Polish Sustainable Recovery Monitor

- October 2021 Issue

1.1 Economic Recovery – the big picture

COVID-19 pandemic – current state:

The overall number of SARS-CoV-2 cases detected in Poland is estimated at almost 3 million as of the 27th of October 2021, while the number of deaths has exceeded 76500. By the 27th of October 2021, only 51.5% of Polish citizens have been fully vaccinated. Poland is recording an upward trend in the number of new daily cases. Moreover, due to the low vaccination rate, the easternmost parts of Poland – Podlaskie and Lubelskie voivodeships (with vaccination rate below 30% in some local communities) – are experiencing the fastest increase of detected cases. 4th wave has not, as of yet, triggered decisions regarding new restrictions. The government plans to reassess the situation at the beginning of November. Most probably, if lockdowns are introduced, they will have regional character. Under all of the considered scenarios considered by the government, the schools are likely to remain open.

Restructuring of the Polish government:

During the conference on the 27th of October, the Prime Minister has announced three personal changes in the government. Piotr Nowak was appointed to a vacant position of the Minister of Development and Technology, and Henryk Kowalczyk, former Minister of Environment, became the Minister of Agriculture and a deputy prime minister. Michał Kurtyka, the Minister of Climate and Environment since 2019 and the President of COP24, has been replaced by Anna Moskwa, former vice minister of Maritime Economy and Inland Navigation and more recently CEO of the PKN ORLEN's offshore branch. Until last days of the month it remained unclear whether and by whom Poland will be represented at COP26. On the 29th of October, Prime Minister's office confirmed his presence at the COP26's Leader's Summit on the 1st of November. In his speech Prime Minister has emphasised the importance of just transition and urged to consider socio-economic consequences of the decarbonisation. All of the issues mentioned by the PM, are part of the prevailing narrative of the Polish government since COP24 that took place in Katowice, and offer little insights with regards to how Poland aims to achieve and comply with the EU climate targets. No new declarations regarding the level of climate ambition have been made during the meeting.

Issues with the rule of law cost Poland EUR 1 million a day and continue to suppress approval of the Polish Recovery and Resilience Plan:

The establishment of the Disciplinary Chamber in 2018 was a part of justice reform aiming to create an entity that will settle cases related to the disciplinary liability of judges or prosecutors. However, in April 2020, the European Court of Justice (ECJ) ruled that the Chamber cannot be regarded as a court when the EU law definition is considered and thus has ordered its suspension. In July 2021, the ECJ ruled that the system of disciplinary liability of judges in Poland is not consistent with the EU law. Because the Polish government did

	not comply to any of the previous ECJ's decisions, on the 27th of October 2021, ECJ ordered Poland to pay EUR 1 million a day for failure to suspend the Disciplinary Chamber of the Supreme Court. Daily penalties will be charged until the Disciplinary Chamber is closed and all related decisions revoked. On the 28th of October, the EC President Ursula von der Leyen has reemphasised that access to the Recovery Fund has been also made conditional by the Commission upon Poland committing to "dismantle the disciplinary chamber, to end or reform the disciplinary regime, and to start a process to reinstall the judges".
	Poland uses the current spike in energy prices to argue for overhaul of the Fit for 55 package: Ahead of EUCO held in second half of October, in an unofficial non-paper Poland called for revision of the elements of the Fit for 55 package (proposed in July 2021 by the EC to align current policy framework with the EU target to cut GHG emissions by at least 55% by 2030), justifying its request by arguing the impact that the measures would have on consumers, who already face the burden of energy price spike. The most significant changes proposed by the Polish government refer to the EU Emissions Trading System (ETS) and Energy Taxation Directive (Poland opposes the envisaged changes of the minimum energy tax rates). The suggested amendments to the EU ETS focus on inter alia operations of the financial entities on the carbon market.
	Poland met the reduction target for non-ETS sectors for 2020: In late October, EEA published data on the compliance of Member States with reduction targets in non-ETS sectors for 2020 and 2030. Poland met its goal for 2020, as the emissions increased by 12% since 2005 (the target was to achieve no more than 14% increase compared to 2005). Despite this, the country is not on track to meet its 2030 target of cutting emissions by 7% as compared to 2005. Poland is even further from the target if the temporary characteristic of the impact that COVID-19 pandemic had on economy and emissions is considered, as well as if the revision of the target (17.8% emission reduction by 2030 compared to 2005) proposed by the EC within the Fit for 55 package is taken into account.

