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ENERGY-SYSTEM TRANSFORMATION IN CENTRAL AND EASTERN EUROPE COUNTRY BRIEFING: ROMANIA

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Romania's stance on EU climate and energy policy

Romania does not feature prominently in the EU climate and energy policy debate nor is it particularly ambitious in this regard. In the past, it has often sided with the Visegrád Group. Nonetheless, the Romanian stance towards cooperation with Brussels is generally favourable.

As one of the most recent EU members, Romania has taken a generally passive stance on climate and energy policy thus far. While the EU remains very popular with the Romanian population, membership has not completely lived up to the expectations of Romania's elites. Two of their key interests are EU Cohesion Policy¹ and the Common Agricultural Policy². In both fields, the Romanian government feels its concerns are not being taken seriously enough by Brussels. This needs to be taken into account when trying to gain support for climate and energy policy issues.

Climate policy does not constitute a large priority for the Romanian government or the public. Reducing energy poverty³ and high utility costs⁴ are regarded as much more important policy goals than reducing CO₂ emissions. Romania strongly favours technology neutrality in EU energy policy and generally insists on the right of member states to determine their own energy mix.

Nonetheless, trust in EU institutions is high and there is a general willingness to comply with EU legislation although Romania largely lacks the resources for adequate policy implementation. Public opinion tends to be more open towards influence from Brussels as this is seen as a vehicle to promote good governance and curb corruption. In contrast to other CEE countries, there is no identifiable anti-EU group in Romania.

¹ Muschei (2016)

² Pavlenko et al. (2014)

³ UNDP (2016)

⁴ Romanian Energy Regulatory Authority (2016)



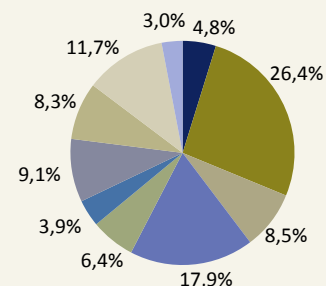
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General data

Population (2015)	19.7 million
GDP per capita (2015, current prices)	€8,100
Corruption Index (0= highly corrupt, 100= very clean)	48 in 2016, 46 in 2015
Democracy Index (ranking of 167 countries)	61 in 2016, 59 in 2015

Value added per sector (% of GDP)

- Agriculture, forestry & fisheries
- Industry
- Construction
- Commerce, transport, accommodation & food
- Information and communication
- Financial and insurance activities
- Real estate
- Professional, scientific & technical services
- Public admin., defence, education, health & social work
- Arts, entertainment & recreation



Allocation and use of EU Funds (2014-2020)

Total allocation of European Structural Investment Funds	€30.8 billion
Planned investments in energy efficiency	€1.25 billion
Planned investments in renewables	€94.8 million
EU Cohesion Policy Investments as public investment (2007-2014)	25.1%

Energy statistics

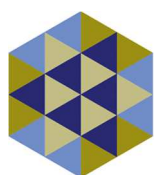
Gross inland energy consumption (2015, ktoe)	32,413
Electricity generation (2015, TWh)	65.68

- Solid fuels
- Nuclear
- Hydro
- Wind
- Solar

Source	Percentage
Solid fuels	27.0%
Nuclear	17.8%
Hydro	29.3%
Wind	9.4%
Solar	2.5%
Other	0.8%
Unlabeled	12.4%
Unlabeled	0.7%

Energy intensity (2015, kgoe/1000€)	226.7
Energy poverty (inability to keep home adequately warm)	25.4%
Employment in coal sector (2015)	4,442 in hard coal mining, 10,600 in lignite mining
Renewable energy capacity of individuals, collectives, public entities and small enterprises (2015)	893MW wind, 13MW solar
Renewable energy potential	3,600MW wind (theoretical potential), 1.2TWh solar (electricity generation potential), 8000MW hydro

