



# POLICY PAPER

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## New EU Energy and Climate Framework: Challenges for Poland and Germany

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*The EU's new energy and climate framework for 2030 is an exercise in reconciling Europe's green agenda with its need for renewed competitiveness—as well as the domestic concerns of Member States. As the energy policies of Poland and Germany are shaped by EU policy, the 2030 policy proposal might serve as an opportunity for a shift towards bolstered bilateral cooperation. The conditions for this are twofold: mutual understanding and thinking outside the box.*

In the field of energy, Polish–German relations are shaped by European Union policy. Currently, that means the 2009 EU climate and energy package with its “20-20-20” targets for 2020. These are a 20% reduction in greenhouse gas (GHG) emissions, raising the share of EU-wide energy consumption from renewables to 20%, and a 20% improvement in energy efficiency. The European Commission (EC), has only recently (on 22 January) put forward a new policy proposal for 2030: a 40% reduction in GHG emissions and an increase in the share of energy consumption from renewable sources to 27% (without country-specific targets)—although no additional targets have been set for energy efficiency. Hence, the new proposal is not a simple continuation of the current path. Rather, this shift in priorities is a reflection of a new reality. Overly expensive energy prices, a receding competitive edge, and the declining role of European industry have drawn a new, more pragmatic background for policy proposals post 2020.

### **The EU's New Energy Package: A Delicate Balancing Act**

The whole 2030 package—from the white paper on EU energy and climate framework to the Communication on industrial renaissance—aims to reconcile opposites and encourage compromise. On the one hand, the EC claims to be concentrating on bringing about a low-carbon EU economy. It duly takes into account the global negotiations on the post-Kyoto binding agreement. Having not abandoned the idea of being the world leader in fighting climate change, the EC strives to live up to expectations and present its contributions to climate actions in the context of a future deal. As agreed at the UNCC Conference of the Parties (COP19) in Warsaw, this should be achieved by the first quarter of 2015, but the EC would prefer to communicate this even earlier, during the UN Climate Summit in September 2014. Hence, the EC has put forward a legislative proposal for a long-term fix to the European Emission Trading System (“ETS”), a flagship instrument to reduce GHG emissions.

On the other hand, Europe cannot turn a blind eye to issues such as rising prices and energy poverty, the huge gap in energy costs across the Atlantic, or the lack of followers for fighting climate change. The EC

was prompted not only by those Member States that could not agree to a more ambitious approach (CO<sub>2</sub> reduction and generous renewable energy subsidies), but equally from industries such as iron, steel and petrochemicals, which are struggling to prosper. Part of Europe is now calling for more attention to be paid to the competitiveness agenda.

The new climate and energy package came when there was an increased risk that divergent national approaches would prevail. To achieve security of supply, including necessary investments, competitiveness or environmental goals, states have been extending interventions, resulting in diverging energy policy instruments. Against this backdrop, more specific issues have recently been added to the EU agenda, namely renewables subsidy schemes and back-up capacity mechanisms.

As regards supporting the use of renewable energy, this varies from Member State to Member State, both in method and generosity. In December 2013, the Commission published a proposal for new guidelines for state aid in energy and environmental issues. This revision is part of a broader initiative to modernise EU state aid rules, but also indicates that the problem arising from disharmony prompted the Commission to act. The investigation into Germany, which exempted its industrial sector from paying for renewables support, is an indication of the problem.<sup>1</sup>

But the issue is far more broad and complex, embracing not only renewable support measures, but also state aid for infrastructure and electricity generation adequacy (so-called “capacity mechanisms”). Although the Commission claims that there is an overcapacity in the EU, this does not pertain to the situation in some Member States, where the electricity balance looks quite insecure. At the same time, wholesale prices are at their lowest levels, making the majority of investment plans infeasible, including those power plants already in operation.. The problem is particularly acute for gas-fired power plants, and results not only in new, efficient projects being mothballed, but also in closures of the newly built power stations. In consequence, the role of the cleanest of fossil fuels has declined. The Commission set guidelines on national intervention, but it may be that the recently opened investigation into the UK’s nuclear support mechanism will eventually serve as a case study for the whole EU.

## **Poland—Ahead of New Energy Strategy**

The economic development associated with the growing demand for energy, aging energy generation assets, inadequate infrastructure, significant dependence on external supplies of natural gas, and almost complete dependence on imports of oil, together with environmental obligations, press Poland to take firm action.

