



THE POSITION OF THE POLISH CONFEDERATION LEWIATAN ON THE EUROPEAN UNION'S 2030 ENERGY AND CLIMATE POLICY

2030 FRAMEWORK FOR ENERGY AND CLIMATE:
THE WAY FORWARD. PROPOSALS OF
THE POLISH CONFEDERATION LEWIATAN

Report prepared for Polish Confederation Lewiatan



WISE

Warszawski Instytut Studiów Ekonomicznych



POLISH CONFEDERATION
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The Confederation would like to invite you to read other publications in a series devoted to

The position of the Polish Confederation Lewiatan on the European Union's 2030 energy and climate policy:



Support for a low-emission transformation of the electricity and heat production

- discussing possible support mechanisms for lowering emissions of the Polish energy sector



Intelligent protection of industry for the efficient low-emission transformation in the EU

- analysis of necessary changes in instruments protecting the European industry against carbon leakage

According to the Polish Confederation Lewiatan, the Polish interest requires a constructive approach of the involved parties in the negotiations over the 2030 climate policy framework. The measures taken at the EU level will therefore determine the directions of the key economic sectors' development as well as affect the Polish energy security.

Given the EU policy's focus on the significant reduction of the GHG emissions and a more efficient consumption of fossil fuels will continue, it is appropriate to explore ways to achieve the new goals in a cost effective manner that will be beneficial for both the Polish and European economy.

Conditions of Poland in the context of the climate policy

So far Poland has fulfilled international obligations to reduce greenhouse gas emissions with a success, at the higher level than was obliged under the Kyoto Protocol (we have achieved a 30% GHG reduction against 6% of the reduction target). Further emission reduction, however, shall require much effort and significant investment. The scale of the necessary adjustments in Poland is significant due to the dominant position of coal in the fuel mix and a high level of amortization of production assets in the sector (45% of the assets older than 30 years, 77% of the assets older than 20 years).

Despite the relatively high economic growth and rapid reduction of the development gap against Western Europe, the Polish economy has lower capacity of covering the low-emission transformation costs, which is not going to change in the near future. As we estimate, additional investment requirements lowering emissions in the energy sector amount to approx. € 12-16 billion by 2030. Such a large scope of investments raises concerns of the society, especially those related to the increase in energy price. As a consequence, social acceptance for the implementation of the climate policy is low and in some groups, such as trade unions, there is no such acceptance at all.

Therefore, when designing a new framework for the EU energy and climate policy, it is essential to take into account the specificity of each Member State, because the potential for reducing GHG is varied in particular countries and results from both the characteristics of the energy mix and the feasibility of the ambitious policy. It is important that the proposed measures not only be cost-effective but also lead to real emissions reduction - adhere to the principle of common European responsibility and solidarity.

Taking into account the above factors, Poland requires special support mechanisms that will allow to carry out the necessary investments and at the same time will reduce the excessive increase in energy price.

Under what conditions can Poland implement the climate policy after 2020?

In our opinion, Poland should accept the 2030 energy and climate policy framework, while clearly specifying the conditions under which it is able to give such consent.

According to the Polish Confederation Lewiatan, the implementation of the EU's climate policy after 2020 shall require special support mechanisms for the energy sector and the industry in Poland. On the one hand, finding reasonable tools supporting these sectors within the climate policy shall protect the competitiveness of the economy and reduce the excessive increase in energy prices, and on the other hand, it shall provide a key impetus and an opportunity for the transformation into low carbon economy. A well-managed low carbon transformation process may create new sources of growth and be a factor enhancing modern competitive advantages in the future.

However, we are aware of the risks associated with the implementation of the very ambitious, unilateral climate policy in the EU. Not only will the achievement of the climate goals solely by the EU be ineffective, but it will also be a serious burden for the European business and threat to its competitiveness on world markets. Therefore, Europe should make the ambition of the climate policy after 2020 contingent on the results of the global climate negotiations and the final shape of the climate agreement which is to be concluded in Paris in 2015.

Until the global agreement is concluded, the works upon the architecture of the future policy and improvement of the currently existing tools should be carried out. In this context, we propose the following mechanisms that will enable Poland to implement the climate policy while maintaining the economic growth.

