

Poland's position towards climate change and the EU's energy and climate package
Krzysztof Źmijewski, October 11th, 2009

The EU's energy and climate change package as a contribution to the discussion on climate change

In Poland there has been so far little interest in climate change. It has been limited to a narrow circle of experts and ecological activists. Other members of society were rather indifferent towards these issues. The EU's energy and climate change package and the adoption of the 3 x 20 programme (20% renewable, 20% CO₂ reductions, 20% energy efficiency, all by 2020) changes this situation, albeit slowly. This is due to the economic, social and political consequences the package will have on Poland once it is implemented.

Those who contest or ignore climate change are a minority in Poland and not taken particularly serious. However, the question of the anthropogenic nature of these changes that climate change will bring is of a different character. There are voices denying the influence of human activities on global warming. What is more, these opinions are published and promoted not only by tabloid newspapers, but also by serious media.

The official position both, of the Polish government as well as of the majority of society is not to question the progress of climate change nor its anthropogenic character, nor the necessity to fight this phenomenon and its effects. However, the situation looks much worse when we look at the awareness of the needs and consequences of adaptation to climate change. And this, to be honest, is the case not only in Poland, but in the whole of Europe.

„3 x 20” – fundamental acceptance of the objectives

The current Polish government accepts the objectives included in the 3 x 20 programme, particularly the rising share of renewable energy sources in the final energy balance (up to 15%), the reduction of greenhouse gas emissions in Europe (by 20% in comparison with year 1990) and the specific tasks in the ETS sector (-21%) as well as the non-ETS sector (-10%). The Minister of Environment, Professor Maciej Nowicki, also declared a willingness to reduce CO₂ emissions by 30% in the case an international agreement is reached. Also, the Polish government does not doubt the need to improve the energy efficiency of the Polish economy, although this cannot only be reached by the improvement of the effectiveness of singular technological processes. Many of the privatised branches of the Polish industry have reached an efficiency level that is comparable with the European level or even better. The problem is rather the structure of the Polish economy that is oriented towards production rather than services. Polish cement plants and steelworks, even if they were the best ones, will always emit more per 1000€ of the added value than, for example, banks from London or investment funds. That is why, deeper restructuring of the Polish economy is necessary, as a result of which the share of industry will be reduced and the share of services to GDP will be raised.

Regulations concerning the need to reduce emissions are mentioned in the Polish Climate Policy and the draft Energy Policy, where the aim to reach the efficiency level of the EU-15 from 2005 by 2030 has been declared. In addition the documents aim to move Poland on the path of a zero-carbon development. However, the last assumptions are more and more contested, especially by experts from the energy sector. Many people in Poland still think that the level of energy consumption, especially electric energy, determines the level of economic development of a country and the prosperity of its society. In this context, the

proposal of the Energy Policy for the first time gives up this way of interpreting progress and in realistic terms refers to the constitutional principle of sustainable development.

Principles of emission trading – divergence of opinions

However, it must be clearly stated that the acceptance of the objectives defined in the energy and climate change package does not automatically mean the affirmation of this package, and especially of the new directive concerning the EU Emissions Trading System (EU-ETS). According to the Polish government, the energy sector and the energy-intensive industries gathered in the coalition Green Effort Group, the solutions of the third stage of the ETS are harmful to both the Polish and European economy. Industry is concentrated on the abandonment of the main EU principles such as the European solidarity and subsidiarity (bigger charges for poorer countries and centralization of funds, thus of the investment decisions), which leads to a strong deviation of the system towards quasi fiscal solutions at the cost of the weaker determination in reaching the main objective.

It must be stressed that most of the ecological movements and organisations, among them the European Green Party, support the proposals of the Commission (except for the CCS technology – carbon capture and storage). In this way it supports, although unintentionally, nuclear energy.

It seems that the main reason for the given divergences is a too superficial level of discussions and too much haste. The European Commission is mainly responsible for this situation and its consequences in the future.