### *A Heated National Debate*

The country is currently undergoing a strategic debate on how to develop and implement the optimal energy mix, considering, amongst other things, production costs, protection of customers, energy resources endowment, and the technical conditions of the energy system. A key problem is the dependence of the Polish energy sector on high-emission energy generation from coal (hard coal and lignite).<sup>2</sup> The new energy policy up to 2050, due to be adopted this year, will confirm diversification aims. According to the deputy prime minister and minister of economy, Janusz Piechociński,<sup>3</sup> the new strategy will take into account the Polish nuclear programme, the development of unconventional gas, and factors stemming from EU policy—the climate challenge and the creation of an internal energy market. The transformation of the Polish energy sector will be facilitated by European funding.<sup>4</sup> Energy infrastructure

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<sup>1</sup> European Commission Press release, “State aid: Commission opens in-depth inquiry into support for energy-intensive companies benefitting from a reduced renewables surcharge,” 18 December 2013, [http://europa.eu/rapid/press-release\\_IP-13-1283\\_en.htm](http://europa.eu/rapid/press-release_IP-13-1283_en.htm).

<sup>2</sup> Electricity mix in 2012: hard coal (51%), lignite (33%), biomass and biogas (6%), natural gas (3%), wind (3%), hydropower (2%), other (2%). Source: Ministry of Economy.

<sup>3</sup> <http://piehocinski.blog.onet.pl>.

<sup>4</sup> Poland received €82.5 billion in cohesion funding for the years 2014–2020, making it first among beneficiaries in the EU budget.

and adaption of facilities to meet the challenge of tackling climate change will constitute the greatest expenditure.

In the mid-term perspective, the energy sector will remain dominated by fossil fuels, but change is imminent. The rising cost of coal mining and the difficulty (due to community protests) in acquiring new lignite deposits are strong incentives for seeking opportunities to diversify the fuel base for electricity production. Hence, adding nuclear to electricity mix will allow for a stable, cost competitive and CO<sub>2</sub>-free source of supply. On 28 January the Council of Ministers endorsed the Polish Nuclear Energy Programme. According to the document, the first nuclear power plant is to be commissioned by 2025. While this does not guarantee construction, it does send a signal of political commitment. Still, Poland will not abandon support of renewables. The minister of economy confirmed this by sending the final draft of a new law to the Council of Ministers. The solution adopted to support renewables—a system of auctions—is a compromise between many vested interests, but assumes putting the least financial burden on the economy. It is worth noting that Poland is preparing and developing its system for the adoption of more distributed and intermittent energy generation. In the case of shale gas, overly great expectations were followed by a sobering reality as companies in Poland had to deal with less favourable geological structures, a shortage of equipment, and the lack of a definitive legal framework. First and foremost, Poland is aiming to develop the necessary regulations.

### *What Next for Polish Energy?*

It should not be expected that Poland will take a leap forward and decide overnight to withdraw from coal, but rather that the country will undergo a gradual transformation. In this context, the Commission's latest shift in rhetoric and actions towards a more pragmatic policy proposal is generally well-received. But the biggest challenge is decarbonisation. The aim for CO<sub>2</sub> reduction at 40% poses social and economic strains. Such a situation forces Warsaw to be a hard-line partner in political negotiations advocating equitable burden-sharing that takes into account GDP, energy mix, and efforts made so far in limiting GHG emissions. The position that Poland will present to the European Council in March will not come as a surprise.

Yet for Poland, clarification of the EU strategy is vital. The country needs to set a policy framework, outlining its long-term energy strategy. It is crucial that stable legal conditions guaranteeing predictability and incentivising long-term investments are created. Investment is needed desperately, and, while this has been discussed, increasingly in the context of EU rules and regulations, any conclusion remains pending.

## **Germany Sticks to the Plan**

For the new German, government, *Energiewende* (energy transition) is—besides the euro crisis—the most challenging task. After making the idea a subject of national consensus, Germany is now in search of the optimal implementation of political goals. Simultaneously, Germany is keen to anchor *Energiewende* on the European level, and to secure an adequate European framework for energy and climate policy as a determiner for German success.

### *National Targets, European Priorities*

The coalition agreement for Merkel's third term confirms that it is not only about climate protection and independency from fossil fuel imports, but foremost about jobs, wealth and competitiveness.<sup>5</sup> “Committed climate protection” should become “the engine of progress.” Accordingly, *Energiewende* is a complex programme including reorientation of supply sources and technology revolution in the fields of renewables and high efficiency. The development of *Energiewende* is not free from paradoxes. So, for example, the

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<sup>5</sup> Deutschlands Zukunft gestalten, Koalitionsvertrag zwischen CDU, CSU und SPD, 18. Legislaturperiode, signed on 16 December 2013; non-official translation by Konrad-Adenauer Foundation, [www.kas.de/wf/doc/kas\\_36853-544-2-30.pdf?140212155238](http://www.kas.de/wf/doc/kas_36853-544-2-30.pdf?140212155238).

phasing out of nuclear energy and focus on unstable renewables caused a boom for power generated from coal, in particular lignite.<sup>6</sup>

In the coalition agreement, national target for reduction of green gas emissions was set for at least 40% in 2020 (the indicative year is 1990) and expansion corridors for renewables are 40–45% in 2025 and 55–60% in 2035. *Energiewende* should, however, progress in a more controlled manner. The development of the renewables will be geared more towards securing a stable framework for the conventional energy sector, better capability with grid extension, and step by step adjustment to enable energy systems to face challenges caused by volatile generation. The conventional power plants are perceived as indispensable for the foreseeable future, and the coalition agreement contains proposals for a new design for the electricity market to ensure that generation capacities will be maintained.