Subsidies for six programmes under the EU Modernisation Fund:

On the 26th of October 2021, the Investment Committee of the Modernisation Fund approved the transfer of additional funds to six programmes submitted by Poland under the 2nd tranche of the Modernisation Fund. Poland will receive PLN 8.1 billion (ca. EUR 1.75 billion), which will allow the National Fund for Environmental Protection and Water Management (NFOŚiGW - Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej) to launch six financial support programmes covering: 1) Cogeneration for Heating, 2) Cogeneration for Energy and Industry, 3) Digitalization of heating networks, 4) Use of alternative fuels for energy purposes (co-generation waste-to-energy power generation), 5) Support for the storage facilities for network stabilization and 6) deployment of “My heat” programme (investment subsidies for heat pumps in new single-family houses).

Climate crisis team of the Polish Academy of Science (PAN - Polska Akademia Nauk) warns cities about consequences of climate change:

Scientists released recommendations for local governments focusing both on mitigation (energy, buildings and transport sectors) and adaption activities (blue-green infrastructure, water management, future-proof infrastructure). The communication also emphasises that the challenges associated with climate change will require urgently cross-cutting solutions which should be integrated with the strategic decision-making level, awareness raising activities and economic tools operational at the local level.

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1.2 Sectoral insights

Mining

	Turów Lignite Mine negotiations impasse: In May 2021, Poland was ordered by the European Court of Justice (ECJ) to suspend operations of the Turów's coal mine (one of the biggest lignite mines in Poland) as it contributes to cross-border degradation of the environment – according to the case presented by the Czech's government. However, Turów Coal Mine continues to operate even after the EUR 0.5m/day fine set by ECJ in September. In early October, Negotiations between Czech and Polish representatives came to an end without signing an agreement. On the 19th of October 2021, European Commission called the Polish government to present evidence proving that the mining operations have been stopped. The EU's spokesperson informed that in case of no such evidence or the call being ignored, Poland will be commanded to pay a due fine. As of the 27th of October 2021 Czech side is willing to return to negotiations as local authorities urge the government to settle the issue as soon as possible (for background information see September's, May's and April's edition of the Monitor).
	Polish Mining Group (PGG – Polska Grupa Górnicza) limits sales of hard coal: Due to the beginning of the heating season and reductions in coal imports, mines struggle to meet the growing demand of coal-reliant consumers. Daily outputs are being sold instantly and mines start to use coal stored on heaps. PGG estimates that by the end of the year all its coal from heaps is going to be depleted, leaving only

	operational inventories. To combat the problem, the company decided to introduce limitations on individual consumers allowing them to buy from 3 to 5 tonnes of coal depending on a mine.
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Energy

	EDF (French multinational electric utility company) submitted an offer for the construction of 4 to 6 nuclear reactors in Poland: Électricité de France S.A. (EDF) submitted an initial offer to the Polish government to build from 4 to 6 nuclear reactors of the European Pressurized Reactors (EPR) type with the combined power from 6.6 to 9.9 GWe. The estimated cost of 4 reactors is around PLN 150 billion (ca. EUR 32.5 billion) while 6 reactors will cost ca. PLN 222 billion (ca. EUR 48.1 billion). So far no details regarding the location have been disclosed. Proposed plants would be able to cover up to 40% of current electricity consumption in Poland, setting the country as the second-largest nuclear energy producer in the EU after France.
	Poland among the EU countries calling for nuclear energy to be considered sustainable: Ministers from ten EU countries (Bulgaria, Croatia, Czech Republic, Finland, France, Hungary, Poland,

	Slovakia, Slovenia and Romania) urged the Commission to recognise nuclear energy as a low-carbon energy source in the EU taxonomy until the end of the year. The letter sent to the Commission points out that because of the rise of energy prices and increasing dependency on energy imports from outside Europe (especially on natural gas from Russia), it is essential to support the development of nuclear energy as a means of transition towards climate neutrality.
	New financing instrument for low-carbon transition: The Energy Transformation Fund (Fundusz Transformacji Energetycznej – FTE) was presented as part of the published draft amendment to the Act on the greenhouse gas emission allowance trading system and environmental protection law. FTE will be launched in 2022, based on the revenues from selling CO_2 emission allowances. The accumulated funds will be disbursed to the investments related to renewable and nuclear energy development. Bank Gospodarstwa Krajowego (BGK, a Polish national development bank) will be responsible for the administration of the project from the financial side.
	Plans to introduce electricity subsidises for vulnerable consumers: Due to rising energy prices, the government plans to introduce subsidies for electricity consumption. The funds dedicated for such subsidy scheme will amount to PLN 1.5 billion (ca. EUR 325 million) in 2022. The programme is to be focused on retirees, pensioners and big families in difficult financial situation. Additionally, to the government intends to ban the suspension of the supply of electricity during the heating season, on Saturdays and public holidays to people who have arrears in electricity bills.
	The end of applications within "My Electricity 3.0" programme and the announcement of the next edition: The call for applications for subsidy in the amount of PLN 3 000 (ca. EUR 650) for photovoltaic panels within “My Electricity 3.0” programme was closed due to the exhaustion of the programme’s budget. In total, over 175 thousand applications were submitted. The third edition of the programme, launched in July 2021, was coordinated by National Fund for Environmental Protection and Water Management (NFOŚiGW - Narodowy

