

EU Energy Transition and Recovery Plan – How to make sure we can reach our targets?

(final version)

The SARS-CoV-2 pandemic is having an ever increasing impact on global and European economies. The suspension of economic activity resulting from the measures taken to stop the spread of the pandemic has already resulted in an industrial manufacturing slowdown, which can deepen further during the current lockdown affecting more than 3 billion people and all sectors of economic and social activity. The protracted crisis may lead to undermining energy security and the speed of clean energy transitions among others through difficulties in the functioning of main energy suppliers and slowing down the pace of switching to clean energy by limiting funds for investments in renewable energy sources. EU actions and milestones in the pursuit of a climate neutral economy must reflect both current circumstances as well as the state of EU and third-country economies after the end of the pandemic, and be directed to counteract these negative phenomena. The economic crisis will distress on-going investments of critical importance for the integration of the European energy market and ensuring security of supply. Beyond the immediate response to the pandemic, we must plan our economic recovery so as not to jeopardise our long term objectives. The economic slowdown will make it more difficult for our policies to imply immediate additional costs for long-term benefits. The EU regions potentially most affected by the transition to a green economy are likely to be also heavily impacted by the social consequences of the pandemic. We will need to work even closer together to be able to collectively sustain the necessary pace for investments and innovation that will allow us to achieve climate goals of the EU and its Member States.

Investment: ensuring on-going key projects are completed

As Europe is now one of the centres of the pandemic, the situation will deteriorate over the next months and affect all key sectors, including energy. We can already see delays in the implementation of energy projects caused by the disruption of supply chains and shifting investment funds to achieve current goals related to fighting the pandemic (this is the case, for example, under Cohesion Policy). Therefore our efforts should in particular focus on securing the uninterrupted supply of energy as well as completion of key projects in order to minimize the impact of the pandemic on the targets set for the coming decade, and in particular the intermediate targets set for 2022 and 2025, shall be addressed. The energy sector remains of a paramount importance to the health and well-being of societies and continuous economic activity.

We should therefore, in particular, aim at:

- providing additional financing or guarantees (in particular by the European Investment Bank and European Bank for Reconstruction and Development) to allow for the start and completion of key EU energy infrastructure and generation projects, such as PCI or projects contributing to energy transition, with minimal delays;
- relaxing rules for use of already provided grants and loans through various EU instruments (eg. allowing for longer deadlines for financial settlements or more flexibility in spending rules);
- allowing to extend the catalogue of already used existing low-emission technologies, which can ensure security of supply, economic stabilisation while allowing us to keep our climate targets on track;
- ensuring that targets and requirements remain ambitious and realistic while taking into account differences between Member States, including the pace of recovery of Member States affected and their starting points before and after the pandemic;
- providing new appropriate financial stimuli and adjusting state aid rules to foster high level of energy investments and ensure generation adequacy;
- protecting market structures and ensuring fair competition conditions, in view of possible bankruptcies, mergers and acquisitions of companies, in particular by entities outside the

European Union, which may hamper the modernisation of our energy system, including compulsory financing screening on a reciprocal base for all non-EU capital investments in strategic sectors such as shipbuilding and ports, energy, aviation and car production.

Industry: reinforcing the critical sectors we need for achieving climate neutrality

Our first priority should be to support European economies and alleviate social and employment problems. Investments which will help lowering our emissions can also boost employment, in particular in construction and the circular economy, where we have strong value chains in Europe.

In addition, the current situation is proving that we need to both diversify our energy supply but also secure supply of critical components. We cannot switch resource dependency for component dependency on external raw material supplies if we want our energy systems to be able to support a sustainable growth and energy transitions in Europe. The outbreak of the pandemic has already delayed shipments to Europe and will further affect production supply chains and production facilities' capacities in the coming months. So far we have seen solar, hydro and wind impacted, but one cannot exclude negative impacts on other key energy technologies. Our efforts should therefore be targeted at strengthening the resilience of our economies and supply chains to external shocks and increasing strategic autonomy in key sectors – while planning the recovery from the current unprecedented crisis. We should aim to provide additional measures and stimuli to develop European supply of critical components and materials to transform the European energy sector. This creates an opportunity for reinforced cooperation between industries in Europe.

