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BRIEFING PAPER MARCH 2017

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

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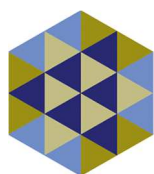
Poland's stance on EU climate and energy policy

Poland is the Member State which is probably most opposed to the EU's climate and low-carbon development policy goals. The governing conservative 'Law and Justice' (Prawo i Sprawiedliwość, PiS) party rejects the climate agenda, believing it goes against Poland's national interest. Climate and energy policy is a key focus of Poland's activity at the EU level and frequently trumps other issues – even migration. PiS rejects the EU climate and energy package for 2030 agreed in 2014 under the previous government and has been calling for a renegotiation.

Poland's approach to EU climate policy is to comply with the minimum required while doing its utmost to preserve its coal-dependent energy system and minimise the impact of environmental regulation. EU climate and energy directives are habitually transposed late and Poland has repeatedly negotiated opt-outs, derogations and special concessions from its EU partners in many areas.

As default leader of the Visegrád Group, Poland uses its influence in the group to block or water down EU climate and energy policy, whether in terms of overall targets, the Emissions Trading System, the Effort Sharing Decision, the Energy Efficiency Directive or the Industrial Emissions Directive.

The only area in energy policy where Poland has engaged constructively has been energy security, where the country has, for instance, supported the Commission in the Decision on Intergovernmental Agreements in Energy reached in December 2016. The Commission's oversight over those deals gives Poland more bargaining power when negotiating gas supply contracts with Gazprom.



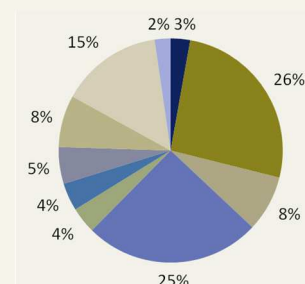
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General data

| | |
|---|------------------------|
| Population (2015) | 37.9 million |
| GDP per capita (2015, current prices) | 11,200 |
| Corruption Index (0= highly corrupt, 100= very clean) | 62 in 2015, 61 in 2014 |
| Democracy Index (ranking of 167 countries) | 48 in 2016, 52 in 2015 |

Value added per sector (% of GDP)

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



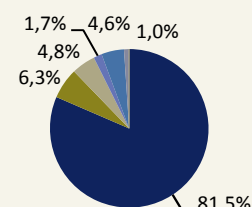
Allocation and use of EU Funds (2014-2020)

| | |
|--|--------------|
| Total allocation of European Structural Investment Funds | €86 billion |
| Planned investments in energy efficiency | €3.3 billion |
| Planned investments renewables | €940 million |
| EU Cohesion Policy Investments as share of public investment (2007-2014) | 50% |

Energy statistics

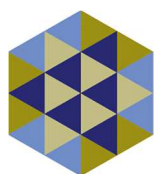
| | |
|--|--------|
| Gross inland energy consumption (2015, ktoe) | 95,434 |
| Electricity generation (2015, TWh) | 159 |

- Solid fuels
- Biomass
- Wind
- Hydro
- Solar
- Gas
- Petroleum and products



| | |
|---|--|
| Energy intensity (2015, kgoe/1000€) | 227.1 |
| Energy poverty (inability to keep home adequately warm) | 27.6% |
| Employment in coal sector (2015) | 89,924 in hard coal 9,572 in lignite |
| Renewable energy capacity of individuals, collectives, public entities and small enterprises (2015) | 1,530 MW wind 15 MW solar |
| Renewable energy potential | 620,000MW wind; 290,300MW solar PV; 28,800MW biomass; 1,000MW small 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 (2013)



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Key political economy insights on Poland

Poland is the strongest opponent to climate policy in Central and Eastern Europe (CEE). The main reason for this stance is the historically important role of the coal industry, which provides close to 90,000 jobs¹ and is seen as the answer to energy security challenges resulting from dependence on Russian oil and gas imports. The government's official line is that no mines will be closed and there is no recognition that the coal industry in its current form is unsustainable. As the major coal companies are all partially or fully state-owned, the government also has a direct financial stake in the survival of the coal industry.

