.greenpeace.hu/ferto-termeszetszirtas-kozpenzbol/>

<sup>16</sup> <https://www.levego.hu/hirek/ellenezzuk-megis-egetunk/>

<sup>17</sup> <https://www.levego.hu/kampanyok/waste-campaign/>

<sup>18</sup> <https://www.levego.hu/hirek/2021/02/ezrek-eletet-menthetnek-meg-az-onkormanyzatok/>

<sup>19</sup> <https://www.levego.hu/hirek/zold-szervezetek-a-lakossagi-egetesekrol/>  
[https://www.levego.hu/sites/default/files/egetes\\_eredetu\\_legszennyvezes\\_program\\_v\\_1.5.pdf](https://www.levego.hu/sites/default/files/egetes_eredetu_legszennyvezes_program_v_1.5.pdf)  
[https://www.levego.hu/sites/default/files/Mit\\_tehetnek\\_az\\_onkormanyzatok\\_lakossagi\\_hulladekegetes\\_ellen\\_2022okt.pdf](https://www.levego.hu/sites/default/files/Mit_tehetnek_az_onkormanyzatok_lakossagi_hulladekegetes_ellen_2022okt.pdf)

Serial number	Investment	Investment cost, net billions HUF	Support framework billions HUF	Energy backup GWh/year	CO <sub>2</sub> emissions saved tCO <sub>2</sub> eq/year	Assessment of the Clean Air Action Group
<b>REPowerEU non-reimbursable investment from Member States</b>						
1*	Electricity grid development (classic grid-development elements for DSO and TSO)	262,32	262,32	no data	no data	There is no justification for the need to grant non-repayable aid for these investments. If properly regulated, the companies concerned would certainly be able to carry out the investments in question from their own resources or with market loans. This would, of course, require appropriate economic calculations, which are not to be found in the Chapter.
<b>REPowerEU credit line investments</b>						
1*	Electricity network development and digitalisation	95,49	95,49	no data	no data	The same.
2*	Security of supply investments in gas storage facilities	18,72	18,72	no data	no data	The same, and in addition: The construction of gas storage facilities will both increase CO <sub>2</sub> emissions and lock-in the long-term use of a fossil fuel, which is contrary to REPowerEU's objectives.
3*	Greening industrial parks for energy	402,28	201,14	277-637	72 700-170 000	<ol style="list-style-type: none"> <li>1. There is no justification for the need to grant non-repayable aid for these investments. If properly regulated, the companies concerned would certainly be able to carry out the investments in question from their own resources or with market loans. This would, of course, require appropriate economic calculations, which are not to be found in the Chapter.</li> <li>2. According to the Chapter, the cost of saving one tonne of CO<sub>2</sub> emissions from this batch is between HUF 2.5 and 5.5 million. There are many possible investments that could reduce CO<sub>2</sub> emissions at a much lower unit cost.</li> <li>3. The Chapter does not include a methodology for calculating CO<sub>2</sub> emission reductions. It is assumed that the CO<sub>2</sub> emission reductions shown in the Chapter do not include the amount of CO<sub>2</sub> emitted during the investment. If they were included the specific indicators would be even worse.</li> </ol>

4*	Green economic producer-capacity building	400	200	no data	no data	<ol style="list-style-type: none"> <li>1. The investments in this section, and many more, would be made on a market basis if energy prices reflected the true cost of energy.</li> <li>2. Individual subsidies to companies tend to distort the market in a very harmful way and are often a breeding ground for corruption.</li> </ol>
5*	Use of green technologies	84,8	42,4	no data	no data	<p>The same, in addition:</p> <ol style="list-style-type: none"> <li>1. According to the Chapter, the measure also aims to reduce air pollution, “contributing to the objectives of the National Air Pollution Reduction Programme”. This objective could be achieved more effectively in the industrial sector by straightening legislation and, in particular, by strict enforcement of the law, with dissuasive penalties. This requires a significant reinforcing environmental and nature protection authorities and ensuring their independence.</li> <li>2. The biggest source of air pollution in Hungary is not industry but domestic heating. The amount earmarked under this heading could achieve orders of magnitude greater results if it were used to reduce air pollution from residential burning. The Clean Air Action Group has made concrete proposals for the necessary measures, which have been agreed by the Ministry responsible for the Environment.</li> </ol>
6*	Energy efficiency improvements in businesses	175,49	175,49	no data	no data	Since the aid is granted in the form of loans to the companies concerned, which they must repay within a certain period, the measure is in principle eligible. However, there is a risk of market distortion and corruption.
7*	Energy digitalisation	180	90	no data	no data	There is no justification for the need to grant non-repayable aid for these investments. If properly regulated, the companies concerned would certainly be able to carry out the investments in question from their own resources or with market loans. This would, of course, require appropriate economic calculations, which are not to be found in the Chapter.
8*	Hydrogen investments	100,57	70,4	no data	no data	<ol style="list-style-type: none"> <li>1. Hydrogen is extremely energy intensive to produce. Given the scarcity of so-called renewable energy sources, investments in hydrogen increase the Hungary’s dependence on fossil fuels.</li> <li>2. The fleet, tracks and operational facilities of public transport are largely outdated, and the quality of public transport is a key factor in reducing emissions.</li> <li>3. Greening public transport can be achieved much more cost-effectively by modernising the fleets, tracks and operational facilities than by investing in hydrogen.</li> </ol>

