Courtesy translation

Communication from the Commission - *GREEN PAPER - A 2030 framework for climate and energy policies*

Responses by the Government of Poland within public consultations

Q (1) What experiences resulting from the 2020 framework and the current state of the EU energy system are the most important in the development of policy for 2030?

A: In the opinion of the Government of the Republic of Poland, the EU ETS is and should be the main instrument to reduce greenhouse gas emissions in the EU. In the future, when creating a new policy framework for climate and energy, it is necessary, however, to include to a greater extent issues such as *carbon leakage*, as a result of which domestic emissions are converted to higher "imported" emissions, which come from the consumption of goods manufactured outside the EU (*consumption based emissions*) - thanks to which it will be more reasonable to extend the EU ETS outside the EU and thus increase its efficiency. The existing form of the EU ETS related to the above issues in an insufficient way, raising a number of questions associated with both the potential negative impact on the competitiveness of economies and insufficient reflection of the impact of the EU ETS and reduction of emissions in the EU on a global scale.

The EU ETS should become a flagship market instrument encouraging global partners of the EU, with whom we negotiate a global agreement, to make comparable reduction efforts. Therefore the EU ETS requires solutions that will allow it to reflect the current state of the negotiations and contribute to a greater extent to increased competitiveness of the EU economies.

Changes in the EU ETS without the context of international negotiations, such as e.g. one-sided direct or indirect (*set-aside*) increase in the EU reduction target in the absence of comparable efforts by global partners in the perspective until 2020, in practice it means weakening the EU's negotiating position. The Union needs a flexible negotiation strategy, which should allow it to avoid a situation such as a deadlock in Copenhagen (COP 15), which demonstrated the lack of effectiveness of the existing EU negotiating strategy.

The reason for possible improvements of the EU ETS system may not be recognition of emission allowances prices as too low when its value is mainly conditioned by a decline in the economic downturn, and therefore market factors.

The ETS needs a comprehensive performance evaluation, but an indicator of the efficiency of its operation should not only be the price of emission allowances and its impact on the development of innovative technologies. Such an assessment should be carried out in the long term which will allow for checking whether the solutions proposed in the new ETS settlement period started in 2013 are used for emission reductions in a cost-efficient way and what adjustments are needed in the future. At the moment, the EU ETS performs its mission by allowing to reduce emissions in the most cost-efficient way, and the fact that the current prices for allowances are lower than expected does not mean that the reduction effort is undertaken at low cost. In Europe, the crisis continues and the prices of emission allowances in the EU ETS as the market system reflect, inter alia, the current economic situation and the demand-supply relationship.

The future policy framework for climate and energy should have greater flexibility than before. In this context, of particular relevance are instruments that enable us to take into account the specific circumstances of individual Member States. At the same time, consistency should be ensured for the objectives of policies for climate and energy with the objectives of other policies, in particular relating to the industry.

The Government of the Republic of Poland does not agree to simple definition of future emission reduction targets without agreeing on the tools and methodology. The simple assumption that the continuation of the current emissions trading scheme will provide the necessary level of emission reductions is not enough for Poland. However, there is a need to strongly emphasize that sustainable climate policy - adapted to the situation of each of the Member States, relating both to the environmental, social and economic aspects and also being a component of global-scale efforts by all parties to the UNFCCC - can bring benefits for our country and the government of the Republic of Poland will try to implement such a policy and seek such a shape of this policy in the EU.

A further debate on the potential ambitious long-term reduction commitments, including the nature and forms of all sorts of targets, should be preceded by fairly prepared and transparent impact assessment of activities proposed in the Communication for individual Member States and sectors, not just the EU as a whole. This assessment should be done in cooperation with the Member States and a wide range of stakeholders, including the sectors identified as a key to achieving the reduction targets. Especially the potential goal-setting for the period after 2020 should be established in close cooperation with the industrial sectors and underpinned by rigorous analysis of the potential to reduce emissions in these sectors and examining the economic situation (including financial) at the level of the Member States.

We should also take account of the architecture of the EU ETS and the current problems with the defining of individual emission reduction targets for Member States in the framework of the *Internal Burden Sharing* decision in connection with the necessity of ratifying the second settlement period of the Kyoto Protocol. Considering that future EU climate policy framework in the 2030 will implement the commitments of the EU and its Member States within the framework of an international agreement, any new legislation should be designed to avoid in the future, any similar problems with the ratification of the reduction targets for each Member State.

Q (2) What are the goals for the year 2030 that will be most effective in stimulating the objectives of climate and energy policy? At what level should they be applied (EU, Member States or sectoral level) and to what extent should they be legally binding?