The governing conservative 'Law and Justice' (Prawo i Sprawiedliwość, PiS) government has taken steps to funnel new subsidies to coal power stations and won the election on the back of promises to revive the coal industry. The development of renewable energy, except for biomass, is being actively discouraged by the government who has modified the country's recently adopted feed-in-tariff law to incentivise biomass rather than wind and solar power. It has also adopted a new law which has practically ruled out any new wind power projects. Climate change is generally not regarded as an important topic when compared to social issues. Due to the low innovation capacity of the Polish economy, there is a pervasive perception that Poland has nothing to gain and a lot to lose from promoting low-carbon development.²

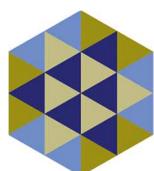
At the EU level, Poland has repeatedly worked to block, delay and water down legislation to promote climate ambition and low-carbon development, only engaging constructively on energy security. Poland's influence is amplified by its traditional role as leader of the Visegrád Group, where it has often been able to secure support for its climate and energy policy preferences. However, growing differences are beginning to show between Poland and Hungary on the one hand and the Czech Republic and Slovakia on the other.³ The latter two Social Democrat-led countries feel increasingly uneasy about the authoritarian course of the other two and are actively looking for new alliances.

Overall, there are only limited opportunities for engagement on low-carbon development. Climate or low-carbon initiatives are more promising if they are framed in terms of energy security and economic opportunity and growth. Many municipalities and the agricultural community in particular have become increasingly interested in developing small-scale renewable energy such as biogas and solar energy installations, despite the unsupportive stance of the government.

¹ <https://euracoal.eu/info/euracoal-eu-statistics/>

² [https://www2.deloitte.com/content/dam/Deloitte/pl/Documents/Reports/pl_RD-2016-Poland-EN%20\(1\).pdf](https://www2.deloitte.com/content/dam/Deloitte/pl/Documents/Reports/pl_RD-2016-Poland-EN%20(1).pdf)

³ <https://www.ft.com/content/f5d017f8-84b2-11e6-8897-2359a58ac7a5>



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Agriculture, which employs almost 12% of the Polish workforce, also stands to be heavily affected by climate impacts.⁴ However, the sector is currently neither organised nor politically influential. Farmers' protests have historically been quite influential. Farmers' unions are a significant force capable of mobilising and fighting over issues which affect them and of which they are aware. However, as PiS enjoys strong backing in rural areas, many farmers support the party's policy agenda en bloc. While they are thus likely to downplay the climate-vulnerability of agriculture, future floods or droughts could create an opening in this debate.

Concerns over air pollution are another potential driver for action against coal heating and power generation, as evidenced by the successful Krakow Smog Alert protests that led to a city-wide ban on coal heating from 2019 onwards.⁵ There is also local opposition to new lignite mines in the Wielkopolska and Lubuskie regions. However, this has not led to political action at the national level.

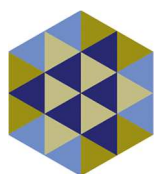
Finally, the Polish coal sector is increasingly being recognised as unsustainable by stakeholders outside the government. Coal mining productivity is exceptionally low and the sector is deeply in debt. Production is projected to fall in any case as hard coal subsidies are phased out and lignite mines depleted.⁶ Mainstream voices like the employer's association Lewiatan are now increasingly making the argument for developing economic alternatives before it is too late.⁷

⁴ <http://index.gain.org/ranking/vulnerability>

⁵ <https://www.ft.com/content/6712dd66-c91d-11e6-8f29-9445cac8966f>

⁶ http://www.forum-energii.eu/files/file/FAE_POLISH_POWER_SECTOR_RIDING_ON_THE_WAVE_OF_MEGATRENDS.pdf