	Fundusz Ochrony Środowiska i Gospodarki Wodnej) with a budget of PLN 534 million (ca. EUR 116 million). NFOŚiGW has announced that the next edition of the programme will be launched in the first quarter of 2022 with a budget of PLN 1 billion (ca. EUR 217 million). Subsidies will be given for the investments related to the installation of electricity storage equipment, smart electricity management systems and charging facilities for electric cars.
	ZE PAK and Ørsted to create a joint venture for offshore wind farms: The biggest private energy producer in Poland (owner of three coal and biomas-fired power plants) - ZEPAK - and a world-renowned Norwegian offshore wind energy expert firm - Ørsted - agree to cooperate on constructing wind farms in the Baltic Sea.The companies intend to already participate in auctions set for 2025 and 2027. The project will create thousands of jobs in the local area and help to achieve the goal of generating 11GW of energy from offshore wind farms by 2040.
	Compensations for legislative chaos around wind turbines: In 2016 central government accepted the so-called "10H" rule – limiting the growth of the wind turbine industry and causing changes in tax regulations. In 2018 – after 2 years – the law was amended and the government returned to the original regulations. In June 2020 the Constitutional Tribunal ruled that local governments should be awarded compensations in the total amount of PLN 524 million (ca. EUR 114 million) for the lost income resulting from legal chaos in the area of taxation of wind farms. This month the government has adopted an act that will allow local governments to receive these compensations. It is predicted that over 200 local authorities will be allowed to receive funds.
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Transport

	Government amends electromobility and alternative fuel act: The novelisation supports the construction of electric car charging stations as well as allows the installation of charging infrastructure in multi-family housing. These changes are crucial for the development and promotion of electric mobility as the lack of proper infrastructure is one of the main concerns for new users. Local authorities gained greater control over planning low-emission zones (LEZ). The amendment will allow municipalities of all sizes to create such zones and introduce special signs for vehicles that are able to enter. Changes also include the capability of subsidy for leasing electric cars as well as the designation of the minimal number of electric cars bought based on public procurement.
	Additional subsidies within "My Electric Car" programme: Bank of Environmental Protection (BOŚ - Bank Ochrony Środowiska) announced that as a part of "My Electric Car" programme, companies will be able to apply for subsidies to the costs of leasing new passenger and delivery electric cars. Budget for this component of the programme (leasing subsidies) will amount to PLN 400 million (ca. EUR 87 million) and will be distributed in the years 2021 - 2026. It is expected that the application process will start by the end of October 2021. Additionally, National Fund for Environmental Protection and Water Management (NFOŚiGW - Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej) will dedicate PLN 200 million (ca. EUR 43.4 million) to companies, local governments and associations. The total budget of "My Electric Car" programme is expected to be PLN 700 million (ca. EUR 152 million) consisting of three components directed at different entities (for more details see September's edition of the Monitor).

Further developments in electromobility in Poland:

About 1/3 of the EU's battery demand is met by Polish production and it is expected that this trend will continue as more companies are investing in the technology. This month, Toyota Motor Corporation announced that will spend USD 13 billion (ca. EUR 2.82 billion) for the development of battery technologies in Poland.

By 2024 the Opel factory in Gliwice plans to start manufacturing electric vans, whilst in 2030 over 70% of all cars produced are set to be electric. The manufacturer plans to obtain most of the components from contractors in Poland. It is expected that launching the production of electric vans in Gliwice may create a network of smaller partners around the local factory.

NFOŚiGW said during the meeting of the parliamentary standing subcommittee that will spend PLN 1 billion (ca. EUR 217 million) for the construction of 4000 km of grid lines and 800 transformer stations. The investment is aimed at expanding the distribution network needed for electric car charging stations.

State controlled companies invest in H2 economy:

PKN Orlen (state-controlled fuel and energy company) plans to construct 50 hydrogen refueling stations by 2030. By the beginning of 2022, the company intends to construct three stations in Wrocław, Katowice and Włocławek that received a subsidy of EUR 2 million (ca. PLN 9.2 million) from the EU CEF Transport Blending Facility programme.

Lotos (a state-owned petroleum company) announced that until 2023 will build an electrolyzer in Jasło. The installation will supply clean hydrogen that will power public transport. The planned electrolyzer is supposed to produce about 16 kg of hydrogen per day with a purity of almost 100%. The investment is a part of a bigger Lotos' R&D Vetni project, which supports the development of highly effective installations based on electrolyzers powered by renewable energy.