A: In the opinion of the Government of the Republic of Poland setting targets for 2030 should be strongly correlated with the on-going international negotiations on a global climate agreement by 2015. In Doha, in 2012 an amendment was adopted to the Kyoto Protocol, but only some of the developed countries from Annex I committed themselves to emission reductions in the second period of the Kyoto Protocol from 2013-2020 by expressing willingness to ratify them. To this group belong: EU, Australia, Iceland, Liechtenstein, Monaco, Norway and Switzerland. New global climate agreement to be adopted in 2015 and that is to begin to apply from 2020 should cover all countries of the world, including the developing ones and should be legally binding for them. However, it is only now that difficult 2-year negotiations have begun on the shape of such an agreement, including the options of commitments, methods for their implementation, monitoring and reporting, and the form of inclusion of all Member States in the new agreement.

To maintain direct links of EU level objectives with global commitments at (in principle the EU ETS is a supporting instrument for the achievement of objectives of the Kyoto Protocol) will not only

ensure the effectiveness of these global objectives, but will also help to avoid the concerns related to the potential negative impact of the objectives on the competitiveness of the economies of countries that pursue them.

It should be noted that the current complexity of the system is often rightly criticized, so any solutions should be kept simple and effective. In addition, they should take into account some non-measured aspects such as energy security or the possibility of "energy exclusion".

The basic aim of the EU ETS should remain unchanged - to achieve the intended reduction of emissions in a cost-effective manner. Nevertheless, the assessment of its functioning and effectiveness will allow for making a decision about the need to change it, e.g. by extending into additional sectors of the economy. It is important to note that sectors covered by the ETS are now only responsible for slightly less than 50% of the emissions from the EU area, so the assumption about its key role in the achievement of emission reductions is too optimistic. The Government of the Republic of Poland presented its proposals for a possible evolution of the ETS into “non-paper,” adopted by the European Affairs Committee in May 2012 and presented at the informal Environmental Council.

It is also necessary to consider additional instruments through horizontal objectives for reducing oil imports, withdrawal of subsidies in the energy production sector (also for RES), and improving energy efficiency. Such a combination will play a key role in achieving the EU's potential targets while maintaining the leadership position of low-carbon technologies and creating new jobs, building a competitive advantage in relation to global partners, improving energy security and ensuring stable conditions for investors.

Q (3) Were there any inaccuracies in the current objectives for 2020, and if so, how can we better ensure consistency of potential targets for 2030?

A: According to the Government of the Republic of Poland, objectives implemented to date in terms of reduction of emissions, the use of renewable energy sources, or greater energy efficiency (EE) defined in the climate and energy package, were designed in a such a way that they support each other.

At the same time, it is advisable to increase the interaction between the objectives for the sectors covered by the ETS and not covered by the ETS. Providing for the possibility of offset projects implementation would enhance the ecological effect and contribute to consistency of objectives while ensuring cost efficiency of actions.

In addition, it should be noted that, in the discussion and setting commitments for 2030 there will be a need to ensure a more coherent approach to GHG emission reduction targets, the share of RES and energy efficiency improvements. Only a close correlation between these instruments will make it possible to build a coherent, rational, predictable and effective EU energy-climate policy.

It should also be noted that for the actual boost in economic growth within the EU, not only is it necessary to ensure the consistency of climate and energy targets between themselves, but also the consistency of these objectives with solutions from other policies. For example, today there is a primacy of climate over industrial policy, which really threatens the objective of increasing the share of industry in GDP by 20% by 2020 through possible severity of carbon leakage. Such contradictions must be eliminated, especially where climate, energy, and industrial and environmental policies meet.

Q (4) Are the objectives for subsectors, such as transport, agriculture or industry are appropriate and, if so, which ones? For example, is it necessary to introduce the objective concerning the share of energy from renewable sources in transport, taking into account the objectives for reducing CO_2 emissions for passenger cars and commercial vehicles?

A: In the opinion of the Government of the Republic of Poland the full answer to this question is not possible due to uncertainty regarding major assumptions about possible future policy framework in terms of climate and energy. Nevertheless, it should be pointed out that in the case of the existence of the already agreed objectives, including the indicative ones, at the level of subsectors, all new objectives should be fully consistent with them. A bottom-up approach is therefore appropriate, where the general objective results from a number of sub-objectives and the existing conditions. It should be noted that, in view of the horizontal nature of policies on climate and energy, it is necessary that these take account of the objectives of the policies in other areas – such as agriculture, industry, competitiveness, or transport. By ensuring this compliance at the level of major assumptions, introducing objectives for subsectors does not seem necessary, as it may complicate the system and limit its flexibility and adaptation options for paths for achieving objectives to conditions of individual Member State whose potential for cost-effective reductions in specific sectors may be significantly different.

Q (5) How can the objectives better reflect the economic viability and the development of the technology maturity in the framework for 2030?

