PKEE
Polish Electricity Association

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**The position of the Polish Electricity Association on the proposal for the Multiannual Financial Framework (MFF) 2021-2027 of the European Union**

The European Commission has on 2 May 2018 presented the proposal for the Multiannual Financial Framework (MFF) 2021-2027 of the European Union. The details of individual policies and spending programmes will be published over the 29 May – 12 June 2018 period. The European Commission postulates that the MFF 2021-2027 related legislative process be completed before the elections to the European Parliament that will take place in May 2019. Below follows the evaluation of the key presently known MFF 2021-2027 proposals concerning the energy sector.

## 1. The key spending side proposals concerning the energy sector and the climate change targets

The European Commission has proposed **increasing the funds for the climate change targets from 20% under MFF 2014-2020 to 25% of the entire EU budget in 2021-2027**. In absolute values, this means an increase of spending on this target from EUR 206 billion to **EUR 320 billion in 2021-2027**. In particular, the increase of funds was proposed for the **Connecting Europe Facility in the area of energy to EUR 8.6 billion** (from EUR 5.8 billion in 2014-2020) and in the **LIFE programme** (the environment and climate action programme) t**o EUR 5.4 billion** (from EUR 3.4 billion over 2014-2020). At the same time, the European Commission has proposed a reduction in funds for the regional development and cohesion funds to EUR 273 billion and expansion of the catalogue of the criteria based on which these funds will be allocated, with factors such as the unemployment rate, climate change, reception and integration of refugees, as well as stricter relation of spending with motions and recommendations by the Commission under the "European Semester".

Unfortunately, **the Commission, under the priorities concerning the energy and climate policy, has not proposed a support for the transformation of countries and regions reliant on coal**, e.g. in the form of **a dedicated Energy Transition Fund** postulated by the European



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**Parliament**[1]. It needs to be stressed that this would be in compliance with the goals of the Coal Regions in Transition Platform established by the Commission in 2017. Moreover, the postulate for the establishment of such a dedicated fund has been numerously put forward **by the European trade unions**[2], as well as by the EURELECTRIC – the biggest **organisation representing the European electricity industry**[3]. In the opinion of the PKEE, the final shape of the MFF 2021-2027 should take into account among its priorities the effective support for energy modernisation in countries and regions that are heavily reliant on coal, which would be in compliance with the Union's ambitions on climate change and the goals of the Paris Agreement.

## 2. The key proposals by the European Commission on the revenue side of the Multiannual Financial Framework 2021-2027 concerning the energy and the climate targets – part of the revenues from the $CO_2$ auctions is to become a new own resource of the EU

Due to the exit from the European Union by the United Kingdom and the need to look for additional sources of revenues, the European Commission has proposed, in the EU own resources system**, to obtain funds from, among others, the sale of $CO_2$ emissions allowances under the EU ETS**. This proposal assumes that **the Member States will be contributing towards the new EU budget up to 30% of revenues from the sale of emissions allowances allocated pursuant to the Article 10 paragraph 2 letter a of the EU ETS Directive**[4]. The Commission at the same time proposes excluding from the new source the allowances for aviation, allowances from the Modernisation Fund and the Innovation Fund as well as from the solidarity pool.

The European Commission also proposes to impose the obligation **to contribute up to 30% of the equivalent market value on the allowances that may be allocated free of charge to electricity producers under the Article 10c of the EU ETS Directive.** This is to be an estimated

[1] The European Parliament, Report on the next MFF: Preparing the Parliament's position on the MFF post-2020 (2017/2052(INI)), A8-0048/2018, 28.2.2018 r.

[2] European Trade Union Confederation, A renewed EU industrial policy – ETUC reaction. Adopted at the Executive Committee on 25-26 October 2017.

[3] EURELECTRIC statement, The Post-2020 Multiannual Financial Framework, October 2017.

[4] COM(2018) 325 final, Proposal for a Council Decision on the system of Own Resources of the European Union, Brussels, 2.5.2018.



