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Inevitable Transition: EU's 2050 Climate Strategy

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The EU is preparing a long-term climate strategy for 2050 with a view to a comprehensive transition to a low- or zero-emission economy. Although EU countries are divided about the scale and pace of the actions, the direction is inevitable. This creates opportunities for Poland to obtain additional funds for a "just transition" and benefit from a boost in the domestic clean energy technologies market.

Opportunities for Zero Net Emissions by 2050. The EU wants to play a leading role in global climate negotiations. By the end of 2020, it wants to present a long-term climate strategy (LTCS) with a perspective up to 2050. In November 2018, the European Commission (EC) prepared its project to contribute to the implementation of the Paris Agreement commitments. It considers three possible EU targets with different levels of ambition: 1) reduction of greenhouse gas (GHG) emissions by 80% compared to 1990, 2) a GHG reduction of 90%, factoring in the carbon absorption of forests and combining various technologies, 3) achieving climate neutrality, the balance between GHG emissions and absorption. The third option is the most controversial. Nine countries, including Belgium, Denmark, France, the Netherlands, and Latvia, actively lobby for neutrality and about as many other states support them. On the other hand, Poland and the Czech Republic cite the issue of transformation costs and the need to maintain the competitiveness of their economies. Germany shares these concerns, but in May, Chancellor Angela Merkel changed the approach and her government now will investigate the costs of achieving zero net emissions by 2050. During the first discussions about the EU strategy, the issue of a "just transition"—an approach more sensitive to the potential loss of jobs from energy and economic changes—made an impression. During COP24, Poland promoted a political declaration that included this approach.

The EU attempted to establish a long-term strategy in 2011 but the so-called "2050 roadmap" was blocked by Poland at the time. The roadmap assumed a reduction of emissions of 40% by 2030 and 80% by 2050. Despite Poland's veto, the roadmap became a reference point for subsequent EU legislation. It is also mentioned in the LTCS as instrumental for achieving climate goals.

EU's Climate Protection Financing. The EU budget supports the implementation of climate targets, with 20% of the current budget allocated to actions related to climate protection (*climate mainstreaming*). The EC wants to increase this share to 25% of the entire budget (about €212 billion) in the next multi-annual financial framework (MFF) for 2021-2027, now in negotiations. This increase would be particularly visible in agricultural policy (the largest budget programme) and in the field of research. From €100 billion in the Horizon Europa programme, the EC wants to allocate 35% to projects related to climate protection. In the next MFF, the InvestEU programme will partly be an extra-budgetary source of financing climate action. It will merge 14 existing EU investment funds, including the European Fund for Strategic Investments (EFSI), providing financial security for investments with higher risk. InvestEU is estimated to stimulate investments to a total of €700 billion and maintain the existing 40% EFSI threshold for climate spending. In addition, the European Investment Bank (EIB) is reviewing its lending policy in the energy sector to support the implementation of EU climate policy. The EIB also has a support programme for innovative measures in

the field of renewable energy, NER300, which is financed from funds obtained from the EU Emissions Trading System (EU ETS). NER 300, now budgeted at €2 billion, will be transformed in the next MFF into the "Innovation Fund" with more than twice the funding.

The EC stresses the need to increase the total amount in the budget to produce more effective actions to protect the climate. In connection with this, apart from raising Member State membership fees, it has proposed two new sources of revenue related directly to climate, one of which is Member States' gains from ETS revenues (around €3 billion per year). However, the chances of introducing this are moderate.

Member States support the connection between budget and climate action but there are differences regarding the pace and scope of planned action. On one side is the so-called "Green Growth Group" (14 Member States, including Austria, France, Spain, the Netherlands, Germany, Sweden, and Italy) and the rest of the Member States. In the next MFF, the Green Growth Group would like to have more effective mechanisms for implementing climate action (including *ex-ante* monitoring) and verification of investments in terms of their climate impact (*climate proofing*). This would mean changes especially in the area of Structural and Investment Funds, which, to date, finance the construction of roads, airports, gas pipelines, etc. France and Spain also promote the idea of taxing goods with high CO2 emissions from outside the EU ETS. The European Parliament has called for an increase in climate action to 30% of budget expenditures, raising the amount for Horizon Europe by around 30% and creating a Just Transition Fund in the amount of €4.8 billion, which would be used for institutional support for countries participating in this process.

Transition and Competitiveness of Poland's Economy. The high prices of CO_2 emission allowances under the EU ETS increase the costs of energy-intensive economic activity, reducing its competitiveness. For example, ArcelorMittal announced on 6 May a temporary shutdown of the steel factory in Kraków, in part because of high wholesale energy prices and the costs of emission allowances. The dependence of the Polish electric power industry on coal (78% of production) and regulatory uncertainty will negatively affect the attractiveness of the Polish economy to foreign investors. Some manufacturing plants are developing their own sources of energy or signing long-term contracts guaranteeing a supply of energy from renewable energy sources (RES). RES not only reduce energy prices for enterprises but also have a positive impact on their image. However, the lack of a domestic market has a negative impact on the development of Polish companies associated with renewable energy even though they have the potential for the production of RES equipment and parts. The increase in the number of photovoltaic installations in Poland and announced investments in renewable energy companies confirm new trends in this field. The global investment market in renewable energy has stabilised at $300 billion annually, and with the prospects of the development of energy storage technologies, it may increase.

Conclusions and Perspectives. It is doubtful that just after the European elections the EU will decide the LTCS, therefore the final adoption of the strategy should be expected only in 2020. The case of the "2050 roadmap" showed that vetoing the strategy is not only harmful to a state's image but also ineffective—legislative proposals implementing these goals eventually land at the EU Council, where decisions are made by a qualified majority. Although the EU may not mandate climate neutrality by mid-century, ambitious EU policy resulting in the need to tackle climate change is inevitable. Inconsistency in this approach will be increasingly expensive and, as a result, negatively affect the competitiveness of the Polish economy.

EU funds supporting investments in Poland will be more connected with climate goals than in the past, as will the activities of private enterprises and banks. To decarbonise the economy, not only should financial instruments already available be used but also the notion of "just transition" accepted, guaranteeing jobs for those employed in energy-intensive industries and cheap energy for the poorer parts of society. To do this, it will be necessary to set the most favourable emissions reduction path possible, which may allow for increased financial assistance. Poland could also promote at the EU level other measures to protect the economy, such as a CO_2 tax on goods produced outside the EU ETS. A well-planned low-carbon transition can contribute to maintaining the competitiveness of the Polish economy while also developing the domestic market for clean energy technologies ultimately independent of state support.