A: According to the Government of the Republic of Poland, we should bear in mind that the same solutions cannot always be applied in the various Member States with the same efficiency. In addition, there is a risk - due to the use of the cost-effectiveness mechanism at EU level - that the greatest burdens after adoption of a new reduction objective will fall on new Member States with relatively high emissions per GDP, which will result in the need to renegotiate the current division of allowances sold on auctions. Although the total number of allowance for sale at an auction in 2013-2020 has been distributed among the Member States on the basis of the 88 %/10%/2% key, which provides for an increase in the percentage of allowances for Member States with a low GDP per capita and it reflects the earlier efforts of some Member States to achieve emission reductions, it should be noted that the national auction revenues based on this will not compensate the costs that that economies incurred to comply with reduction goals.

In view of the above, the new policy framework for climate and energy should ensure a balanced burden for individual Member States taking into account their final situation in a fair manner, as well as their efforts and socio-economic circumstances.

Possible future goals should be technologically neutral, i.e. they should leave Member States the freedom to shape the low-carbon energy mix, for instance based on the development of RES, clean coal technologies or nuclear power. Basing possible future objectives on the assumptions for potential technology maturity increases the risk associated with the process of policy-making. The right perspective of setting possible objectives is the perspective balancing environmental aspects, security of energy supply, increased competitiveness, and development of the EU economy. The possible development of technologies can reduce costs or speed up the implementation of the goals, but when we assume maturity of technologies, which currently do not exist on the market due to too high costs, it should not be used as a basis for shaping future policy framework for climate and energy.

Q (6) How to evaluate the progress made with regard to other aspects of the EU's energy policy, such as security of supply, which may not be included in the major objectives?

A: From the point of view of security of supply, it is important, *inter alia*, to ensure adequate share in the energy mix of energy production based on stable manufacturing sources, which in contrast to sources with reduced predictability as to the volume of production, facilitate the balancing of the electricity & energy system. Periodic oversupply of energy for those using priority purchase of RES is one of the factors causing the observed current fluctuations in wholesale energy prices, and thus

reduced predictability of investments in new production capacities and, consequently, fewer incentives for new investments. This can cause problems with satisfying future demand for electricity, and thus can put the security of supply at a risk, which must be taken into account in the discussion on the objectives after 2020.

Q (7) Are changes to other policy instruments and their interaction necessary, including between the EU and the Member States?

According to the Government of the Republic of Poland, in the process of creating the future policy framework for climate and energy it is necessary to take account of the broad context in view of their horizontal range and potential consequences for many areas. One of the examples of instruments that should be considered in the context of the future framework are the various forms of agreements on free trade with non-EU countries. They should, to a greater extent than before, reflect the state of burdens for economies resulting from the implementation of the UN Framework Convention on climate change.

In the context of the current agreement on trade with the USA, the issue of emissions reduction objectives can be of decisive importance for the competitive balance of both economies. It is important to note that the United States realizes the doctrine of cheaper energy, thanks to which it is much cheaper than in the EU. At the same time, the objectives of reduction of emissions in the EU are causing a significant increase in energy prices over the years. Allowing this situation to persist in view of the agreements on free trade between the EU and the United States and other major trading partners could result in a significant competitive advantage of third parties towards the EU.

At the same time, it should be noted that no binding reduction objectives of the USA and the doctrine of cheap energy did not prevent the USA from achieving significant progress in terms of reducing emissions. According to the Government of the Republic of Poland, the EU should be able to draw relevant conclusions from this.

In particular, the Government of the Republic of Poland considers that negotiations with the United States should be a strong impulse to rationalising the EU's internal policies causing non-economic burdens impacting the increase in the cost of production, including the cost of energy in the EU, which have an impact on the level of prices of goods. Otherwise, we may find that the EU economy will not be able to effectively compete with the American one, which will have free access to the EU market under the new agreement. In view of the above, we need a review of energy and climate policy of the EU in terms of reducing burdens affecting the increase in the cost of production of goods. This approach is much more rational than imposing additional burdens on EU producers, and then eliminating the effects of this fact by placing restrictions on trade or increasing public aid.

At EU level actions will be required for the protection of the single market. According to the Government of the Republic of Poland we should avoid piecemeal solutions, and therefore, in the context of future policy framework for climate and energy, we should consider an overall reform of the rules for granting state aid and subsidies in the energy sector, which interfere with the functioning of the common energy market, while ensuring respect for the principle of technological neutrality.

In terms of the relationship between the EU and the Member States, there is a need to increase cooperation, which may take the form of creating instruments to increase the flexibility of the EU's approach to decisions made by Member States, so that the Member States have a greater room for choice in terms of ways of achieving the objectives.

Poland does not agree with the proposals for the modification of the European emissions trading scheme (EU ETS), i.e. reducing the excessive, according to the European Commission, supply of

allowances in the EU ETS, in order to increase their prices (as part of the so-called *backloading* and the planned structural reform of the EU ETS). This type of intervention interferes with the market nature of the EU ETS, designed to achieve the targets of emission reductions in the most cost-efficient way.