Because of rapidly rising costs, a key task of the new government is the long overdue reform of the Renewables Energy Act (EEG).<sup>7</sup> This reform should demonstrably stop the extent and rate of cost increases, create a more efficient system of support for renewable, and limit industry privileges. Generally, market mechanisms should play a more significant role than before.

As far as the European dimension is concerned, the German government's intention is to ensure that the EU framework and public aid scheme continue to support the development of renewables in Germany. The coalition argues that, as long as the schemes are not entirely harmonised, internal European competition in shaping them should be acknowledged. Integration of the European electricity supply through the trans-border infrastructure is welcomed. Germany has also declared an intention to promote *Energiewende* in particular in the context of the nuclear phase-out, to increase nuclear power plant security, and in particular to press for binding security targets and reciprocal control. Shale gas is still regarded as a high-risk technology, and, that risk has not yet been fully identified.

An important concern for Germany is to reshape the EU Emissions Trading Scheme (ETS). Commenting on the recent EC proposal, Barbara Hendricks, Germany's minister of environment, noted the need to introduce the stabilisation reserve significantly earlier than 2021. The carbon allowances, which will be withdrawn in a backloading procedure, should be transferred into this reserve.<sup>8</sup>

### *Coalition Politics, Energy Policy*

The set-up of the new government, which has been in office since 17 December, 2013, brought about significant novelties. Portfolios have been reshuffled, thereby removing one of important obstacles for the implementation of *Energiewende*. The ministry of economy, led by the FDP, had, during the previous term, argued constantly with the ministry of environment (under the leadership of the CDU) about the important aspects of German energy policy, which also impacted on the coordinated and effective representation of German interests at the European level. Now, under the new Grand Coalition, there is a division of work between coalition parties: The Christian Democrats deal with crisis management in the Eurozone, while the Social Democrats have to handle *Energiewende*. Sigmar Gabriel, vice-chancellor and SPD-leader, has been put in charge as federal minister for economic affairs and energy, combining previously separate roles. What is more, the ministry for environment fell to SPD, enabling a more coordinated approach, without competence and concept disputes. A new line of controversy could however arise in the Bundestag, with the CSU-led economic and energy committee.

For SPD, there is much at stake in taking over the machine room in economy and energy issues. The party is now a junior coalition partner pursuing, to some extent, the originally red-green project, initiated by the Schröder's government, and their performance could influence their chances of gaining power in the next

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<sup>6</sup> "Trotz Energiewende: Stromproduktion aus Braunkohle erreicht Rekordwert," [www.spiegel.de/wirtschaft/unternehmen/energiewende-stromproduktion-aus-braunkohle-erreicht-rekordwert-a-942129.html](http://www.spiegel.de/wirtschaft/unternehmen/energiewende-stromproduktion-aus-braunkohle-erreicht-rekordwert-a-942129.html).

<sup>7</sup> Erneuerbare-Energien-Gesetz from 25 October 2008 (BGBl. I S. 2074).

<sup>8</sup> Pressemitteilung Nr. 012/14, Berlin, 22 January 2014, [www.bmu.de/bmu/presse-reden/pressemitteilungen/pm/artikel/hendricks-eu-klimapaket-ist-gute-ausgangsbasis](http://www.bmu.de/bmu/presse-reden/pressemitteilungen/pm/artikel/hendricks-eu-klimapaket-ist-gute-ausgangsbasis).

term. Taking into consideration the different interests concerning *Energiewende*, in particular the diverging expectations of SPD-ruled Laender and the preferences in traditional electoral strongholds in areas reliant on the coal industry, it will not be an easy task to reconcile them. There is a great determination to leave a “red” footprint on *Energiewende*, as was shown recently by the comprehensive and timely ambitious reform plan of the German Renewables Energy Law, submitted by Gabriel and approved by the government in January. This, however, earned Gabriel harsh criticism not only from lobbyists, but also from the German Laender, in particular from economic powerhouses in the south, and across party political lines.

