

March 2020

## **Bankwatch Romania's comments on the EBRD's draft Country Strategy for Romania 2020-2025**

### **Specific comments:**

#### Section 5 – Activities and Results Framework

##### Priority 1 - Promote investments in sustainable infrastructure and regional development:

- *Key objective 2 – Improved quality of sustainable infrastructure for effective/efficient economy interactions:*
  - *Invest in both electricity and gas transmission and distribution networks to increase efficiency. Work with utility companies to develop smart networks, promote demand-side energy efficiency, and reduce losses in networks.*
  - *Finance power / gas interconnection projects, as well as ICT infrastructure.*
  - *Policy engagement and investments to support off-shore gas fields development and responsible and sustainable mining, including potential privatisation of viable assets to reputable investors*

Financing gas transmission and distribution networks or gas interconnection projects cannot be perceived as sustainable investments. Given the recently adopted 2050 climate neutrality target, investing in gas now and having to remove it from the energy mix 20 years later is risky, putting Romania in a situation where not only does it have to think a coal phase-out, but it has to prepare for a second transition away from gas. This will double the investments and will postpone the clean energy transition that Romania has to implement.

In addition, these investments in natural gas infrastructure are not suitable for a decarbonisation path that Romania has to pursue, given that this type of infrastructure is constantly losing methane, a greenhouse gas with a 23 times higher impact than carbon dioxide.

Moreover, these investments risk to become stranded assets given the evolution of natural gas in the final energy consumption for the period 2005-2017 (fig.1) and for the period 2020-2035 (fig.2) as presented in the final version of Romania National Energy and Climate Plan:

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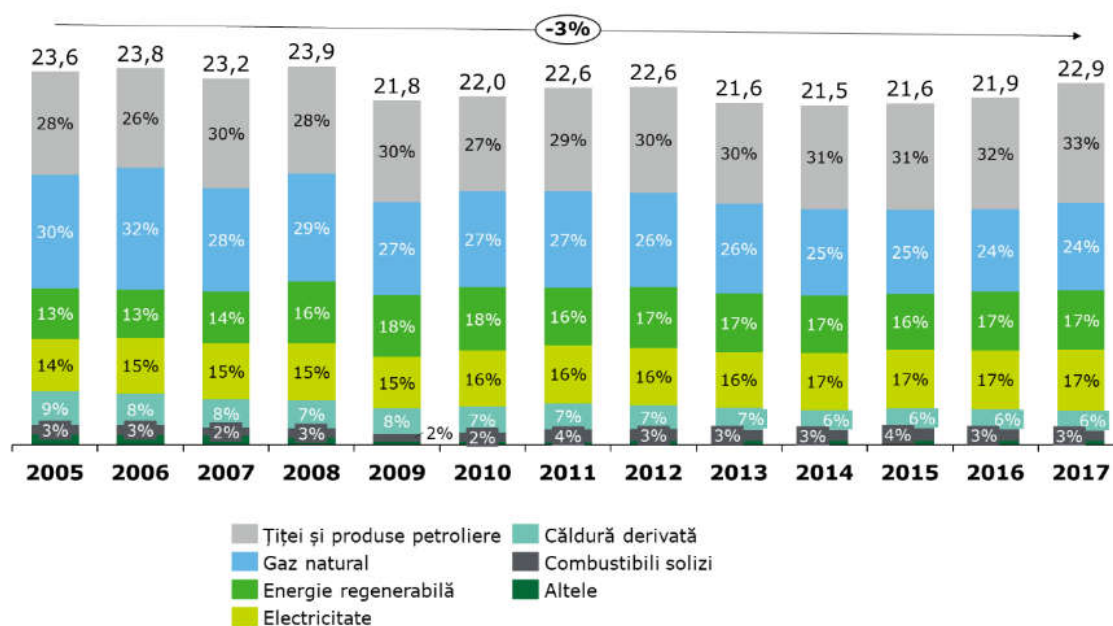


Fig.1 – Evolution of the final energy consumption by energy source during 2005-2017 (Romanian NECP, pg. 169)