According to the Government of the Republic of Poland it is unacceptable for legal acts concerning tax issues to regulate issues from the field of climate policy. In the opinion of the Poland, legal instruments previously used such as the EU ETS, are a sufficient means of achieving the objectives of climate policy. Therefore, Poland is opposed to changes in EU legislation in terms of taxation of energy products and electricity proposed by the European Commission within the framework of the proposal for a Council directive amending Directive 2003/96/EC restructuring the Community framework for the taxation of energy products and electricity. In particular, this applies to inclusion, in the structure of taxation of these products, of an element associated with CO_2 emissions, which will affect the amount of taxation.

Q (8) What is the best way to determine the specific actions at EU and national level, so as to optimize the profitability of the achievement of the objectives for climate and energy?

A: In the opinion of the Government of the Republic of Poland, in the context of the division of roles between the EU and the governments of the Member States in implementation of policies on climate and energy, the principle of subsidiarity should play a key role. At the same time, it is necessary to respect full independence granted under the TFEU for EU member countries to shape their energy mix.

For optimization of emissions reduction activities, we should make full use of the instruments agreed at the time of the adoption of the climate and energy package. The lack of full implementation of the agreed mechanisms (including the lack of implementation of the so-called *domestic offsets* under Article 24a of the EU ETS directive) negatively affected the efficiency and allocation of responsibilities. The Government of the Republic of Poland expects from the European Commission an initiative on full implementation of the agreed legislation before taking a decision on the period after 2020.

According to the Government of the Republic of Poland, the EU level should, to a greater extent, leave space to Member States to undertake ambitious voluntary commitments. Targets at EU level should reflect primarily the state of global negotiations, but there is nothing to prevent Member States, which have expressed such willingness, from taking more intensive efforts. EU level should also begin to take all steps to ensure a fair allocation of commitments, relative to the capacity of individual Member States and ensure that existing efforts, the initial situation and specific circumstances (including the national energy sector circumstances) are fully taken into account.

At the same time, it is necessary to intensify work at EU level to encourage global partners to make comparable efforts. It should be noted that the previous tactic of making unilateral ambitious commitments failed and the Government of the Republic of Poland expects that this fact will be taken into account.

Q (9) How can we best avoid fragmentation of the internal energy market, in particular with regard to the need to encourage and mobilise investment?

A: According to the Government of the Republic of Poland, Member States should fully analyse whether there are risks in terms of lack of production capacity, and if so, why. They should look for opportunities to ensure energy supplies from abroad, including through measures aimed at the optimal use of existing and possible building of new cross-border connections for any identified problems,

before they plan to take an intervention. Each mechanism to support production capacity should include any impact that the intervention may have on neighbouring Member States and their internal energy market.

Far from ensuring the adequacy and security of supply and poorly designed mechanisms for generating production capacity can lead to distortion of investment signals. These interventions may also interfere with cross-border trade and competition because they can shut domestic markets for energy produced in another EU country, as well as interfere with the place of production on the internal market. Mechanisms operating within a given Member State for production capacity may also increase costs for all Member States by failure to make the best possible use of the production and flexibility across borders.

If the production capacity mechanisms will not be treated properly to reduce demand, they will be reduced to solutions based on energy production, not using energy-efficiency solutions or those based on demand response. If they do not distinguish between the primary peak load, they will not be able to attract sufficiently flexible production capacities.

There is a risk that ill-prepared and implemented mechanisms of production capacity will result in distortion of price signals in the EU as a whole and may introduce a tendency to prefer sources of energy production in the form of fossil fuels over the more diversified renewable energy sources (over the levels needed to maintain the energy system at *equilibrium*).

Q (10) By what means could we achieve further energy savings in the most cost-effective way?

A: According to the Government of the Republic of Poland, a key factor in the growth of energy efficiency is the introduction of a market mechanism (e.g. white certificates) in the chain of production, transmission, distribution and final consumption of energy stimulating market operators to increase energy efficiency of production and rationalize energy use.

At the same time, considerable potential in this respect should be attributed to the production of electricity and heat in cogeneration. Due to the lower fuel consumption, the use of cogeneration will ensure large economic savings and is environmentally beneficial. In this context, it is reasonable to assume that any newly built or renovated boiler room should be implemented as a cogeneration system.

We should also point out that one of the potentially most profitable directions of activities, both in terms of profitability to end users, increased energy security, as well as positive social consequences is to support microgeneration and prosumer energy. The production of energy in the place of its use eliminates the problem of power transmission and related losses. It should be noted, however, that microgeneration is not able to provide the necessary amount of energy for the functioning of strategic sectors of the economy, including industry.

In addition, there are a number of innovative forms of support for energy savings, such as e.g. ESCO-type company, financing by a third party or an agreement on improving energy efficiency. Experience and the growing popularity of this type of solutions show that arbitrary determined standards for groups of products and similar "top-down" solutions are not necessarily the most efficient ones.

Q (11) How can EU policy in the field of research and innovation best contribute to the achievement of the objectives of the framework for the period until 2030?

