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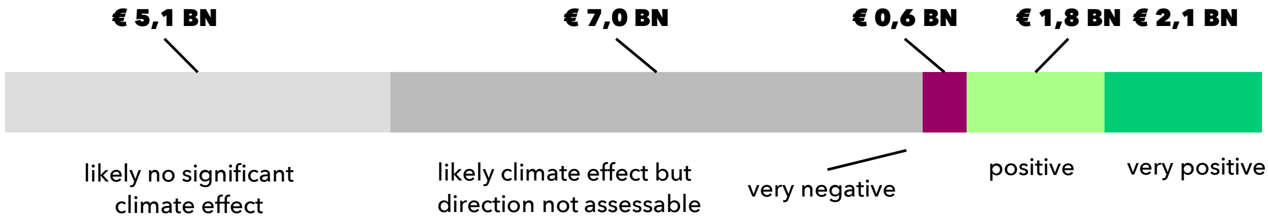
GREEN RECOVERY TRACKER REPORT: PORTUGAL

Portugal presented a first draft of its national recovery and resilience plan (RRP), alongside a broader 2030 National Investment Plan, already in October 2020. Our analysis is based on an updated version of the draft RRP that was presented for public consultation in February 2021, and our database of individual recovery investments has been updated according to the final RRP released in April 2021. Overall, Portugal's recovery measures, with a total spending of €16.6bn, or 8% of Portugal's GDP, have the potential to make a positive contribution to the green transition depending on their implementation., as our analysis identifies the following spending shares:



Positive measures include investments into industrial decarbonization, public transport, and energy efficiency. At the same time, the plan includes some problematic investments, especially in road infrastructure, and has been criticized for this by the European Commission. Lastly, it includes many measures whose climate mitigation effect cannot yet be assessed and depends on their implementation, such as investments into new housing projects and industrial development. Notably, the draft RRP does not offer many concrete links between its projects and the broader agenda of the 2030 National Investment Plan or wider climate policy goals.

In focus: Green Spending Share

We find that Portugal's recovery plan (RRP) achieves a green spending share of 17%, below the EU's 37% climate spending benchmark. In contrast, 3.5% of all measures have a negative impact. Furthermore, we find that 42% may have a positive or negative impact on the green transition depending on the implementation of the relevant measures, illustrating the importance of further scrutiny during the further planning, review and implementation of the recovery measures. According to the government, the plan's climate spending is 38%.

Our calculation of the green spending share aims to mirror the approach used for the official assessment of national recovery plans, which distinguishes between measures contributing fully to climate mitigation (100% coefficient) and measures contributing partly (40% coefficient). Therefore, we fully count "very positive" measures towards the green spending share, while "positive" measures are weighted using a coefficient of 40%, which is applied to the associated costs. All individual assessments can be accessed via the country page on our website.

OUR HIGHLIGHTS

Good Practice

Investments in nature-based solutions

Portugal's RRP includes a total of €615m of investments into forest management and cultivation. This measure, which will be implemented by the Environment and Climate Ministry, is presented as an important resilience measure for rural territories, combining climate change mitigation and long-term resilience, even though its overall funding falls short of the overall investment needs previously identified for this area.

Bad Practice

Road investments

Portugal's Recovery Plan includes significant investments into the country's road infrastructure, with many of these measures aiming to expand the national road network. These include the expansion of cross-border road links with Spain although there are already six cross-border highways, as opposed to only two poorly served cross-border rail connections for passengers. In March 2021, the European Commission has criticized the inclusion of these projects.

To Our Surprise

Pushing the decarbonization of the industrial sector

Portugal included a program for industry decarbonization in its Recovery Plan, the first time the government referred explicitly to industry decarbonization in an investment plan.

GENERAL CONTEXT

Portugal's centre-left government has been in power since 2015. It has managed to boost economic growth after years of recessions while rolling back austerity policies and has been relatively popular. Nonetheless, the country entered the COVID-19 crisis period with a high level of public debt due to financial assistance it previously received from the EU, ECB and the IMF between 2011 and 2014. Before the COVID-19 crisis, the political debate in Portugal was largely dominated by healthcare issues, especially the lack of investments in healthcare infrastructure and personnel, and corruption, as well as employment and wages.

