European Commission priorities for 2024-2029

The view from Poland on energy and climate

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Maciej Jakubik, Joanna Pandera PhD

The upcoming European Parliament elections will open a new chapter in EU climate and energy policy. The new European Commission, which begins its 5-year term in the fall, will have to monitor the implementation of a wide range of files related to the 'Fit for 55' package and navigating the Union towards the 2050 goals by setting targets for 2040. It will also certainly propose a new political strategy, as the dynamics of the discussion in the EU is in a state of constant flux. From Poland's perspective, what new priorities of the European Commission will be most important and gain support and interest?

Context and challenges

The EU has set ambitious targets under the European Green Deal, including achieving climate neutrality by 2050. It became one of the key pillars of the current Commission's agenda, and the main regulatory work has been completed with the adoption of the files from the Fit for 55' package. How it is implemented will depend on the next Commission, which will be appointed after the European Parliament elections in June, but also very much on the determination of the Member States.

An important milestone ahead of climate neutrality in 2050 is a significant reduction in CO2 emissions at the end of this decade. Its achievement in a cost-effective and socially just manner will strengthen the EU's energy independence and reduce energy costs, improve the environmental quality of a densely populated continent. Differing levels of wealth, e.g., in Central and Eastern European countries, as well as institutional weaknesses related to the implementation that are expected to lead to emission reductions in 2030 must be taken into account. Climate action must be placed in the broader context of other important topics that will undoubtedly interact with the agenda in the coming years:

War and security threats
Following the COVID-19 pandemic, serious security threats spread across the continent, affecting the economy, the energy situation, and public sentiment. Russia's brutal full-scale invasion of Ukraine has shaken the sense of security in Europe, while the escalation of conflicts in other regions of the world, in particular the Middle East, have negatively affected the vision of a stable future. As a frontline country, Poland sees the issues of security and the future of Ukraine as high priorities.

Rising energy prices and inflation
Rapid changes in energy demand in recent years and the cutting off of Russian fossil fuels have led to an increase in prices. Fluctuations in supply and demand and support schemes linked to COVID-19 and energy subsidies for residents to protect them from energy price spikes, caused inflation, which, while initially very high, is now slowly receding. The goal of increasing the pace of the energy transition across the EU is, however, faced with disruptions in supply chains, grid problems, and financing difficulties.

Insufficient level of investment
The challenge is to scale up the desired investments despite various constraints, including in human resources, administrative procedures, and dependence on non-EU technology supply. These problems can be solved, but firstly need to be properly diagnosed and monitored.
Poland and other countries in the region will move away from coal and decrease the use of gas in the situation where new generation capacity additions may be insufficient and not coordinated. The shape of the EU energy market does not encourage investors to undertake long-term projects.

Polarisation of society and social acceptance for transition
The level of disinformation and polarisation in all aspects of life is unprecedented. In areas where action and change are needed and there are vested interests linked, for example, to market segments that have been dominated for years (such as fossil fuels), a backlash and rise of social tensions can be expected. The lack of data and well-prepared communication with citizens makes the scale of disinformation enormous, particularly in new areas of EU climate policy: buildings, transport, and agriculture, which will directly affect citizens.

The need for institutional change in the EU and enlargement
The European Union is evolving and requires both changes at the institutional and decision-making levels to respond effectively to challenges. The pressure for change will also be associated with the admission of new Member States to the community, primarily Ukraine. Constructive involvement in a serious discussion on this topic will be very important for Poland in the context that the accession of new members to the EU is a great opportunity for the Polish economy, but also a great challenge.

The future of European industry
Clean technology plants are only to a limited extent located in Europe. The US and China, through subsidies and tax-relief schemes, are leading the way and attracting significant investments. In the EU there are regulations and ambitious reduction targets, but not enough incentives for factories to be built on our continent. We need to rethink how to create competitive advantages for European industry in those sectors that will enable us to meet our climate targets and combine climate aspirations with domestic production. The future of the European energy-intensive industry, which will struggle to remain competitive, even after the implementation of CBAM, which would take into account the CO2 cost of certain imports into the EU, also requires serious debate.

These are just a few of the challenges facing the Union over the next five years. Each of these pieces of a complex puzzle must be recognised and addressed. In this paper, we seek to identify the main areas on which the new European Commission should focus its energy and climate policy efforts.

1) A new sustainable energy security strategy for Europe

The last European energy security strategy of 2014, which was drafted shortly after Russia's annexation of Crimea, focused mainly on gas and oil supplies, as well as on building new fossil fuel infrastructure. This approach is outdated and does not respond to today's challenges. A lot has evolved, with climate change knowledge on the one hand and the maturity of fossil fuel substitution technologies and their effective integration into the energy system on the other. EU countries must be transparent about their use of fossil fuels and make long-term plans to reduce their use or phase them out. At the same time, reducing fuel imports should not result in an uncontrolled increase in other dependencies on critical raw materials and technologies from outside the EU.