The necessity of the fight against global warming is evident by the sheer fact of the presence of this effect. The number and quality of the proofs are overwhelming. However, the fact of the rightness of the objective does not automatically translate into the “rightness” or, rather, rationality of the means. The more serious an objective and the more complex a task is, the more precise a strategic analysis of the effects should be. To cover it with “green” banners is unacceptable – the road to hell is paved with good intentions. The European Commission is obliged to respond to public queries and clarify all doubts, especially if they are as serious as the ones mentioned below.

Insecure energy security

The most serious threat in terms of possible consequences which has been completely ignored by the European Commission is the danger inherent in the purchase of the right for emission by Sovereign Wealth Funds. These are speculative investment state funds that currently possess an amount of 3 billion (m²) \$ (i.e. 2 billion €). One sixth of this sum is enough to buy out 100% of the eight year entitlement for emission, i.e. to gain full power over the European energy policy and economy, and, at the same time, to reduce the level of the European energy security to zero. In practice, only a fraction of this sum, which corresponds to 10-20% of the annual EU-ETS reserve, would be enough. This operation could be carried out by even the Russian Stability Fund (RSF) which has at its disposal 156 \$ milliard of liquid cash. The last injection of 4 milliard \$ for Iceland shows its possibilities and efficiency. Only the decision of the president of the Russian Federation carried out by the finance minister with the prime minister's consent are necessary. The super liquid Russian National Wealth Fund, which is a part of the RSF, has already 42 billion \$ deposited in banks in London, Paris, Berlin and Brussels in following currencies: \$ (45%), € (45%) and £ (10%).

Of course, the purchased right is going to be sold one day. But the price and conditions will be dictated by the seller (e.g. a bound sale of the CO₂ + gas rights for 1000 €/1000m³). The officials from the European Commission claim that they do not believe in this scenario, as

this would be inappropriate to do so. If the whole of European security is to be based on their beliefs (or the lack of it), we are acting on a very fragile fundament, namely on shifting sands and permanently frozen ground! However, if there were a political will, the abovementioned risk could be eliminated by the restriction of the access to the auctions to only European producers and generators.

Of course, restrictions in access to the auction are not synonymous with restrictions in access to the stock exchange. The explanation is very simple: on the stock market of these rights rising prices lead to rising number of the offers. And, on the other hand, on the auction of the rights the selling offer is by definition stiff (and declines year by year).

Threat to the economic development of Europe

The third danger, which threatens nearly all the economies of the European Union, is the threat of huge fluctuations in the prices of emission rights. The EU-ETS system is fully artificial and has no inherent natural mechanism to stabilize the prices for emission rights. No one has simply thought about it and although, historically speaking, these prices fluctuated widely – over 25 to 1 – and this happened “thanks” to the fundamental mistakes committed by the European Commission during the first phase of the System (2004-2007). Again, we have to believe in what the Commission is saying, namely that this time everything is going to be fine and the price will be stabilized on the level of 30 - 39 €/tCO₂. To the question what mechanisms could guarantee this price, the Commission diplomatically does not respond (what could it say, anyway?). Meanwhile, the report of Deutsche Bank is talking about a price of 69 €/tCO₂ and warns that under some circumstances it can even breach the price ceiling of 100 €/tCO₂ (mandatory fine). Fortis Bank presents similar forecasts. I believe it is possible that the price could reach 118 €/tCO₂, which is three times higher than the official forecast of the Commission. Who the investment banks will believe, is a rhetorical question. In financial circles the authority of the Commission is totally at odds with the authority of Deutsche Bank. And loans are given by banks, not by the Commission.