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The government's climate policy prior to the crisis has received largely positive reviews, thanks to the approval of a national 2050 climate neutrality target in 2019, a timely coal phase-out, expected for 2021, and a strong expansion of renewable energies. Portugal greatly benefits from excellent conditions for renewable energy, achieving a global minimum for solar energy prices in 2019. However, the government has also been criticized by environmental groups, including over the expansion of the Lisbon airport in vicinity to an important nature reserve, as well as lithium mining projects in the north of the country. Furthermore, a better integration of Portugal's economic activities and climate objectives was identified as a shortfall of the government's actions before the crisis.

The preparation of Portugal's recovery plan coincided with the development of a separate 2030 National Investment Plan which was already being developed prior to the crisis. With an overall envelope of €43bn, the National Investment Plan details the key planned infrastructure projects over the next ten years and is partially funded through Portugal's Recovery and Resilience Plan. Our analysis focusses on the draft RRP.

Context indicators[1]	**Portugal**	**EU average**
GDP (2019)	**213.3 bn €**	
GDP (per capita, 2019)	**20740 €**	**31130 €**
Debt (% of GDP, 2019Q4)	**117.2 %**	**77.6 %**
Debt (% of GDP, 2020Q3, provisional)	**130.8 %**	**89.8 %**
Unemployment Rate (December 2019)	**6.7 %**	**6.5 %**
Unemployment Rate (August 2020)	**8.1 %**	**7.7 %**
Unemployment Rate (December 2020)	**6.5 %**	**7.5%**
Real GDP forecast for 2020	**- 7.6 %**	**- 6.8 %**
Real GDP forecast for 2021	**+ 4.1 %**	**+ 3.7 %**
Total recovery spending	**16.6 bn €**	
EU recovery funding (grants only)	**13.9 bn €**	

KEY FOCUS AREAS OF THE PORTUGUESE RECOVERY DEBATE AND THE RECOVERY PACKAGE

At the presentation of Portugal's recovery plan on 14 October 2020, Prime Minister Costa spoke of a "triangle of priorities in the recovery plan: reinforcing resilience and focusing on climate and digitalization as drivers for economic growth". He argued that "economic recovery is not about returning to the situation where we were before the crisis – it means coming out of the crisis stronger". This direction was echoed by Environment Minister Fernandes, who argued that the recovery plan would help better prepare the country for emissions reductions as "climate is at the heart of economic growth". In the recovery plan, these priorities are reflected in the three high-level priorities of (1) resilience, (2) green transition and (3) digital transition.

After the presentation of the recovery and resilience plan, the debate focused on digitalization measures, green hydrogen projects as well as infrastructure investments, including a new high-speed rail connection from Lisbon to Vigo (Spain). The final plan was well-received by most stakeholders. Industry association CIP in particular welcomed the digitalization measures as well as the creation of a National Development Bank. Trade unions, too, supported the plan, while criticizing that its measures insufficiently addressed the issue of structurally low wages.[2] The centre-right parliamentary opposition criticized an overly strong reliance on public relative to private investments in the plan.[3]

Nonetheless, comparing the final plan with prior contributions from green groups on long-term investment priorities, some shortcomings become apparent.[4] For example, the plan includes multiple contradictions, such as identifying the need to reduce emissions from the transport sector while still considering mass tourism as a key growth sector or recognizing that water resources must be carefully managed while also including measures to construct new dams. Furthermore, it can be criticized that the plan's projects are too focused on large-scale projects from which mainly large, incumbent companies stand to benefit, without significant support for decentralized projects for example in the context of the energy transition. In March 2021, the new draft version of the RRP was criticized by the European Commission due to the planned funding for road infrastructure and dams.[5]

FINANCING AND ADDITIONALITY OF PORTUGAL'S RECOVERY PACKAGE

Portugal's recovery measures are partly implemented as part of a 2030 National Investment Plan that was already in preparation before the COVID-19 crisis hit. The Portuguese National Recovery and Resilience Plan includes some, but not all, of the measures of the overall investment plan, which is also financed through the national budget as well as the EU's Multiannual Financial Framework (MFF 2021-2027). While a considerable share of the measures that had previously been planned in the context of the national investment plan are included in the national recovery plan, the recovery plan also includes new and helpful measures, especially in the areas of social policy, housing, education and digitalization.