A: Meeting the ambitious goals set out in the EU energy and climate policy, including reducing electricity consumption, reducing greenhouse gas emissions and reducing the cost of producing energy from renewable sources - which will translate into an increase in their share in total energy production - will be difficult or even impossible to achieve without investing in new technologies and significant

involvement and interaction of the research and development sector with the industry and international cooperation. Without the increase in investment and financing of research and innovation in the energy sector, it will not be possible to develop new technologies and achieve the objectives of EU energy and climate policy.

Research and development projects carried out within the framework of a common EU policy on science and research should include a broad spectrum of technologies with a high potential in terms of low-carbon solutions and contribute to the use of own resources by the EU Member States, including fossil fuel resources being the guarantor of energy security and stability of energy systems. For this aim, investment on research and development of these technologies must be increased (also by business).

In the context of building a low-carbon economy of the EU, it is also necessary to support the development of new low-emission coal technologies. These technologies, which are based on the use of own energy resources in Europe, will ensure energy security to the EU while taking into account the reduction of CO2 emissions. Such actions will help to reduce the EU's dependence on imports of hydrocarbon fuel and effectively reduce the impact of carbon technologies on the environment by incineration without carbon dioxide emissions.

Only thanks to support and intensification of research, development and innovation work can the EU gain a position as a world leader. These actions will not only increase EU competitiveness, by strengthening its economic position but will also contribute to the achievement of climate and energy priorities and create more jobs.

According to the Government of the Republic of Poland, research and innovation policy requires strong prioritization in order to effectively support the achievement of the objectives of climate and energy policy. This applies to both the support system, as well as other instruments, mainly related to the increased cooperation of science and business. The emphasis should be on speeding up the process of dissemination of innovative technologies and solutions that can contribute, to the greatest extent, to achieving climate and energy objectives, while ensuring a smooth transition towards a low-carbon economy. We should also ensure that the dissemination of the European solutions on an industrial scale should be clearly prioritized.

Q (12) Which elements of the policy framework in the areas of energy and climate change can be enhanced, so as to better promote job creation, economic growth and competitiveness?

A: According to the Government of the Republic of Poland, in future policies on climate and energy we should strengthen elements allowing us to take into account the specific characteristics of the economies of individual Member States and the differences in investment opportunities and real potential to reduce emissions in a way that is cost-efficient.

It is also necessary to give special treatment to sectors, for which the costs associated with policies on energy and climate will be greatest, for example. carbon energy sector and energy-intensive industries (e.g. cement, paper, chemical), as these sectors provide a very large number of jobs and have a significant share in the creation of GDP.

All existing solutions in this regard should be reviewed in order to examine their effectiveness and possible simplification. An overly complicated system is not conducive to the efficiency of its functioning.

Q (13) What elements in the current framework testify to carbon leakage? Can this be measured? How can we solve this problem in the framework for 2030?

A: According to the Government of the Republic of Poland, in the context of the problem of carbon leakage we should point at on the issue of emissions from consumption. Some EU countries achieve emission reductions due to relocating production (in particular industrial production) outside their borders. We should note, however, that the lack of e.g. energy-intensive industries within the country concerned does not reduce the demand for energy-intensive goods, including for example steel. As a result of a restrictive EU climate policy, some countries import those goods from outside the EU, often from countries with far lower environmental standards. The result of emission reductions in a number of EU countries is, therefore, an increase in emissions on a global scale, and a negative impact on the environment is made greater by the necessity of transporting goods, often at very long distances, which has a direct impact on the additional emissions from transport. In the future, EU ETS should to a greater extent counteract this type of processes, supporting the production of these emission and energy intensive goods in the EU, which are essential to the economies of individual countries.

Consequently, when examining this cross-cutting problem of carbon leakage it is necessary to take into account emissions from consumption, as well as issues of material flows, and especially import of goods from countries with lower environmental standards. Thanks to this, it will be possible not only to strengthen the economy of the EU, but also to increase the environmental integrity of the policy framework for energy and climate by avoiding situations in which the emission reductions from the territory of the EU bring greater emissions on a global level.

The crucial issue, according to the Government of the Republic of Poland, in relation to the phenomenon of *carbon leakage* is to introduce solutions that align the competitiveness of goods and services produced in the EU with that of goods and services produced in other countries, which may be done effectively only by means of a legally binding global agreement covering the biggest emission producers. In the absence of such an agreement, it must be ensured that the EU-implemented solution does not jeopardize the competitiveness of the economy in any country of the EU in relation to non-EU countries, and also that it does not have negative social consequences in the form of an increase in poverty and increasing unemployment rates. The development of the above mechanism (*carbon leakage proofing*) is a prerequisite on the part of the Government of the Republic of Poland, in order to undertake discussions about energy and climate policy objectives after 2020, if we failed to achieve a global agreement in 2015.