Sources: Eurostat (2016), TI Corruption Perception Index 2016, EIU Democracy Index 2016, European Commission (2013, 2014, 2016), Bankwatch (2016), BPIE (2015), Euracoal (2017), CE Delft (2016), UNDP (2014)



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Key political economy insights on Romania

In general, climate policy does not feature highly on the political agenda in Romania. Romania's energy strategy has thus far relied heavily on carbon-intensive sources of energy, with coal currently representing 27%⁵ of the energy mix. Its recently introduced energy strategy for 2030⁶ puts a strong emphasis on nuclear power to meet the country's future energy needs, similar to many other CEE countries. While the strategy does foresee a slight decrease in coal and gas use, it is far from being transformative. The continued emphasis on conventional centralised energy generation reduces the urgency for necessary changes to market design rules and electricity grids that could facilitate increasing market penetration of renewable energy.

All political parties support coal and Romania will try very hard to (re-)negotiate timelines for the lifespan of its coal plants and mines, especially as both lignite and hard coal industries are overseen by the largely state-owned Oltenia Energy Complex (lignite mining and power plants) and the Hunedoara Energy Complex (hard coal mining and power plants). However, the public discourse is more tempered than in other CEE countries. There is no opposition in principle to raising renewables. Instead, coal proponents argue for keeping coal at its current level as base load capacity to ensure stable power supply. Since coal, most of gas, hydro and nuclear power plant operators are all state-owned, they don't attack each other as aggressively as in other CEE countries. They are all owned by the same entity, after all – the Romanian Energy Ministry.

The coal sector has been heavily subsidised by the government in the past and it has increasingly become a burden to state finances. The country mostly relies on lignite, rather than hard coal, which means that the 2018 phase-out of hard coal subsidies as mandated by EU state aid rules will have less effect on the country than for example on Poland. As coal mining has become increasingly uneconomical, there has been a general lack of investment in the sector. Government- and IMF-led restructuring processes have resulted in an increasing number of mine closures since the late 1990s.

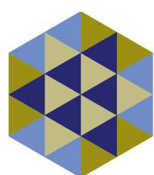
This process has been highly challenging, as many former coal miners were left unemployed and fell into poverty due to a lack of retraining possibilities and availability of new employment⁷. Coal jobs also tend to be used to generate support through patronage networks of political parties, which makes it unlikely that politicians will act to reduce Romania's coal use.

At the same time, public opinion is supportive of renewable energy and governmental policies are not as hostile towards them as in other CEE countries. No dedicated laws

⁵ Euracoal (2017)

⁶ Romanian government (2016)

⁷ Bankwatch (2016)



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to curb renewable energy expansion have been adopted, in contrast e.g. to Hungary and Poland. The Romanian renewable energy industry already employs 18,950 people⁸ – more than are currently working in coal. Wind energy covers around 9%⁹ of power demand, which is unmatched in CEE. Furthermore, the country seeks to increase interconnector capacity with Bulgaria, Serbia and the Republic of Moldova to improve international electricity exchange¹⁰ and the integration of renewables.

In the late 2000s, a generous support scheme for renewables – the green certificates trading system – was implemented: This system established a mandatory quota for electricity suppliers of end consumers and led to a surge in the RES sector in 2011 and 2012¹¹. However, both the quota and subsidies were decreased as of 2013 and are not present in the new energy strategy; this development has led to poor implementation of new projects, thereby undermining investor confidence. The discovery of new gas resources in the Black Sea has drawn away the focus from renewables. Thus, despite a promising start, renewable energy production has recently stagnated in Romania.

The overwhelming concern for Romanian energy policy is energy poverty. The country's energy poverty rate is the second highest in EU after Bulgaria: around 42% of Romanians cannot pay their utility bills and 25% of households are unable to keep their houses warm.¹² A key challenge has been how to increase the renewable energy share without raising household electricity bills.