Overall, Portugal will be using €13.9bn in grants through the EU's Recovery and Resilience Facility, the full available envelope, as well as €2.7bn in loans, with the government stressing its intention to use as little of the volume of loans as possible to avoid further increasing the public debt.

GOVERNANCE OF THE RECOVERY PACKAGE

Portugal's draft Recovery and Resilience Plan describes a complex governance structure, consisting of a political coordination level including the Ministers for Economy, Finance, Planning and Environment as well as the Presidency and a level for the technical management of the funds. National civil society organizations have criticized the lack of a formal and effective role for civil society organizations in this process, and a potentially unclear distribution of responsibilities between the different Ministries and political actors involved in the governance of the plan. Furthermore, observers have noted that none of the technical entities tasked with managing the implementation of the plan include technical experts from environmental policy, and that municipalities and local governments are set to only play a strongly limited role in the plan's implementation. Lastly, civil society organizations criticized the consultation process for the draft RRP for its short deadline and the lack of details on at least some measures.

According to the government, the plan achieves a 38% share of climate spending, while the analysis based on our methodology identifies 17% green spending. The key reason for this divergence is that the government's climate tracking attributes a (high) climate spending share to measures which we cannot yet assess as making a positive contribution to the climate transition, such as significant investments in new housing projects and the capitalization of the national development bank. This can also be seen in the very high share of spending (42%) of spending that we assess has having a likely climate effect which is not yet assessable.

NOTEWORTHY SHORT-TERM LIQUIDITY AND STATE AID DECISIONS ("COMPANY BAIL-OUTS")

To provide liquidity to the economy, Portugal's government initially allocated €600m per month to temporary furlough support programs, a measure that was later replaced by a €1.3bn package of financial incentives to support a stabilization of business activity. Furthermore, the state provided up to €13bn of state-guaranteed credit lines for small and medium enterprises and offered €7.9bn of tax and social security deferrals for companies and employees. In November 2020, the government passed further measures worth €1.6bn to stabilize the economy.[6] Furthermore, the government has provided a €1.2bn loan to the national airline TAP and increased its shareholder position, investing €55m to achieve a 72.5% position. While these initial steps were not linked to any binding climate conditionalities, a flight tax was approved in November 2020 with the support of the government's main party.

IMPORTANT CLIMATE POLICY DECISIONS TAKEN DURING THE CRISIS AND RECOVERY PERIOD

During the crisis, Portugal has taken several policy decisions which strengthened the domestic climate agenda. First, on July 30, the Portuguese government announced a national hydrogen strategy, including estimated investments (mostly private) of €7bn. The objective is for hydrogen to represent 5% of the final energy consumption by 2030, to reduce natural gas imports by between €380m and €740m and to create up to 12,000 new jobs. Second, in August 2020, a tender for 700MW of additional solar energy capacity, including battery storage for 75% of the tendered capacity, resulted in record low prices for both technologies. Third, in May, the government launched an Integrated National Wildfire Management Program which aims to improve the governance around forest management and identify measures to reduce wildfire risk. Also, a program aimed at reintroducing autochthonous, more fire resilient, species was launched, and later incorporated in the national recovery plan.

ANNEX: MOST IMPORTANT MEASURES OF THE RECOVERY PACKAGE BY SECTOR

Sector	**Most important measures with effect on green transition**
Energy	• Investments into hydrogen (measure C14-1; €0.2bn, very positive)
Mobility	• Road infrastructure investments (component C7; €0.6bn, very negative) • Investments in public transport and rail infrastructure (component C15; €1.0bn, very positive)
Industry	• Industry decarbonization program (measure C11-1; €0.7bn, very positive) • Reindustrialization program (measure C5-1; €0.6bn, likely climate effect but direction not assessable) • Green Agenda for Reindustrialization (measure C5-2; €0.4bn, positive)
Buildings	• Investments in housing projects (component C2; €2.8bn, likely climate effect but direction not assessable) • Investments in energy efficiency (component C13; €0.6bn, positive)
Agriculture, land use and forestry	• Measure to increase resilience of vulnerable forest territories (measure C8-1; €0.3bn, positive) • Measures to fight forest fires (measures C8-3/-4/-5; €0.3bn, positive)

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