In this context, it is also worth taking account of issues related to the so-called internal carbon leakage, i.e. relocation of production within various Member States in the EU and outside the EU ETS area, which interferes with the rules for the competitiveness of individual economies.

Q (14) What are the specific driving factors for observed trends in energy costs and to what extent can the EU affect them?

A: In the opinion of the Government of the Republic of Poland high energy prices reduce the competitiveness of the EU economy towards global competitors, causing the phenomenon of relocating industry outside the EU, which is particularly important in the context of the current economic crisis. In the opinion of the Government of the Republic of Poland, actions in this area should focus on finalizing the building of a competitive common energy market, including development of the necessary energy infrastructure, and promoting energy efficiency and the use of indigenous energy sources, both conventional and unconventional.

In addition, the Government of the Republic of Poland stresses that the level of energy prices is influenced by climate and energy policy that should be implemented in the EU in a way that is reasonable and balanced and coordinated with the climate change activities undertaken globally.

Due to the fact that electricity production in Poland is based mainly on coal, the reduction of CO_2 emissions from this sector in the framework of the climate and energy package will result in increased electricity prices by 2020 by about 20% - far more than in other EU countries.

Poland may be particularly concerned about rising energy prices due to the high share of industry in GDP, which in 2010 was at 29% and the fact that as many as 45% of those employed, in the third quarter of 2012, worked in the industry. In addition, with the European average at 3%, as much as12-15% of the value added in the Polish industry is produced by energy-intensive sectors that are most vulnerable to the deterioration of the competitive conditions by soaring energy prices.

In discussions about possible targets after 2020 we should aim at a reformulation of the current climate policy model, which is based on the assumption of positive impact of high energy prices on low-carbon investment. Such an approach, especially in the absence of a global agreement, can permanently impair the competitive position of EU actors in relation to the rest of the world.

Q (15) How should we take into account the uncertainty about the actions and the level of commitments of other developed countries and the most important economically developing countries during the ongoing international negotiations?

A: In the opinion of the Government of the Republic of Poland, discussion as to the future of the EU climate and energy policy objectives after 2020 energy must take into account the results of the negotiations on the global agreement on climate change provided for in 2015 and reflect the level of ambition of the EU's competitors in the global market. Therefore, the decision to adopt an objective for 2030 should be taken no earlier than in 2015, i.e. after the conclusion of negotiations for a new global agreement for the period after 2020.

In order to encourage third countries to reduce emissions, the EU should also support the implementation, under the new agreement, of instruments that reduce the negative effects of emission reductions on economic growth and increase the profitability of reduction measures. According to the Government of the Republic of Poland, the scope of reduction commitments, which a new global agreement will formulate, should enable the Parties to choose such a reduction measure, which would match the national conditions of the country concerned in the best possible way. This will allow for the adoption of the most ambitious reduction targets as soon as possible and at the same time, it will ensure broad participation in the legally binding reduction activities after 2020. Hard action should be supplemented by implementing soft measures such as capacity-building and raising awareness, not only among the communities but also among other actors of the climate process, such as business, cities or industry.

Q (16) How can we increase the legal certainty for enterprises while ensuring flexibility to adapt to changing circumstances (e.g. progress in international negotiations on climate change, changes in energy markets)?

A: In the opinion of the Government of the Republic of Poland, legal certainty in investment process is less important than confidence in terms of competitiveness. When assured that remaining within the EU will give them the right conditions for growth, entrepreneurs understand that legislative issues are secondary in relation to the care of their competitiveness in the global market. It is, *inter alia*, due to the attention paid to entrepreneurs that decisions on new objectives may not be taken unilaterally, before other Parties to the Convention take these.

At the same time, future policy framework for climate and energy should to a great extent provide flexibility in a way that does not compromise the market nature of the EU ETS. An example of such

flexibility can be flexible mechanisms, whose range of options or incentives system may increase or decrease depending on the situation in the energy markets.

Q (17) How can the EU help to increase the potential of innovative manufacturing industry? Should the proceeds from the sale of allowances at auctions play any role at all?

A: Given the current economic slowdown in Europe, rising unemployment and increasing competition in the global markets, it is necessary to take coordinated action at EU level to improve the economic situation in the common market and allow for competing of European products and services with those from external markets. By increasing industrial production, it will be possible for Europe to overcome the economic crisis, which will also contribute to job creation. It should be noted here that the increase in investment should be carried out taking into account the new innovative solutions, because only thanks to this will Europe be able to successfully compete on world markets. In addition, it is important to note that the problems associated with climate change, ageing society, exhaustion of natural resources and the need to ensure energy security for EU can be solved more efficiently by applying both technological and non-technological innovations (innovation in services, organisational innovations etc.).

Given the above, it is necessary to underline the role of key enabling technologies (KETs), identified at EU level, through which the EU will have the industrial and innovation potential necessary to address economic, environmental and social challenges. It is through the development of advanced technologies that the European industry has the opportunity to improve the competitiveness and innovation of EU industry.