We therefore propose:

- **A new official definition of energy security**

The EU needs to redefine its approach to energy security towards 'sustainable energy security'. The new approach should combine ensuring security of energy supply in a period of increasing electrification with climate and environmental concerns. It should include aspects of low-carbon power generation and the reliable operation and development of electricity grids, as well as further

uninterrupted electrification of sectors. It must address issues of energy system flexibility, as well as controlled and fair demand reduction. A correct, up-to-date energy security definition is crucial to support financing, monitoring, and dialogue with the industry and public.

- **EU strategy for sustainable energy security**

Updated definition is the first step for drafting new energy security strategy for the EU that addresses increasing electrification, greater development and integration of renewables, energy efficiency, networks, flexibility, and nuclear and other low-carbon technologies. It will also be important to coordinated expansion of grids, share resources within the EU and strengthen coordination mechanisms in case of shortages and incidents. The strategy must reflect the reality of the increasingly interconnected and interdependent energy systems of EU countries.

- **Priority to electrify various sectors of the economy and maintaining security of electricity supply**

Electricity is the most efficient energy carrier to replace direct combustion of fuels in economic sectors, e.g., transport, heating, and industry. At the same time, progressive electrification based on intermittent renewable sources poses challenges in maintaining security of supply and stability of the electricity system. Therefore, systems for security of supply, energy storage, coordinated demand reduction, digitalisation, and monitoring of electrification need to be established. It will be particularly important to protect the systems against cyberattacks. One element of 'sustainable energy security' should be a well-designed EU structure linking institutions prepared to respond to security of supply incidents.

- **Critical infrastructure protection**

An element of energy security should be the EU-coordinated protection of critical infrastructure and the need to improve its resilience to protect against emerging threats, conventional and unconventional attacks, and other risks that cannot be foreseen.

- **Access to critical raw materials and clean technologies**

The EU's changing energy priorities mean that other solutions and technologies are most in demand. This calls for new supply chains to be ensured and monitored and building resilience to potential disruptions in this area. It will be very important to shape EU industrial policy to one that encourages the location of key production within the Union. It is important that the development of new technologies is coupled with strategic thinking about the access to critical raw materials and technologies, opportunities for diversification, and rapid scaling.

- **Level playing field for both large-scale and SMR nuclear plants**

All zero-carbon technologies, including large and small-scale nuclear, are needed to achieve climate neutrality with adequate energy security parameters. The EU should enable different approaches and transition pathways for individual Member States to ensure that climate targets are met while guaranteeing security at the lowest cost to citizens.

2) Increase access to data, improve the planning, transparency of implementation, and management of climate and energy policies

One bottleneck in the transition is the insufficient access or wide dispersion of data, especially in new sectors yet to be covered by climate policy, such as buildings, transport, and agriculture. This problem is particularly significant in Central and Eastern European countries. Pressure for change, combined with disinformation, may result in increasing polarisation and resistance to proposed reforms.

The energy transition requires access to reliable data in order to correctly model, calculate, and prepare transition pathways. It is desirable that this data be collected and presented in a systematic way, but also verified and analysed at the EU level. This is crucial to increase transparency, combat disinformation, and support implementation, which is not progressing at an equal pace in all countries. Lack of knowledge and manipulation of information on climate policy can be a source of conflict and social unrest.

Insufficient access to human resources capable of making the transition will also be a barrier.

To address this, we propose:

- **Strengthening analytical resources and making data and information available**

Presenting data and analyses on the energy transition in an accessible way is an important element. These can help citizens and market participants to access knowledge about the transition, but also help the EC and Member States to produce impact assessments or cost-benefit analyses. Currently, an overburdened EC proposes demanding regulations and Member States are responsible for implementation, but some of them also lack the capacity for proper implementation.
The creation of a specialised unit dedicated to data and information analysis could help to improve resource and information management. Adequate staffing would be needed to handle these tasks, which are currently dispersed across different institutions, i.e. EEA, JRC, DGs. To cope with this, we recommend setting up an EU Energy Transition Agency or setting up dedicated unit within the JRC or EEA. Energy transition is the EU's greatest challenge and analytical and human resources need to be adapted to address this priority.

- **Promoting digital tools to support planning and implementation of climate policy**

Member States should focus on implementing and achieving the 2030 targets. The legal framework is clear, but the limited access to human resources competent to implement the change is restricting progress. Assuming that access to data will improve, it is important to develop digital tools that support local governments, companies, cities, and citizens in implementing and identifying cost-optimal transformation paths, as well as in creating new business models.

3) New electricity market design and networks ready for 2030

The recent revision of the energy market design was carried out under the pressure of the energy crisis while EU countries decided to support consumers to a very large extent. The energy crisis, which may one day return, highlighted the many dysfunctions of the energy market model, which allow generators to benefit unjustifiably while exposing consumers to soaring energy costs. The current market design is not fully adapted to the challenges of a carbon-neutral energy system of the future.