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value of revenues that would be obtained by a Member State if the allowances would not have been allocated free of charge. This applies to the following countries eligible for benefitting from the option of free of charge allocation of allowances to electricity producers – Bulgaria, Czech Republic, Estonia, Croatia, Lithuania, Latvia, Poland, Romania, Slovakia and Hungary. The exact percentage threshold of the value of the contribution, which shall not exceed the 30%, is to be defined in the executive legislation.

## 3. Main postulates by the PKEE concerning the proposal for the Multiannual Financial Framework 2021-2027 on the energy and the climate targets

- The Polish Electricity Association supports increasing the financial resources for the climate change targets to the level of 25% in the Multiannual Financial Frameworks 2021-2027. However, we do express **our concern with the decrease of resources for the regional development and cohesion funds, as these funds may be used for the investments aimed at facilitating the modernisation of the Polish electricity sector**.

  Considering the fact that this sector is to a significant extent based on coal, the transition of the electricity sector in Poland requires relatively much bigger investments than in the other Member States. Estimates indicate that **the investment outlays necessary to decarbonise the sector just for the period of 2021-2030 will amount to ca. PLN 250 billion (EUR 60 billion), while the cost of purchasing the ETS allowances amounts to an additional ca. PLN 130 billion (over EUR 30 billion)**.

  This is a huge challenge to a country with per capita GDP still being among of the lowest in the European Union[5]. Thus, the regional development and the cohesion funds shall constitute a significant source of funding that will be supporting overcoming the above challenge in line with the Union's climate policy targets and the provisions of the Paris Agreement.

[5] According to the latest data from the Eurostat available for 2016 (Purchasing Power Standard - PPS) among all the EU Member States: Bulgaria, Croatia, Latvia, Romania and Hungary had lower per capita GDP than Poland.



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- We express our concern with the lack of a special fund earmarked for fair energy transition of regions reliant on coal. In particular, these funds should be earmarked for a faster **modernisation of the sector towards low emissions, reduction of energy poverty and for support of innovations in the power sector**.
- Lack of establishment of such fund while at the same time limiting the resources for the regional development and cohesion funds strongly limits the possibilities for energy transition by the Member States and regions with a high share of employment in the mining sector and electricity generation based on coal, also including Poland. Considering that majority of these countries and regions have a lower per capita GDP than the EU average, such transition will be a huge challenge to them. Lack of priority treatment of this challenge under the MFF 2021-2027 funds may, in consequence, contribute to growth of disproportions in the level of development of the European regions and to decreasing their competitiveness, thus being in contradiction with the priorities of the European Union.

- **We are in favour of the proposals by the Commission intended for increasing the budget revenues, among others, by expanding the own resources. At the same time, we think that supplying the Union's budget should be spread between the Member States in a uniform way and should fairly consider their financial abilities. Therefore, we have a negative opinion of the proposal concerning obtaining funds from the sale of the EU ETS allowances**.

  Poland's share in the total EU $CO_2$ emissions is ca. 9%. Poland has a three times higher share in the emissions in the European Unions than its contribution to the EU budget of around 3%. The contribution of up to 30% of revenues from sale at an auction of the domestic pool of rights constitutes a much higher burden on Poland than in case of the Member States with a smaller share in the EU emissions, comparing to the contribution to the EU budget. This burden becomes even higher when considering the fact that the Commission proposes to include in the scope of the contribution also up to 30% of the equivalent of the free of charge rights earmarked for the modernisation of the energy sector.



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- At the same time, it should be highlighted that according to the European Commission, the revenues obtained from the above contribution of funds from the EU ETS will be annually on average **merely from 0.65% to 1.64% of all the EU budget revenues in 2021-2027** (annually on average from about EUR 1.2 to 3.0 billion, depending on the price of the rights). Experience so far with the evolution of the prices of the EU ETS allowances proves their high unpredictability. Therefore, there is a valid question as to the possibility of finding another, fairer and more predictable source of revenue being less controversial and constituting a smaller burden than obtaining the funds from the sale of allowances under the EU ETS, proposed by the European Commission.



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