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## “Polish Energy Policy by 2050” in light of the EU’s Long-term Low Greenhouse Gas Emission Development Strategy

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*The new global climate agreement struck in Paris at the end of 2015 recommends its signatories to formulate long-term greenhouse gas emission development strategies by 2020. In March 2016 the European Commission outlined a plan to start preparations of the EU’s low-carbon development strategy. The Commission’s recommendation was welcomed by the European Council. Furthermore, several EU Member States are currently developing their own long-term climate and energy scenarios. In this context Poland also should start to develop its own long-term low greenhouse gas emission development strategy. Ongoing work on the long-term energy scenario Polish Energy Policy by 2050, which should take into account both the EU’s and EU Member States’ climate policies, offers a good opportunity to do so.*

Legislative competence in areas of energy and climate is shared between the Member States and the EU. This means that policies in these fields are formulated by both the EU and its Member States. The EU legislation has an impact on the functioning and structure of national energy markets. Alongside the already existing EU climate and energy regulations (such as the third energy package, the 2020 climate and energy package, and *A Framework Strategy for a Resilient Energy Union with a Forward-Looking Climate Change Policy*), the EU’s long-term low-carbon development strategy will provide a relevant framework within which EU Member States would have to pursue their climate and energy policies.

**EU 2050 Strategy.** Preliminary work on the EU’s long-term low greenhouse gas emission development strategy is planned to begin this year and to be finalised by 2019. It will not be the first attempt to develop the EU’s long-term climate and energy scenario. In 2009 the European Council approved the EU’s long-term emission reduction goal of 80-95% by 2050 (compared to 1990), and *A Roadmap for moving to a competitive low carbon economy in 2050 (EU 2050 Low-Carbon Roadmap)*, outlining how to reach the EU’s long-term mitigation target, was presented in 2011.

It is likely that the EU’s long-term low greenhouse gas emission development strategy will consist of an updated *EU 2050 Low-Carbon Roadmap*. The EU’s current 2050 climate objective takes into account the goal to limit the increase in average global warming to below 2°C above pre-industrial levels. The 2°C target, defined for the first time by climate scientists already in 1970s, has since 1996 been seen as the foundation of EU climate policy. Meanwhile parties to the new global climate agreement last year made a commitment to pursue efforts to hold the temperature increase to 1.5°C. Therefore, it is likely that any update of the *EU 2050 Low-Carbon Roadmap* will be based on this 1.5°C target, implying a reduction in the EU’s carbon budget and increased pace of emissions reductions.

**Positions of the Member States.** A number of EU Member States have already developed, or are currently developing, their own long-term low-carbon development strategies. By the end of this year the German government plans to adopt the *Climate Action Plan 2050*, aiming for at least 80-95% GHG cuts by mid-century. The Netherlands aims to reduce emissions by 80–95%, France by 70% and the UK by 80% (below 1990 levels). Sweden aims for climate neutrality (to compensate or balance emissions) and Denmark plans to meet 100% of its energy needs with renewables by 2050. The Czech Republic’s *Climate Protection Policy 2050*, adopted in June this year, sets an indicative

mitigation target of 80% by 2050. It is probable that, in order to meet their own climate goals cost-effectively, these Member States will support an EU climate policy that remains ambitious.

This trend is rather not going to be reversed, as not many Member States object to EU climate policy per se. After the European Council's unanimous approval of the 2030 framework for climate and energy policies (October 2014) and the *Energy Union Framework Strategy* (March 2015), legislative acts implementing both will be subject to qualified majority voting. Even if Poland has in recent years managed to mobilise a number of countries to support its position (aimed at weakening the EU's climate policy), it has not been enough to assemble a blocking minority (for example, during the vote on the recommendation to establish a market stability reserve for the EU greenhouse gas emission trading scheme, or EU ETS). At the same time, due to the Council's voting rules change of April 2017, forming a blocking minority will become even more challenging, requiring at least a group of Member States representing more than 35% of the EU population (from April 2017 onward, the voting system will be fully replaced by the "double majority" rule defined in the Treaty of Lisbon). This will have a major impact on decreasing the voting power of smaller and medium-sized Member States, these being Poland's potential allies.

**Implications and Significance.** In the long-term update of the *EU 2050 Low-Carbon Roadmap* will be an additional factor leading to a carbon price increase. From 2019, the cost of emission allowances is expected to rise due to EU ETS structural reform and new rules governing the EU's carbon market post-2020. Although Poland and other lower-income Member States are allowed to exclude their power sector from 100% EU ETS auctioning by 2030, similar concessions will be difficult to obtain in subsequent years, and they are likely to be abolished completely by 2050. In consequence, the cost of high-carbon energy technologies (based on black coal and lignite) will increase while budget revenues from the sale of allowances will rise.

It should be assumed that the global climate deal and the EU's long-term low greenhouse gas emission development strategy will strengthen the emerging trend of fossil fuel divestment (in terms of expenditure reductions and the withdrawal of investment in fossil fuels). In the last year, a number of investors have decided to reduce their coal portfolio, for example, ING (ING Silesia is a creditor of Jastrzębska Spółka Węglowa, a Polish coking coal producer), the Norwegian Government Pension Fund Global (the world's largest sovereign wealth fund, which is withdrawing from, among other investments, Poland's Bogdanka coal mine), AXA insurance, Allianz insurance, Crédit Agricole and Citigroup (all present in Poland). This trend will increase difficulties in attracting capital to fossil fuel investments. Furthermore, a gradual increase of renewables in the energy balance will depress wholesale electricity prices and further decrease the profitability of investments in the high-carbon energy sector. As a whole, this will deteriorate the financial situation of conventional energy companies, possibly leading to increased pressure on the government to provide state aid.

Moreover, the likely consequence of a continued ambitious climate policy will be its mainstreaming into sectoral EU policies, such as the EU's Common Agricultural Policy, industrial policy, research policy, and foreign and security policy. In the area of EU cohesion policy, it is expected that the relevance of climate protection criterion for granting financial assistance will increase. In the field of energy policy, there will be continued support for low-carbon technologies, market integration and energy efficiency.

**Conclusions for Poland.** Climate policies of both the EU and its Member States should be taken into account during ongoing work on Poland's long-term energy scenario, *Polish Energy Policy by 2050*. Neglecting them can have a number of consequences, such as tensions between Poland and Member States supporting an ambitious EU climate agenda and conflicts with the European Commission that could lead to Poland being referred more often to the EU Court of Justice. Discrepancies between national and EU climate and energy legislation would also mean rising and significant uncertainty for investors. This is important because the regulatory framework is crucial in assessing an investment's profitability in the energy sector, which is capital intensive and has a long payback period. Government climate and energy policy therefore has a great impact on defining business models for energy companies. Finally, neglecting the climate policies of the EU and Member States may result in incorrect estimates of the cost of implementing energy scenarios.

The risk of neglecting the EU regulatory framework should be considered during development of *Polish Energy Policy by 2050*. The assumptions that form the basis for the document that will set the strategic direction for the development of the energy sector in the following decades are to be published by the end of this year. As the Polish energy sector requires urgent upgrades, this is the right moment to synchronise Polish energy policy with the EU's climate policy framework. This can be facilitated with the low-carbon modernisation funds that Poland will have at its disposal by 2030. Moreover, an active climate policy can boost technological innovation, one of the main goals outlined in the government's *Action Plan for Responsible Development of Poland*. Hence *Polish Energy Policy by 2050* should include climate analysis and set up an indicative 2050 mitigation target for Poland.