

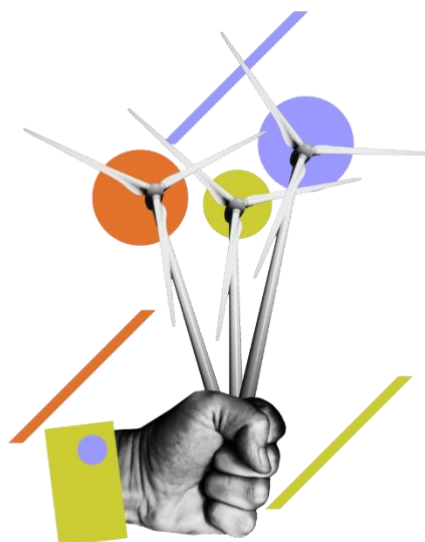


THE ITALIAN CLIMATE CHANGE THINK TANK

READY FOR REPOWEREU

EXECUTIVE SUMMARY

Davide Panzeri
Francesca Andreolli



The REPowerEU package, due on the 18th of May, will help EU Member States break free from their dependence on Russian gas. Reliance on fossil fuels, whatever the origin, is at the root of a threefold crisis: geopolitical, linked to unstable relations with producer countries – today Russia; economic, linked to volatile fossil fuel prices that trigger and amplify the succession of economic crises; and, just as importantly, climatic. In Italy, gas is the main contributor to greenhouse gas emissions from fossil fuel combustion, with a contribution of 44% (followed by oil with 43% and coal with 9%, according to data provided by ISPRA in 2019).

With REPowerEU, the European Commission identifies two main strands of diversification, in line with decarbonization patterns: renewable electricity generation and energy efficiency. Furthermore, it expands the targets and accelerates the timelines already contained in the Fit for 55 package. As anticipated by the Commission's communication on the 8th of March 2022, these measures contribute to cease dependency on Russian gas well before 2030.

Through the REPowerEU plan, Italy is also expected to consolidate its renewable and energy efficiency targets, prioritizing these measures in the context of its energy diversification strategy.

- ◇ As far as renewables are concerned, Italy should increase the current installation rate of renewable electricity generation – now about 1.5 GW per year. At this rate, the country would meet its 2030 targets by 2071. The installation rate must reach no less than 10 GW per year, with a target of replacing at least 7.5 billion cubic meters of gas by 2025, which corresponds to about a quarter of Italy's gas imports from Russia. The strong acceleration of renewable-energy development will impose changes in the electricity market scheme, including redefinition of the capacity market mechanism. The latter is still strongly oriented towards the development of new gas capacity. This is coupled with the need to develop a strategy for complete decarbonisation of the electricity sector, in line with 2050 net-zero [scenarios](#), as developed by the International Energy Agency (IEA), and the Paris agreement (limiting global temperature rise to 1.5°C). This need has already been met by all G7 countries, except Japan.
- ◇ In the residential sector, gas covers 59.5% of energy supplied for heating. Following on from the required RePowerEU plan updates, the entire incentive system for the building sector will need to be revised. This is necessary to eliminate gas from renovation works and harmonize the number of fiscal deductions by valuing energy efficiency and decarbonisation at a higher percentage. This includes remodelling the 'Superbonus 110' to make it a targeted, long-term tool, capable of addressing efficiency issues within Italy's complex building landscape and eliminating its reliance on gas.
- ◇ On the electrification path, REPowerEU envisages doubling the installation of heat pumps planned for 2025 up to 1.2 million new units, saving around 1 billion cubic meters of gas. Italian technology is an excellence in heat pump production at European and international level. About 60% of Italy's domestic production of heat pump, which increased in 2021 by 4% compared to 2019, is exported.

With the publication of REPowerEU, it is hoped that the focus of the Italian government and public discourse will shift from the mere search for new alternative gas sources to energy strategy options that are aligned with the Green Deal.

Without this vision, short-term solutions for diversification of gas sources risk to undermine medium- and long-term ones. This is due to technological lock-ins in the form of infrastructure investments -such as regasification units and gas pipelines - or in new extractions, [incompatible with the 1.5°C target](#). These assets and contracts are at risk of rapidly becoming obsolete as Italy and Europe further decarbonise their economies. Gas demand is indeed estimated to fall by 40% in 2030 compared with 2021 levels. Therefore, amortization costs for new infrastructures and associated onerous long-term gas contracts risk to weight on citizens and businesses for many years, thus **trapping Italy in a costly dependence on fossil fuels and despite the declining trend in its demand**. As a result, the REPowerEU package calls on Italy to shift the national debate towards clean solutions – namely efficiency and renewable-energy development – upon which action must be taken now.

Initiatives that involve switching from gas to other fossil supplies, which the REPowerEU plan considers as short-term solutions, need to be carefully evaluated with respect to their compatibility with the 1.5°C climate target and compared with clean alternatives.

Italy's emergency response strategy is still lacking impact assessments for new gas initiatives and quantitative clarity for renewable expansion within national targets, energy efficiency and heat pump penetration. Only with such an assessment, one could determine how much gas our country really needs and act accordingly through new supply contracts. However, the latter needs also to consider the timeframe required to reach decarbonisation goals.