9	Strengthening the human capital of the green economy	13,99	13,99	no data	no data	This point should definitely be supported. However, it should be noted that the human resources for the green transition could largely be provided by eliminating economically unnecessary investments.
10	Use of geothermal heat	159,58	159,58	no data	no data	The environmental and geological risks associated with geothermal energy are very serious, and such investments should be preceded by very thorough investigations.
11	Energy efficiency improvements in public buildings	78,5	62,8	112,5	22 700	This should also be supported, but a serious shortcoming is that the insulation of buildings is not included among the eligible activities.
12	Residential energy efficiency investments	224	224	171		It is very important to support these investments. However, its (cost-)effectiveness depends to a large extent on its implementation.
13	Railway electrification	37,73	37,73	0,35	92	To be supported.
14*	Electric installation of charging stations	33,45	30,1			These investments can be made with market loans, without the need for state subsidy.
15	Subsidy for the purchase of an electric vehicle with preferential credit	80	60			The aid is most cost-effective when it is granted for the purchase of vehicles (1) with higher annual mileage, (2) that the general public can also enjoy direct benefits, (3) does not adversely distort the market but, on the contrary, helps to alleviate such distortions. These conditions are mainly met by car-sharing services, taxis and public transport vehicles, as well as some vehicles of the State and municipalities, so the subsidy should only be granted to them.
	Total	2346,32	1744,16	no data	no data	

We propose to cancel the financial support for the investments marked with \* (1-8 and 14).

RATIONALE:

The investments listed are high-value investments based on the continued use of fossil fuels (development of natural gas infrastructure, development of industrial parks, etc.), on which the Chapter envisages spending significant EU funds. Not a single penny of Hungarian or EU public money should be spent on such investments, which are mainly in the interest of private profit-oriented companies, as they are not justified by environmental or economic rationality and are even market-distorting and delay the green transition, and all this further undermines our competitiveness. Looking at the import exposure targets of the ongoing review of the National Energy and Climate Plan (NECP), it is clear that these investments would not lead to a substantial change in the energy dependence of our country. The latter could be ensured by energy efficiency efforts and meaningful economic restructuring.

Some of the planned investments would be supported by soft loans. The need for this is questionable, because most of the companies concerned are well capitalised and could easily raise the necessary funds for their investments from the market. Nor can the development of the gas pipeline network be justified by the provision of hydrogen transport, because if this investment cost is included, even the production of green hydrogen would have a huge unit cost, and its efficiency is highly questionable. The fundamental objectives that these investments are intended to achieve (reducing energy dependence, climate protection, etc.) can be achieved through regulatory instruments and tax and subsidy reforms.

The list also includes investments that have particularly poor economic and environmental performance as “end-of pipe” solutions (e.g. financing carbon capture technologies).

We propose that the majority of the funds released by the above amendments be reallocated to (13) Residential energy efficiency investments and HUF 150 billion to awareness raising and strengthening public authorities.

RATIONALE:

The energy efficiency investments, which would contribute to substantial emission reductions and energy independence, would receive a disproportionately small amount: the energy renovation of 20,000 homes is very small. See above for the rationale for raising awareness and strengthening public authorities.

### **3. Climate labelling and the “do no significant harm” principle (Point 8)**

The EU-funded investments listed in the Chapter mostly include major equipment purchases and infrastructure expansion elements. The construction of linear and site infrastructure, and thus the elimination or degradation of biologically active surfaces, and the production and transport of the high-value equipment to be purchased, all have significant environmental impacts. Compared to the expected marginal emission reduction results and the long-term negative impacts (e.g. lock-in) we conclude that these investments are overall in breach of the “do no significant harm” principle and also of the EU state aid rules. The explanations in Point 8 of the Chapter are somewhat one-sided in highlighting the minor positive aspects of the planned measures, exaggerating their climate impacts, while failing to analyse their environmental, social and climate downsides and compare their effectiveness with other possible measures. Instead of these investments, the focus should be on improving the energy efficiency of the capital-poor residential sector and shifting to less energy-intensive activities.