Our goal should be in particular to:

- ensure a level playing field for EU and non-EU manufacturers and ensure coherence within the EU through instruments aiming at ensuring the equalization of production costs, identifying emissions in imported products and a fair distribution of transition costs between producers and consumers;
- ensure that funds from the sale of emission allowances under the ETS system, as well as solutions such as CBAM, are used to reduce industrial emissions and enable the transition, especially in the energy sector;
- encourage investments in digitalizing and improving energy efficiency, in particular in buildings (insulation, heating and cooling systems...), reducing emissions in industrial installations and promoting low- and zero-emission transport, including rail transport;
- accelerate the development of renewable energy sources and its storage, which, apart from contributing to climate neutrality, have proved to be the most resilient sources;
- promote financial support to individuals incentivising the use of zero- and low-emission heating and cooling systems and encourage the use of wood in construction as a low-emission material where applicable;
- reinforce the financial resources available for cities to invest in low-emission public transport and in blue and green infrastructure in order to lower emissions and improve the resilience of our cities;
- mobilise investments into low and zero-emission European industries, such as electromobility or Power-to-X products - adding both to creating quality jobs and developing European businesses and technologies;
- launch Important European Common Interest Projects (IPCEI), which, such as the *European Battery Alliance*, will allow the EU to build sovereign European value chains to provide strategic and clean energy solutions (hydrogen, PV, wind);
- actually implement Circular Economy programs, with a focus on supporting entrepreneurs in manufacturing. The aim should be to reduce waste as much as possible, reuse or recycle, while allowing for energy recovery for use in production processes.

Innovation: boosting cooperation to develop the technologies needed

Many of the technologies that are necessary to achieve a climate-neutral EU are yet to be invented. If we want our transformation to serve as a positive example, one that is able to support and improve the quality of life of European citizens, we need to make sure that appropriate resources are made available to back innovation in Europe for all actors from across the EU on an equal footing. The EU has committed itself to increase the level of investments in innovation in the coming years. This creates an opportunity to build an innovation strategy based on the pandemic experience. However, this opportunity can be fully utilized only if access to resources and tools fostering the development of technologies is equal for all Member States. We should support and develop all possible clean technologies which will contribute to reducing emissions.

We should therefore in particular:

- support the strengthening of cooperation between Member States in R&I on low-emission technologies, including through Horizon Europe Partnerships (i.e. the *Clean Energy Transition Partnership*), including SMEs and start-ups;
- create transparent conditions of applications for joint projects of Common European Interest (IPCEI) that would be uniform in all Member States in order to ensure that they serve the benefit of the EU as a whole;
- offer seed capital for start-ups and research centres working on developing the technologies or new circular business models that we need to achieve climate neutrality;
- concentrate on technologies, which will be beneficial for material and energy independence, i.e. sustainable fuels, hydrogen technologies, electromobility, energy storage and others;
- promote “innovation valleys”, particularly in the regions most affected by the consequences of the economic slowdown;
- make sure the technological neutrality principle is being respected, also when creating project financing rules.

People: solidarity with the poorest and most vulnerable

The economic slowdown connected to the pandemic will not only affect our businesses but first and foremost citizens, especially the poorest and most vulnerable ones. Our recovery plan should not only push growth and employment by supporting investments, but it should also provide care and protection for those most affected in times of economic hardship. In particular, we should ensure that the costs of the policies we implement will not put an additional burden on those already at risk of energy and economic poverty. We should also make sure that the measures we implement do not lead to increasing inequalities and regional disparities. When designing the appropriate measures to address the economic slowdown, one should not forget about the need to promote the harmonious development of European regions. In particular, we should encourage job creation in regions most affected by climate change (including prolonged drought or increased risk of flooding) and in those most affected by the transition to climate neutrality. The slowdown and the recovery should not come at the expense of the poorest. Hence, we have to prepare EU-wide measures aimed at helping to create an area of security by relieving the poorest and most vulnerable from the costs of the recovery and the transition to a climate neutral Europe.

We should therefore in particular:

- make sure resources are directed, as a matter of priority, to regions with the greatest needs and significant emission reduction potential;
- protect poor and vulnerable consumers from energy and economic poverty by compensating for the impact of increased carbon cost and the cost of energy transition, in particular by supporting national programs at EU levels;
- mobilise investments for improving the energy efficiency of low-income households’ buildings;
- strive for the wider utilization of smart technologies;
- organise a support scheme to make zero emission transport affordable for all European households;

- support employees in changing qualifications or acquiring new competences that will enable transformation of the labour market and safeguard jobs, especially in energy-intensive sectors;
- conduct an open social dialogue with citizens, entrepreneurs, trade union representatives, as well as local government authorities, and actively involve these stakeholders in the process.

In the difficult times ahead, the European Union, through concrete action and reinforced cooperation can strengthen and support recovery plans prepared by its Member States. The slowdown might create an opportunity to improve our economy that we the Europeans, will have to seize fully and promptly. We need an ambitious and robust recovery plan with appropriate public aid rules, ensuring the sustainable, solidary and equitable development of the continent without burdening the poorest and most vulnerable of our citizens.

In view of the changing economic conditions and uncertainty connected with the final consequences of the crisis caused by SARS-CoV-2 the Government of the Republic of Poland underlines that the initial assumptions presented in this paper may change.