DISTRIBUTION KEY

We believe that the redistribution of allowances under the EU ETS should be fair and take into account each Member State's specificity. In particular, the allowances should be allocated based on the following aspects:

- / historical emissions level and current level of economic development;
- / the share of fossil fuels in the fuel mix that takes into account the use of domestic reserves in order to ensure the security of energy and energy-producing raw materials supply

SUPPORT OF THE ENERGY SECTOR TRANSFORMATION

As a starting point for the support of the energy sector transformation within the new framework of the EU's 2020-2030 energy and climate policy, the mechanisms to ensure the compensation of the costs of the new reduction target implementation should be introduced and the increase in energy prices should be reduced.

We believe that Poland should assign part of its allowances for financing new, less emissive generation capacity in the energy sector. It would be an effective mechanism that would reduce the increase in energy prices for the consumer by covering the investment expenditures. This pool should come from the allowances allocated to Poland under the burden sharing. According to our estimates, in order to cover the additional investment needs in Poland, approx. 6-7% of all allowances for 2021-2030 should be used.

NATIONAL FUND FOR LOW-EMISSION INVESTMENTS

The part of funds redistributed within the ETS could be allocated to the creation of the NATIONAL Fund for Low-Emission Investments. It would aim at financing national support programmes for capital intensive investments that reduce emissions and energy consumption. The Fund would not directly finance investment projects but it would cover a part of costs of the selected support instruments.

For the smooth functioning of the fund it must be ensured that the new state aid rules specified by the Commission do not interfere with the possibility to use the funds.

An example scope of support could be as follows:

Energy sector – generation capacity (modernization of coal-fired generating units that significantly limit CO₂ emissions, subsidies for the RES, subsidies for the cogeneration).

Other low carbon investments worth supporting (development of power, energy and district heating networks, support for nationwide energy efficiency programmes).

MODIFIED DEROGATION MECHANISM

Another acceptable option would be to extend the current derogatory mechanism. However, it would have to be modified in such a manner to make it clear in advance under which conditions particular investments will be supported. This probably means the introduction of emission standards for the installations under the new National Investment Plan.

INDUSTRY PROTECTION

Emissions reduction in the industry is more challenging than in other sectors of the economy. First of all, the potential for the cost-effective reduction measures has already been exploited to a large extent. Furthermore, in terms of global competition, the fact of burdening the European industry with the emission costs, whereas none comparable actions are undertaken outside the EU, poses a risk of relocating production outside Europe - carbon leakage.

Development and implementation of low carbon technologies in the EU will be impossible without effective mechanisms protecting the European industry against carbon leakage and, at the same time, creating incentives to develop innovative solutions reducing industrial emissions.

The existing protection mechanisms require modification since they do not provide stable and predictable conditions for the industry's activities.

In the case of emission industries it is recommended to:

1. make benchmarks more realistic and resign from a cross-sectoral correction factor
2. replace the ex-ante free allocation of allowances with the ex-post allocation (based on the actual production volumes)
3. use the surplus of allowances to create a reserve which would allow to introduce operations 1) and 2) without jeopardising the reduction target in the medium term (in the 2030 perspective)

In the case of energy intensive industries it is recommended to:

1. create a centralised mechanism at the EU's level to compensate for the costs of indirect emissions
2. compensate for the relatively high Polish contribution to the financing of this mechanism by increasing the pool of allowances allocated to Poland

Solutions for the long term perspective

Even adjusted protection instruments are not able to guarantee the effective long-term industry protection against carbon leakage in case of further-reaching emissions reduction after 2030. Therefore, a clear signal from Brussels is needed that irrespective of the developments in the upcoming decades, the European industry will not be burdened with higher costs of emissions compared to the rest of the world..

Polish Confederation Lewiatan was established in January 1999 as a nation-wide representation of employers to the state and trade unions. Today it is an organization of 62 sector and regional associations of private employers and 25 individual members. Thus in total there are about 3750 companies employing over 700000 workers. Lewiatan has an expertise in a wide range of issues such as: labour relations, macroeconomics, small and medium-sized enterprises sector, energy, environment and the European Union. Polish Confederation Lewiatan is a member of BUSINESSEUROPE.



3, Zbyszka Cybulskiego Street
00-725 Warsaw, Poland
Tel.: +48 22 55 99 900
Fax: +48 22 55 99 910
lewiatan@konfederacjalewiatan.pl
www.konfederacjalewiatan.pl