However, for identified key technologies to grow, it is necessary to ensure consistency of all EU regulations, which affect the situation of the entities that generate innovation. Referring to the Polish example, we may notice the essential differences between the stimuli sent by industrial policy and climate policy. In defining KETs, clean coal technologies were highlighted as important from the point of view of stimulating innovation in our country. However, climate policy solutions clearly prefer to develop the use of RES and, with respect to clean coal technologies, they only seem to perceive the potential of CCS. This trend is clearly visible, for example, in the criteria developed under the NER300 programme, where only renewable energy or CCS projects were co-financed.

The main weakness in the area of stimulating innovation is also the commercialization of R & D results and their practical application in the European market. It is necessary to take integrated action in order to implement innovative solutions, which requires the involvement of research centres and industry, and above all, the authorities at European, national and regional levels.

It should be noted that action taken at EU level, taking into account environmental and climate issues, may not impair the competitiveness of the economies of the Member States, as well as Europe itself, towards world leaders. The same solutions can both stimulate innovation in certain Member States and for other countries only cause a burden deteriorating their competitiveness. Europe is not a uniform organism, and by taking measures to increase the level of innovative investment the diversity of individual economies should be taken into account.

According to the Government of the Republic of Poland, the way of using revenues from the sale of emission allowances at auctions should remain the exclusive competence of the Member States. Their spending must be in accordance with national rules on budgetary spending and take into account the need to maintain the stability of public finances, as well as take into account the guidelines contained in Article 3 (10) of the ETS directive..

Q (18) How can the EU best take advantage of the development of indigenous conventional and non-conventional energy sources to lead to lower energy prices and independence from import?

A: Both from an economic and environmental point of view, the most beneficial is the generation of energy from local sources. This reduces not only the costs arising from the need to transport energy over long distances, which affects the price level of the energy later produced, but also raises environmental concerns – transporting fossil fuels generates additional emissions in the manufacturing process.

In view of the above, in assessing the emissivity of a fuel, all stages should be taken into account, i.e. not only the time of combustion but also emissions related to extraction and transport. In some cases, it turns out that extraction of energy from high emission but locally extracted coal - and if we take into account the transmission losses and emissions associated with the extraction of the raw material in non-EU countries - has total emissivity comparable to natural gas.

Climate and energy policy should therefore not discriminate against any of indigenous energy sources, but rather strive for possibly low-carbon use. In this context, it is vital to promote the development of clean coal technologies, however, without any preference for one technology over another. Today, this preference can be observed in relation to CCS technologies, which impedes the development of other clean coal technologies and increases the risk that there will not be a breakthrough in the CCT.

In addition, the Government of the Republic of Poland sees benefits of exploitation of non-conventional energy sources, including the following issues:

- the potential for the extraction of gas from unconventional deposits and a high degree of dispersion of its deposits on individual continents creates opportunities to further diversify the portfolio of internal and external suppliers of gas to and within the EU;

- diversification will contribute to reinforcing the pressure on reducing average prices of gas that comes out of the EU market, above all from Russia, and contribute to speeding up the process of liberalisation of the gas market, especially the market in Central and Eastern Europe, which, *inter alia*, for historical reasons, is still largely monopolized by the supply of gas from Russia;

- increased dependence of the EU on external supplies of gas is due mainly to the declining own production of gas in the EU and an increase in demand for gas as low-emission fuel. Increased dependency, according to calculations by DG ENER, will further increase from the current 60% to nearly 80% in the year 2040. Under optimistic scenarios for extraction of gas from unconventional deposits in the EU, the level of the EU's dependence on outside supplies will continue in the 2040 on the current level;

- lower cost of mining - an important element influencing the cost and safety of the exploration and extraction of gas from unconventional deposits are the latest technologies and best practices used in the various stages of the works. Progress in hydraulic fracturing (greater precision, reduced water consumption and improving the process of its treatment, reducing the use of harmful chemicals etc.) and drilling (including directional drilling, use of the technique of so-called *pad drilling*) allows for significant cost savings and reducing the negative impact of works on the environment;

- current experience of the USA and Canada shows a significant impact of the extraction of gas from unconventional deposits on GDP growth, increasing financial revenues to the budget (taxes and other charges) and decline in unemployment; not without significance is also the growth in science, research and development activities, and strengthening the innovativeness of the economy.

According to the Government of the Republic of Poland, in order to reduce energy prices and ensure independence from imported, specific action is required, such as:

- modernization of existing energy infrastructure (transmission and distribution);
- investments in improving energy efficiency (new high efficiency technologies);
- initiative aimed at increasing energy savings on the side of consumers.

Q (19) How can the EU best increase security of energy supply in the internal market by ensuring full and effective functioning of the internal energy market (for example, through the development of necessary system interconnection), as well as outside the EU through diversification of energy supply routes?

