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INFORMATION NOTE

From:	General Secretariat of the Council
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Subject:	Any other business The negative impact of the market in greenhouse gas emission allowances on energy and climate policy and the feasibility of achieving energy transition targets - Information from the Polish delegation

In view of the Transport, Telecommunications and Energy Council on 17 October 2023, delegations will find in Annex an information note from the Polish delegation.

ANNEX

Explanatory note on the negative impact of the market in greenhouse gas emission allowances on energy and climate policy and the feasibility of achieving energy transition targets

The European Union has set itself the objective of maintaining its position as a world leader in climate policy, and is thus displaying increased ambition and setting itself ever more restrictive challenges in terms of reducing greenhouse gas emissions. In recent years, the EU has adopted climate legislation that affects a wide range of EU policies. It therefore has an impact not only on the environment but also on energy, industry, transition costs, employment and other social issues. At the same time, we are already feeling the significant impact of carbon emission allowance prices on energy prices. In the 12-month period between January and December 2021 alone, the price of emission allowances tripled, reaching the level projected by the European Commission for 2030. Such a sharp increase in allowance prices entails a multitude of negative effects.

Emission allowance prices are an important factor in the cost of energy production, especially in countries with a more conventional energy mix. While this does create an appropriate stimulus for decarbonisation in the long term, the lengthy investment processes, especially for larger generation units, mean that a sharp hike in emission allowance prices does not produce positive environmental effects, but simply deprives energy companies of the resources needed for green investments. Combined with the artificially engineered disturbances in the energy markets seen prior to Russia’s aggression against Ukraine, this has contributed to historically high energy prices and prompted some Member States to reactivate carbon-intensive generation sources which had previously been closed.

The situation is particularly critical for companies in the heating sector, which provide basic services to European citizens. Due to technological constraints and the lack of large-scale zero-carbon alternatives that could be used in the short term, heating companies are forced to purchase emission allowances at exceptionally high prices, depriving them of the possibility to invest in the low-carbon transition and, in the long term, potentially leading to their insolvency and endangering citizens' security of heat supply. Member States cannot accept such a situation, but their scope for intervening is limited, especially where the cogeneration of heat and electricity is concerned.

High energy prices also translate into high industrial production costs in the EU, thus negatively affecting the competitiveness of European companies and economies on the global markets. Some businesses are additionally saddled with the costs of purchasing allowances for greenhouse gas emissions that form an inherent part of their production processes, which further weakens their competitive position. Burdened as they are by the costs of shielding citizens and businesses from high energy prices, and with their hands tied by common market rules, Member States are unable to support the energy and industrial sectors in a way that would allow them to compete effectively with non-EU companies. Moreover, regulations adopted by the EU to speed up the energy transition predominantly favour third countries, from which – faced with an inadequate European production base in the RES sector – Europe is forced to buy finished products, especially solar panels.

This runs counter to the EU's stated ambition to re-industrialise Europe, achieve strategic autonomy and ensure energy security.

The negative impact of high allowance prices on European citizens, who are facing a growing risk of energy poverty, should not be overlooked either. Their already difficult situation will be further aggravated by the latest amendments to the EU ETS Directive, which make the purchase of emission allowances mandatory in the building and road transport sectors. Those at greatest risk of exclusion are the poorest households, who often live in buildings with higher heat demand but have limited means to invest in increasing energy efficiency and replacing heating sources with low-carbon ones or in purchasing electric vehicles.

Given the steep increase in the price of emission allowances, neither Member States' governments nor businesses are able to make informed decisions about the pace of the energy transition or the instruments and investments to be used to achieve it. Rapid price changes can discourage or prevent businesses from making the desired investment decisions. The difficulty of the situation is exacerbated by the discrepancy between the reality and the predicted prices of emission allowances adopted by the European Commission in its analyses and impact assessments, as Poland and other Member States have repeatedly pointed out in the legislative process for the 'fit for 55' package. Our calls for these projections to be made more realistic and for data to be provided showing the situation in individual Member States have remained unanswered.

The speed of the energy transition imposed by the European Union can be maintained neither by third countries, resulting in additional erosion of the competitiveness of the European economy, nor by various sectors of the European economy, resulting in growing scepticism about the transition among businesses, social groups and citizens. This is why Poland would once again like to submit for consideration the adoption of instruments limiting the amount of and fluctuations in the price of emission allowances. This would allow governments and businesses alike to plan their further development and competitiveness with greater certainty, while allowing society to remain confident that the European project is achievable when it comes to the energy transition.