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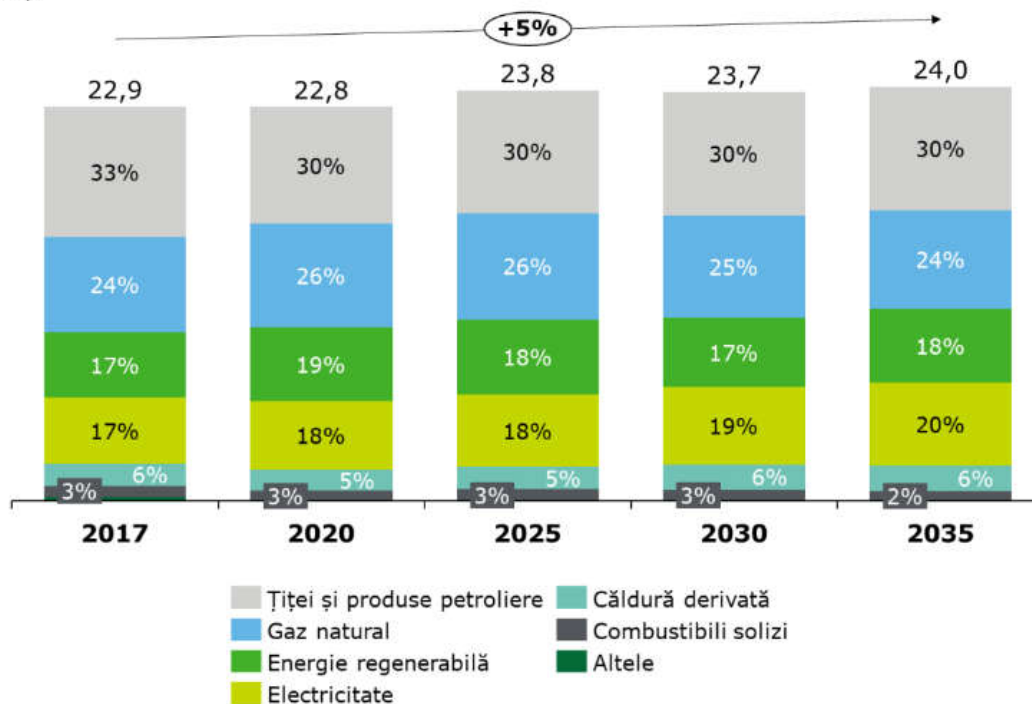


Fig. 2 – Evolution of final energy consumption by energy source for 2017-2035 (Romanian NECP, pg. 171)

The graphs above show that during the 2005-2017 period the use of natural gas in the final energy consumption followed a constant decrease and the estimates for the 2035 timeframe show that, despite a little increase in 2025, the use of natural gas will still remain at 2017 levels. Given this little change in evolution, high investments in natural gas projects may pose serious financial risks.

In respect to the electricity and gas transmission and distribution networks investments and also to investments for off-shore gas fields development, apart from instituting more quantifiable indicators for the efficiency of distribution networks, a special attention must be paid to the existing legislation which has been put through an intensive amendment process to ease the implementation of projects of national importance in the natural gas and electricity transmission field.

The current measures<sup>1</sup> provisioned for the implementation of such projects are based on questionable derogations from laws set to protect the environment, protected natural areas or the property rights. In addition, these legislative changes have been made without a proper implementation of the transparency and public participation to decision making principles. Due to the legislative changes, this type of projects can now be implemented on the protection zones of natural protected areas, can occupy indefinitely and free of charge forestry lands belonging to the state and benefit from other law derogations made to speed up their development.

Based on the proposed priority actions mentioned at Key Objective 1 – Improve the quality of institutions - *“supporting improved governance, such as for prudent policy formulation, project preparation and implementation, and strengthening of regulatory frameworks and regulatory bodies.”*, the above mentioned investments should be conditioned by an improvement in environmental protection legislation and a clear and strict public consultation procedure at all project levels.

- *Key objective 2 – Improved quality of sustainable infrastructure for effective/efficient economy interactions:*
  - *Support decarbonisation and transition from coal (Just Transition), leverage on the country’s potential in bioeconomy to produce advanced biofuels and biochemicals, and support the financing of renewables and climate resilience projects (e.g. infrastructure in coastal areas), including policies / activities under European Green Deal.*

When it comes to the process of decarbonisation and transition from coal, the investments need to be focused on alleviating the socio-economic costs of the transition and could target, for example, investments in the creation of new businesses, upskilling and reskilling of workers, implementation of projects based on renewable energy and measures for energy efficiency, land restoration and regeneration and decontamination of sites.

The investments should be designed according to the provisions of the territorial just transition plans that the regions planning a just transition need to elaborate. In this manner, the investments and projects intended to support this process will target the exact needs of that particular region.

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<sup>1</sup> Law 185/2016 regarding necessary measures for the implementation of projects of national importance in the natural gas field;

Law 120/2019 regarding necessary measures for the implementation of projects of national importance regarding the electricity transmission network.