	Financing for charging and refuelling stations approved by the European Commission (EC): EC decided to allow for subsidies for charging and hydrogen refuelling stations along local and TEN-T roads. Polish scheme that aims to support low-emission mobility by offering direct grants up to 50% of investment costs will receive a budget of ca. EUR 173 million (for background information see December's edition of the Monitor).
	Subsidies for local buses: In 2022 Polish local governments will receive PLN 435 million (ca. EUR 94.4 million) out of PLN 800 million budget (ca. EUR 173.5 million) for inter-city coaches (as part of this year's edition of the Bus Transport Development Fund). Subsidies will cover 4080 bus lines supporting around 1700 local communities. The programme aims to reduce transport exclusion in rural areas. The government also plans to redistribute the remaining budget to Government Road Development Fund.
	New cross-border railway connections: Poland will have two more cross-border railway connections. This month Czech railway operator – RegioJet – obtained rights for handling rides from Warsaw to Ostenda (Belgian sea resort) and in summer 2022 the second connection from Cracow to Split/Rijeka (Croatian resorts with high popularity among Poles) will be available. New connections will provide an alternative to short-distance flights or travelling by car.
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Buildings

Replacement of old heat stoves in Lower Silesia as part of the "Clean Air" programme:

National Fund for Environment Protection and Water Management (NFOŚiGW - Narodowy Fundusz Ochrony Środowiska i Gospodarki Wodnej) launched a pilot project in Lower Silesia within the "Clean Air" programme, supporting the replacement of old heat stoves and building renovation. Contrary to the nationwide version of the "Clean Air" programme, the pilot project is not aimed at owners of single-family buildings, but at residents of multi-family buildings. With a budget of PLN 20 million (ca. EUR 4.34 million) and available subsidies of up to 60% of eligible costs, the programme supports the replacement of heating sources and the installation of photovoltaic panels. It is estimated that the pilot project in Lower Silesia will support the replacement of 720 highly pollutant coal-powered heat furnaces. NFOŚiGW and the Ministry of Climate and Environment are also planning on launching a nationwide version of the pilot programme next year.

The "Clean Air" programme has recorded the highest number of applications during the second week of October 2021 with more than 5000 applications. In total, the programme as of the 22nd of October 2021, distributed subsidies amounting to PLN 5.7 billion (EUR 1.3 billion) with ca. 335 thousand applications.

Draft amendment to stop tax subsidies for coal boilers:

The project wants to put an end to tax breaks for building renovations expenditure which covers coal boilers. Similar changes have been made in the "Clean Air" programme that come into force on the 1st of January 2022. Under the new law, biomass-only boilers will be able to receive a subsidy. Currently, as part of the tax relief, citizens can deduct from income or revenue expenses for thermo-modernization investments up to PLN 53 thousand (ca. EUR 11500).

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Industry

CCS-focused amendment to the Geological and Mining Law submitted for consultations:

On the 25th of October 2021, the Ministry of Climate and Environment published a draft amendment to the Geological and Mining Law. The legislative proposal includes new instruments aimed at facilitating a climate-friendly energy transition in Poland, related to carbon capture and storage (CCS), and hydrogen storage. The act is to amend existing regulations on CCS: it allows for joint extraction of hydrocarbons and CO_2 storage (via a so-called enhanced oil/gas recovery with the use of carbon dioxide), extends scope beyond the demonstration projects, and reduces the fee for underground CO_2 storage. The legislation also sets out rules for underground hydrogen storage, a solution that has been so far unrecognized by Polish law. The act is now undergoing public consultations, which will last until November 15th, 2021.

"Sectoral Agreement for the Development of the Hydrogen Economy in Poland" signed:

On the 14th of October 2021, an agreement between the government, entrepreneurs, scientists and businesses to develop hydrogen economy in Poland has been signed. The strategic goal of the agreement is to achieve the local content indicator in building Polish hydrogen economy of not less than 50% of the total value in 2030. Signatories expect that the added value from the accomplishment of this indicator for the Polish economy will range from EUR 343 million (ca. PLN 1.58 billion) to EUR 870 million (ca. PLN 4 billion). Polish policy-makers believe that it will allow Poland to maintain the country's leading position in hydrogen production (currently, Poland is the 3rd biggest hydrogen producer in the EU) and to rapidly develop and strengthen its position as a leader in technical innovations regarding hydrogen, especially since the agreement was signed by over 138 entities.

The Ministry of Climate and Environment has already envisaged the creation of five hydrogen valleys that will

	facilitate research, development and education regarding hydrogen technologies (for background information see September's edition of the Monitor).
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1.3 WiseEuropa's updates

Reverse Gear. Social and economic effects of imports of used vehicles to Poland **[EN] –** policy brief presenting hidden socio-economic costs related to the import of second-hand cars.

Less is More. The role of energy efficiency in the transition to climate neutrality **[EN] –** policy brief presenting the economic importance of energy efficiency first principle on sector-specific examples.

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