The domestic battle for the reform of an extreme costly system is now, however, complicated by the struggle at the European level. Reasons for this are twofold. Firstly, the Commission’s new proposal is behind the country’s expectations. Bearing in mind the March European Council, German politicians have made clear that it is a game of two halves, and Member States advocating for strong targets do not give the ball away: “The German energy transition needs a reliable European framework and binding targets for the development of renewables. This must apply to all EU countries alike. Otherwise, this leads to Germany as a forerunner as regards renewables to an unfair financial burden, and to a considerable competitive disadvantage.”<sup>9</sup>

Secondly, the European Commission sees the current discounts to the industry under the EEG as a violation of EU rules for state aid, and has initiated an investigation. This step was met with harsh criticism in Germany, yet made an urgent issue of the financial scheme reform, otherwise all industry discounts would disappear in 2015.

## Recommendations

Energy policy will remain potentially divisive in Polish–German relations, but with a renewed approach and will on both sides there are sufficient areas of cooperation that may be of mutual benefit. However, this requires an understanding of the concerns of each partner. For now, the reciprocal perception of both countries’ roles in the EU energy and climate policy is misleading. Too much emphasis is put on the simplified “image,” which results in pigeonholing. Domestic circumstances and political goals have, to a great extent, been overlooked. Poland is not a principled brakeman, and nor is Germany an all-or-nothing climate protector. Germany’s struggle for the Europeanisation of *Energiewende* is a result of the sober assessment that it is a necessary condition for the success of a national project that has the potential to become *exportschlager*. The aims of this national effort go far beyond the contribution to the fight against climate change; it is an attempt to break away from the pack in the global economic race. It is challenging in implementation, and by no means risk free, but for sure well considered.

And Poland, which was portrayed in a negative light by the German media in particular during the recent climate summit in Warsaw, is opposing ambitious EU climate policy targets, but is not against climate policy. First of all, Poland recognises the weakness of the unilateral EU approach and the fact that third countries do not follow it. Second, Poland is calling for more equal burden sharing. Analysis shows that the impact of CO<sub>2</sub> limiting strategies is not equal, and much more negative for the countries of Central and Eastern Europe than for others. Should the energy mix be enforced by European legislation, the social consequences could be disastrous. Hence, Poland will advocate more “competitiveness” and less “climate” in energy policy.

Furthermore, the different starting points of both countries have to be taken into consideration. While, for Germany, *Energiewende* is additional leverage for its top-level economy, the case of Poland is different. Although the Polish economy has developed impressively in recent years, it still needs stimuli to catch up with the EU average level of economic performance, and its competitiveness is based on different assets. The limitations for finding common ground in the field of energy and climate policy are objective, but this does not exclude pragmatic neighbour cooperation.

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<sup>9</sup> Vice-president of the CDU/CSU-faction in the Bundestag, Georg Nüblein, Europa braucht bei Erneuerbaren verbindliche Ziele für alle. Umbau der europäischen Energieinfrastruktur nicht gefährden, Pressemitteilung, 22 January 2014.

In general, bilateral Polish-German energy relations have been built upon the EU energy and climate strategy, which causes tensions and makes consensus-building necessary. So far, the discussion has been shaped by different approaches towards renewables, coal, nuclear and shale gas, which has created a situation of opposing national energy policies. Paradoxically, the Commission's new proposal may place them in a different context. The Commission tabled a proposal that is neither so green nor so black that, in a sense it leaves some room for manoeuvre, at the same time assuring the EU's full commitment to climate change efforts. A single target leaves more room for Member States to choose their own optimal energy mix. Nevertheless friction points are more than certain, and both countries will still negotiate the modification of the EC proposal according to their own preferences. But splits will occur not only between Poland and Germany—which may prove to ease tension in this particular relationship. So these neighbours could stop focusing on differences and start paying more attention to future prospects and on exploring again how to collaborate.

Much effort has been already made to identify and explore cooperation options. Clean coal technologies are especially worthy of consideration, since coal actually gained importance in Europe, and will, in many Member States, play a role in future energy policy. But clean technologies need investment in the political, research and business dimensions. The discussion partners for Poland are on the German side not only on federal level: wide opportunities for cooperation are on the level of the Laender. The recent nomination for Dietmar Woidke, the Prime Minister of Brandenburg, for the new Coordinator of German Polish Intersocietal and Cross Border Cooperation could give a boost for new dynamics in this area. Another promising field is storage technologies, which are a missing element of the full success of energy transition. Taking into account that the sphere is of high political significance, exploration of this aspect would be justified while both states engage more in support for the cooperation of research institutions and companies. Up-graded joint undertakings, in particular in the field of innovative technologies, could contribute to faster progress of modernisation of the Polish economy. The object of mutual concern is infrastructure, so both countries will continue working out further undertakings in this area. Increasing capacity is necessary for both the stabilising and security supply of electricity, and for trade development.

Some improvement in bilateral dialogue regarding energy and climate policy has, for some time, been observed, as has a new impetus for the Weimar Triangle, manifested by the meeting of ministers for the economies of Poland, Germany and France on 7 February of this year. Sustainable results can arise only on condition that differing national economic positions are reconciled.

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