Considering this, it is alarming that the new Romanian energy strategy foresees an increase in energy prices for both industry and private households. The strategy neglects to activate the country's potential to alleviate energy poverty with well-designed energy efficiency measures (e.g. promoting housing insulation) or by promoting decentralised renewable energy generation. The strategy also has the declared goal of making Romania a "manufacturing centre for the energy transition".¹³ However, this would require attracting significant low-carbon investment, which will be difficult as the country's current policy framework is unstable and lukewarm on low-carbon development at best.

⁸ Bankwatch (2016)

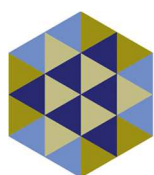
⁹ Dragomir et al. (2016)

¹⁰ European Commission (2014)

¹¹ Energy World (2015)

¹² UNDP (2016)

¹³ Romanian Ministry of Energy (2016)



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Political recommendations

- > **Advise on successfully promoting renewables:** Romania wants to promote renewable energy, but is facing challenges in designing appropriate support mechanisms. It faces particular difficulties in reconciling approaches to dealing with energy poverty with renewable energy subsidies and grid costs. Germany, due to its experience with the *Energiewende*, is well placed to give advice on better designing renewable energy support schemes and reconciling these issues.
- > **Take into account energy poverty:** Any successful attempt to promote low-carbon development in Romania, be it through energy efficiency, renewables or other measures, must not come at the expense of increasing energy poverty. There is great potential in developing a narrative that emphasises fuel and energy savings and pays close attention to policy design to protect the energy poor.
- > **Work around Romania's EU-level positioning:** Romania will likely fight any EU legislation that puts pressure on its coal sector, such as the 2018 phase-out of hard coal mining subsidies, as well as more stringent air pollution controls under the EU Industrial Emissions Directive. On the other hand, Romania is unlikely to block proposals promoting renewables, energy efficiency and R&D, but it would not actively champion them either.
- > **Leverage EU influence:** Public opinion tends to be more open towards influence from Brussels as this is seen as a vehicle to promote good governance and curb corruption. Recent attempts by the government to loosen anti-corruption regulations, and the EU's opposition to these plans, have reinforced this perception.
- > **Work with subnational governments to promote a just transition:** Coal-dependent communities do not tend to be consulted in decision-making processes, e.g. around the expansion of coal mines. At the same time, there is increasing interest in realising low-carbon opportunities at the local level. Engagement at the local level on spending EU funds on low-carbon projects or on forming renewable energy cooperatives could help to strengthen bottom-up support for the low-carbon transition and start a debate on sustainable growth in coal regions.
- > **Help realise low-carbon opportunities:** As there is great interest in realising low-carbon opportunities in Romania, Germany could engage by promoting joint ventures as well as R&D activities in the low-carbon sector.
- > **Support green industry stakeholders:** Energy efficiency and renewable energy stakeholders have weak organisational capacity and are not well networked with potential allies such as NGOs and academic institutions. There is little to no regular contact with government officials, leading to overall weak advocacy capability. Improving the capacities of these groups, including through cooperation with German low-carbon associations, could be a key area of German engagement going forward.



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About CEE Bankwatch

CEE Bankwatch was founded in 1995. It is one of the largest networks of civil society organisations in Central and Eastern Europe. Bankwatch is currently active in 12 countries in the CEE and beyond. Bankwatch analyses and observes international development finance and the activities of international financial institutions. The organisation advises decision makers on sustainable development, environmental policy, transparency and social justice. Bankwatch is one of the leading organisations working on climate policy in CEE, and has excellent networks among decision makers, as well as industry, academia and civil society stakeholders.

More information is available at <http://bankwatch.org/>

About E3G

E3G is an independent, non-profit European organisation operating in the public interest to accelerate the global transition to sustainable development. E3G builds cross-sectoral coalitions to achieve carefully defined outcomes, chosen for their capacity to leverage change. E3G works closely with like-minded partners in government, politics, business, civil society, science, the media, public interest foundations and elsewhere.

More information is available at www.e3g.org



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