It must be clearly stated that excessive prices for emission rights (like too high taxes) will mean death for the whole EU economy, as it will cause recession with catastrophic consequences. The recession will not omit even such countries as Sweden or France, the ones that have the least coal, because there will be nobody to buy their products, even if the “non-coal” prices offered for their products are very competitive. The EU-ETS system with its high prices for emission rights will upset the whole EU economy. In the second stage, i.e. after bankruptcy (or the transfer of production, the so called *carbon leakage*), in most of the energy-intensive industrial plants the demand for electric energy will be dramatically reduced, and consequently the demand for CO₂ rights. This will lead to a dramatic fall in prices. Some experts believe that prices will drop below 7 €/tCO₂, and, consequently, it will lead not only to the breakdown of the System, but also of the idea of using quasi-market mechanisms to reduce the emission of greenhouse gases. And this would be a great shame.

Additionally the mechanism of price stabilization is in this case very simple and easy to implement. The minimum price can be settled by means of the starting price, and the maximum price by means of the surrogate fee (like in the green certificate) or a simple price ceiling (simultaneously applying the pro-rata mechanisms). This would lead to a condition where the price offer would have to fit into the range <from-till> defined by the Commission.

The most serious anxiety is caused by the fact that the activities and arguments of the Commission are far more concentrated on the settlement of the new market of the financial operations and a kind of quasi-fiscal mechanism of redistribution of huge financial means (in

Poland equal to at least 1/3 of the Polish PIT¹) rather than on the realization of the declared objective, i.e. the real reduction of the emissions in the whole world, not only in Europe. How else can we explain the rejection – without any discussion – of the concept of fuel-dependent product benchmark, an idea that is supported by European² and Polish³ business communities? Or the abandonment of the (French) concept of flexible transfer – not necessarily 100% - of the reduction gained in the non-ETS sector to the ETS, known as *domestic offset*? (It is incomprehensible why the system allows building insulation in Peking, but not in Bucharest?). It would be advisable if the Polish government decisively joined the enthusiastic supporters of these solutions.

Summary

Both the European Union and Poland face dramatic decisions. The rationalization of the ETS system by the EU and the full implementation of the 3x20 program by Poland is a scenario that is difficult to carry out. However, it is a possible scenario and can lead to success.

In the case of Poland, it means joining the most developed and the most effective countries of the world. Furthermore, it means following the development path based on knowledge and practical realization of the sustainable development aims. This scenario will require a change in thinking from the pro-production towards the pro-effectiveness one, which is a great challenge in terms of culture and civilization.

A black alternative is to force through the current model proposed by the Commission, namely the quasi-fiscal model that will lead to the next “bubble”, the eruption of which will cause a serious political-economic crisis. It will be especially painful for the new member states, for which an abrupt collapse of the energy-intensive industries will mean unprecedented recession. The only answer to be heard is: “But you will get (?) huge financial means”. However, the primary source of this means will be money from households, which is not a very advantageous solution, and thus hardly acceptable for the society.

In the course of the negotiation process and by accepting the aims of the Climate and Energy Policy of the EU, Poland should stress particularly two of its aspects. First of all, its efficiency on the global scale so that “European” reductions do not take place at the cost of raising emissions beyond Europe⁴. If this were the case on a large scale, it would mean total disaster to the idea of climate protection. Secondly, Poland should lead the coalition of the poorer members of the EU and emphasize the fact that the implementation of the Program cannot cause rising economic stratification within the European Union. It means that it cannot lead to accelerated development of the richer states at the cost of the decelerated development in poorer countries. Thus, the Program should close the development gap rather than widening it. In other case it will lead to concealed implementation of the ‘two cases principle’, i.e. another, more modern principle of neo(eco)colonialism, and, as a result, the defeat of the idea of a united Europe. In both cases we should stress the interests of the Earth and the interests of Europe, as in both cases these are the interests of Humanity and the interests of Poland.

¹ Personal Income Tax

² Business Europe

³ Green Effort Group

⁴ Cf. the emission balance in Great Britain in the trade between Great Britain and China: 11% of reduction in Great Britain corresponds to the rise in emission in China that is equal to 19% of the British emission (Energy Policy, Vol 36 Iss 6 June 2008).

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