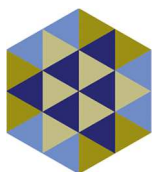
⁷ <http://www.taz.de/!5308878/>



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Political Recommendations:

- > **Promote a just transition:** Given the scale of coal employment and the potentially disruptive effects of mine closures, just transition approaches need to be at the heart of phasing out coal in Poland. This involves both compensation for coal workers and economic development programmes for the affected regions, but the focus should be on making local and regional authorities and stakeholders aware of the economic opportunities that the energy transition offers. Such an approach requires work with local communities to promote a dialogue on sustainable economic development, rather than the typical climate versus jobs narrative. Working with trade unions directly will be more difficult in Poland as their strategy is to do as much as they can to protect existing jobs.
- > **Promote low-carbon opportunities at the sub-national level:** While the national government is reluctant to promote renewables, engaging local and regional governments is increasingly important. As prices for RES installations keep falling and renewables offer the prospect of becoming energy independent municipalities are interested in promoting renewables, storage and energy efficiency measures. Municipal governments, local actors and energy cooperatives often lack access to EU funding sources and have little capacity to design successful RES and EE projects. Building capacity and engagement at the sub-national level is therefore crucial in Poland.
- > **Use German bargaining chips:** Perhaps the two most important energy issues on which German concessions might move the Polish position are loop flows and the Nordstream II pipeline. A shift in Germany's stance could unblock a range of issues, including in the context of the Winter Package negotiations at EU level.
- > **Make the most of the COP:** Poland is going to host the climate summit (COP24) in 2018 – a crucial year for climate diplomacy. In 2018, the first stock-take is going to take place (Facilitative Dialogue), and countries are expected to ramp up their ambition for climate action. This will put the spotlight on Poland and its domestic climate (in)action. However, Poland does not care too much about blaming and shaming. One opportunity could be to use a progressive member of the advisory group for the COP Presidency ('Friends of the Presidency') to push for climate action.
- > **Getting the framing right:** In Polish, the word "carbon" translates into "coal" rather than "CO₂". Therefore, the wording "decarbonisation", as well as "low-carbon transformation" should be avoided, as it will lead to a rejection of the overall issue by the Polish government, as well as by the majority of the opposition. A successful narrative would avoid any explicit calls for an end to coal, but rather make an unspoken assumption that coal's days are numbered and focus on showing and developing alternatives. It should combine praising Poland's past achievements, such as progress on RES and energy efficiency and its emissions reduction potential as well as highlighting that a low-"emissions" transformation can boost innovation and raise capital for Polish companies. Regarding Silesia, it would be more useful to frame the development of



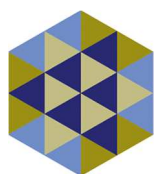
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renewables as a continuation of the tradition of Silesia as the powerhouse of Poland's economy, rather than an energy revolution.

- > **Emphasis on co-benefits of climate action:** Mentioning air quality improvement as the main co-benefit of climate action is crucial because worsening air quality constitutes a tangible problem for the population. A new law allows municipalities to curb coal-based household heating. While it has so far only been applied in Krakow, there is a potential to replicate this success in other cities with bad air quality. Working with NGOs is crucial in this regard as grassroots activism was the key driver behind the success in Krakow.
- > **No (more) special treatment for Polish coal:** In the negotiations on the implementation of the EU's 2030 climate and energy package and the Energy Union strategy further derogations for the Polish coal power sector have to be avoided to prevent permissive conditions for investments in new coal power capacity. It is crucial to ensure that the Commission will not allow any exemption for state aid to the coal mining sector, which the Polish government is aiming for. The government's attempts to grant financial support to the coal sector through a capacity mechanism should be closely monitored as this might constitute illegal state aid. The emissions performance standard proposed by the Commission for new coal power plants under capacity mechanisms is a good first step in that regard.



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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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