## II. The government's responses to the comments made during the public consultation

It is encouraging that the government has agreed with several of the comments made during the public consultation and has made changes to the Chapter on the basis of these comments. However, we find some of the Government's responses questionable, and these are discussed below.

*“Investments in gas storage are necessary for security of supply reasons.”* – This statement is debatable if the government really wants to reduce our energy dependence and CO<sub>2</sub> emissions as soon as possible. But even if these investments were necessary, they should not be paid for with public money.

*“We do not see any justification for the state to take over the renovation costs of residential buildings, which are privately owned.”* – This is a reasonable position in most cases, but in these cases, too, favourable conditions for long-term lending should be created, and borrowers could repay the loan from savings from reduced energy consumption. However, such a process is made extremely difficult by the artificially low residential energy prices. Moreover, there is a large group of people who cannot upgrade their homes even with a subsidised loan, and for whom direct public support is essential.

The unforgivable omission of the past decades is the failure to modernise the energy efficiency of residential buildings. Thousands of billions of forints have been wasted and the environment and the health of the population have deteriorated significantly. Many buildings are not able to provide adequate conditions for healthy living, leading to many otherwise avoidable illnesses and premature deaths, which will also have a severe impact on the economy.

The government's reasoning is also in stark contrast to its practice, as it has provided and continues to provide many subsidies to private individuals (e.g. energy efficiency rebates, subsidies for solar panel installation, subsidies for housing construction and renovation – the latter, in many cases, without energy efficiency requirements).

*“Support for residential energy prices is also of paramount importance from a social justice perspective, and we do not see any justification for opposing it with climate policy ambitions.”* As explained above, energy price subsidies are socially highly inequitable, as the majority of the subsidy goes to people who do not need it, and a rich household tends to receive more subsidy than a poor one. It is also unfair that, as a result, much less subsidy goes to poorer people than they would otherwise receive. It is also unfair because the poor are the worst hit by the pollution and health damage caused by subsidies. It is also unfair because it puts companies investing in energy efficiency at an undue disadvantage compared to companies interested in the use of fossil fuels. It is also unfair because it misinforms the public, business and policy makers alike about the true cost of energy and the severe vulnerability that inevitably results.

*“The importance of energy efficiency [in residential renovation] is not in doubt, however, the proposed increase in resources is, in our view, beyond the available contractor capacity and would not be absorbed.”* – It would be useful to see the analyses that support this statement. It is possible that in the current situation, together with renovation from other sources, there would not be sufficient contractor capacity. However, this could be partly remedied by suspending investments that are less important than building renovation, and which often contradict climate and environmental objectives, and which remain significant despite recent cancellation of many investments.

*“Among the investments under discussion, 2 investments concerning the development of the oil and gas pipelines will be excluded from the scope of support. The other investments have clear climate policy benefits.”* – It is commendable that the two investments in the oil and gas pipeline development will not be subsidised (hopefully not even with domestic public money). However, in case of the other

investments, the question was not whether they bring climate policy benefits, but whether they can be implemented without public subsidies. However, we have not received a response to this question.

*"Reducing energy use alone will not lead a country to climate neutrality."* – No one has claimed that reducing energy use alone will lead the country to climate neutrality. But it can and should play an important role. The need to reduce energy use, which is an EU requirement, is also mentioned in several places in the Chapter.

## II. Conclusions

In our opinion, on the basis of the above, the implementation of the Hungarian REPowerEU Chapter would be contrary to the provisions of the Regulation establishing the Recovery and Resilience Facility<sup>20</sup> (in particular Articles 4, 5(1), 10(1) and 17(2)), the Financial Regulation<sup>21</sup> (in particular Article 33) and the Regulation on the “Do No Significant Harm” principle<sup>22</sup>.

Budapest, 09 November 2023

Supported by:



Federal Ministry  
for Economic Affairs  
and Climate Action



European  
Climate Initiative  
EUKI

on the basis of a decision  
by the German Bundestag

**Disclaimer:** This study has been produced in the framework of the project “Towards a climate neutral EU: efficient allocation of EU funds” funded by the European Climate Initiative (EUKI). EUKI is a project financing instrument by the German Federal Ministry for Economic Affairs and Climate Action (BMWK). The EUKI competition for project ideas is implemented by the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH. It is the overarching goal of the EUKI to foster climate cooperation within the European Union (EU) in order to mitigate greenhouse gas emissions.

The opinions put forward in this document are the sole responsibility of Clean Air Action Group and do not necessarily reflect the views of BMWK or the other project partners.

---

<sup>20</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32021R0241>

<sup>21</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32018R1046>

<sup>22</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32022R1288>