Also, there should be set up quantifiable indicators for Just Transition investments, such as number of municipalities that benefit from investments in Just Transition or number of miners reskilled/re-hired.

In regards to investments in the production of biofuels and biochemicals, there should be provided clear and strict sustainability criteria for the implementation of such investments.

- *Key objective 3 – Increased access to municipal infrastructures unlocking economic opportunities:*
  - *Support property and tourism development, inclusive urban regeneration, energy efficiency improvements of buildings, and holistic development of culture and heritage rich regions.*
  - *Support regional development and reduction of urban/rural disparities through expanding access to sustainable water, wastewater, solid waste and other municipal services (urban transport, district heating, recycling), including co-financing EU structural funds, and ensuring inclusive, gender responsive design of key services.*

Investments in energy efficiency should target the whole residential sector (public and private buildings) given the fact that it had the highest share of total final energy consumption during almost all 2005-2017 period, the evolution of the final consumption not registering major changes throughout the years (fig.3):

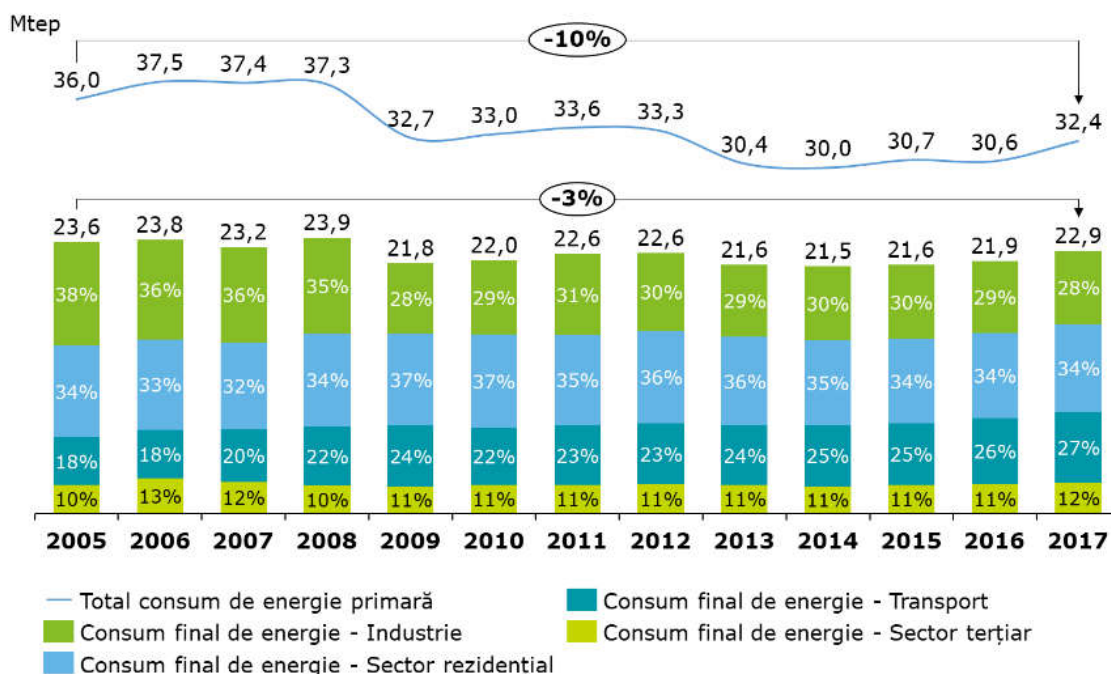


Fig. 3 - Evolution of primary and final energy consumption, including division by sectors, between 2005-2017 (Romanian NECP, pg.168)

Specifically, the investments should target the thermal rehabilitation of the stock of buildings in the public administration sector, apartment blocks, single-family dwellings, educational establishments, public hospitals as well as buildings for commercial purposes and other solutions should be implemented in order to provide the necessary thermal comfort along with the use of renewable energy.

Priority 2 – Support Productivity through Corporate Expansion, Innovation and Skills Upgrade:

- *Key objective 3 – Access to skills development (incl. skills mismatch reduction)*

In this matter, there should be mentioned as priority action specific activities implemented for those whose jobs in the coal sector will be lost. Such activities could include reskilling and retraining programmes for people affected by the layoffs from the decreasing coal industry. These specific activities should be implemented in an integrated manner with those designed to support the decarbonisation and the transition away from coal (Just Transition) specified above at Key objective 2, Priority 1.

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