A: According to the Government of the Republic of Poland, building a common energy market must be accompanied by action to accelerate the modernization and construction of energy infrastructure, i.e. production and transmission capacity, both in the Member States and cross-border ones. Regional and consequently European market integration through the introduction of mechanisms of market coupling and the development of the necessary transmission infrastructure will significantly contribute to enhancing energy security. Poland recognises the positive impact of implementation of high-priority transmission corridors in the framework of projects of common interest (PCI) to supplement the missing transmission infrastructure. In this context, Poland stresses the role of system interconnection and extension of national energy infrastructure in the region of Central and Eastern Europe, as well as the need to eradicate barriers to cross-border trade in energy in the form of unplanned energy flows, caused by the use of preferences in access to the network, and having an impact on reducing available power on cross-border connections, which negatively reflects possibilities of cross-border exchange of energy.

It is necessary to take action aimed at solving these problems in the short, medium and long-term. The phenomenon of unplanned flows (*loop flows*), in addition to threatening the safety of the National Electricity System and forcing to take costly remedial and adaptation action, also results in significant barriers to further integration of national energy markets of the Member States. Due to the prevalence of unplanned flows, cross-border connection capacity (power available) is significantly reduced, which negatively reflects on the possibilities of cross-border exchange of energy, distorting competition and free trade in energy in the EU.

Q (20) How can the new framework ensure a fair distribution of efforts between the Member States? What specific actions can we take in order to take into account the different capacities of implementing measures in the field of energy and climate?

A: According to the Government of the Republic of Poland, with respect to the issue of fair distribution of efforts between the Member States, the Government of the Republic of Poland sees a need to improve current solutions for the internal allocation of EU commitments (*internal burden sharing*, IBS).

It is necessary to identify a range of possible instruments aimed at equitable burden-sharing. Such instruments will allow not only for optimizing the cost of achieving the objectives of the policies, but will properly reflect the current situation and specific socio-economic circumstances of individual Member States.

In order to optimise the implementation of climate and energy objectives, we must also consider whether the indicators for monitoring progress in the implementation of the objectives of the different countries, adopted under the current package, are appropriate. This problem should be examined especially in the context of the need for coherence of climate policy with industrial policy. For

example, implementation of a reduction objective is monitored according to the indicator: level of emissions per GDP. Thus this indicator does not reflect real progress in terms of low-carbon transformation, nor does it measure the efforts made in this regard. It reflects in fact, to a greater extent, the GDP structure in such a way that it favours countries with a higher share of services and a lower share of industry. In the context of the reindustrialisation objective set by the European Commission, this indicator requires redefining.

This indicator is also problematic if we look at it from the point of view of the general purpose of climate and energy policy, which is to reduce emissions on a global scale. It favours countries that import goods from non-EU countries, rather than producing them within the EU using as low-carbon technologies as possible. In this context, a much more reliable indicator seems to be that of measuring emissions in relation to consumption.

The question of the emergence of the reindustrialisation objective should be taken into account when making an internal allocation of burdens for individual states. Poland, whose share of industry in the GDP structure is much higher than the EU average, effectively contributes to achieving the reindustrialisation objective, which is necessary according to the EU. Therefore, the European Commission should not, through another policy, in this case in the field of climate, "punish" Poland for achieving EU objectives in other areas, because the EU needs both a modern and strong industry and lower emissions.

Q (21) What mechanisms could promote cooperation and a fair distribution of efforts between the Member States, while ensuring the most cost-effective way to implement new goals for climate and energy?

A: According to the Government of the Republic of Poland, a very good example of a mechanism for promoting cooperation is the flexible mechanism specified in Article 24a of the EU ETS Directive. At the same time, in the context of the cooperation, it is also advisable to gradually extend the geographical coverage of the EU ETS into other countries. It is important, however, to extend the EU ETS based on full symmetry and in a way so as not lead to an increase in the price of emission allowances in the EU ETS.

A fair distribution of efforts between the Member States should take into account a wide range of issues, the most important of which are: actual potential for cost-effective reduction of emissions, the reduction efforts to date, the starting position, the ratio between the sectors covered by the EU ETS to non-ETS in comparison with other Member States and the results of analyses on the cost of emission reductions for the economy. At the same time, solutions applied should leave the Member States with the flexibility to choose the most cost-effective way of achieving new goals.

Q (22) Are new instruments for financing or new findings necessary in order to support the new framework for 2030?

A: According to the Government of the Republic of Poland, the need to create new financial instruments can result from the level of ambition of new objectives – for some Member States, they may prove to be necessary. This applies in particular to costly investment activities in the sector of production and transmission of energy, where a simple mechanism to pass costs on to the end user (consumer) will result in an increase in the cost of energy and consequently negatively affect the competitiveness of the industry and the whole economy as well as deepening poverty. At the same time, it should be pointed out that the availability of such mechanisms should be conditional on the extent of the efforts which the Member State concerned must take in order to achieve the objectives and its level of economic development.