There is no doubt that the EU energy market to date has its merits: it has brought significant benefits to consumers by facilitating cross-border trade, integrating markets, and introducing new zero and low-carbon investments. However, adjustments are needed to ensure that the market allows consumers to benefit from the development of renewables, while also providing investors with a stable, long-term framework, which is currently challenging for some technologies and solutions. Weather-dependent RES will dominate EU electricity generation by 2030, reaching more than 60% of production, so one of the main challenges of the future electricity system will be ensuring flexibility and adequate capacity in the system, and refining the role of dispatchable units.

What is necessary?

- **Locational signals**

The new Commission should seek to strengthen location signals, which allow for efficient dispatch in specific location and much better use of the network without exceeding the limits of its secure operation and optimal location of new big consumers (eg. electrolyzers). There are several ways for implementing locational signals, whether through bidding zone-splitting, the nodal model, or tariff methodologies. The Commission should conduct an in-depth impact assessment to find the best way to encourage location-based pricing in the EU. A market in which the price is determined at a specific location in the system, based not only on the cost of production but also on the cost of delivering electricity to the customer, is more efficient and encourages the deployment of clean and flexible resources at the required time and place, taking into account network constraints. It would be easier and cheaper to integrate renewables and storage facilities to provide the much-needed flexibility.

Locational pricing would save European consumers money spent on stranded infrastructure that is not needed in a distributed energy system.

- **Recognition of capacity as an essential element of the energy system**

With the rapid development of renewable sources, there will be a decline in dispatchable capacity, critical for system balancing. The new Commission should recognise the multi-commodity nature of a modern electricity system, adapting it to new market and climate realities. The assumptions of an energy-only market, adopted three decades ago, are no longer valid in a market dominated by the rapid development of intermittent RES.

Capacity mechanisms will play an important role in ensuring the investments needed to maintain the critical capacity necessary for the stable operation and balancing of a system relying primarily on RES. Therfore, the procedure for their approval should be simplified and the EC should issue detailed guidelines harmonising their implementation and application.

- **Support for flexibility**

It is necessary to rapidly develop flexibility markets, which should complement the energy and capacity market and be considered an important elements of a modern market design. They should be treated as a complementary tool and ensure the use of existing resources by adapting appropriately to new system operating conditions. The EC should support MS in implementing these mechanisms, also by providing with efficient procedure of state aid.

- **Better EU coordination**

Adequate coordination between EU countries should be ensured to avoid excessive differences in support for capacity and flexibility markets between the Member States. Approval procedures for capacity and flexibility markets should leave it up to the Member States to respond and apply national solutions as long as they fit in with EU objectives, but they should not be overly burdensome or time-consuming to ensure that countries can implement solutions when adequacy problems arise.

- **Support for grid development and modernisation**

Grids are essential to achieving the decarbonisation of the European energy system and form the basis for a successful energy transition. The new Commission should place great emphasis on accelerating the deployment and modernisation of networks by encouraging their construction, revising administrative procedures in the Member States, and facilitating financing. It is important to make optimal use of existing resources and to manage network assets efficiently. It will also be important to support locational signals, which, as we write above, can improve the efficiency of network infrastructure development.

- **Network development planning and cooperation**

There is a need for TSOs and DSOs to work closely together and to stimulate closer cooperation between operators, particularly on network planning, to enable them to coordinate work for different energy carriers, including energy storage potential. It is worth to work on pan-European permitting solutions by providing technical assistance to authorities and better involving stakeholders and local communities. A key aspect will also be the digitalisation of the grid and an appropriate revision of transparency rules and network tariffs. Timely grid development will be key to accelerating the energy transition in Europe.

- **Integrated transmission infrastructure planning in the EU, taking into account the goal of climate neutrality.**

Energy and transmission infrastructure planning in the Union to date does not take into account fully the EU's 2050 climate neutrality target. This risks creating stranded assets and generating unjustified, significant costs for citizens. Planning should be holistic and cover different energy carriers (electricity, gas, hydrogen, CO_2) in order to exploit the benefits of energy system integration. An important aspect in this respect is coordinated planning of the onshore and offshore networks. The 10-year time horizon included in the TYNDP is not sufficient. What is required is a long-term perspective, i.e., up to 2050, to take into account investment horizons and multi-annual planning.

4) Protecting the most vulnerable citizens through well-designed and sourced Social Climate Fund and Just Transition Fund

In the coming years, the EU will enter an era of accelerated energy transition that will affect not only industrial sectors but also a large part of society. The social dimension of climate policy will become increasingly important, and the interaction will be through energy prices, jobs (especially in coal regions), and incentives to switch, which will be of concern especially if there are no alternatives or sensible solutions. The European Commission should recognise that the Social Climate Fund and the Just Transition Fund are EU flagship projects to which particular importance is attached for implementation. The Commission must be aware that negligence in implementation and failure to respond to emerging problems as well as an increase in social unrest associated with the transition knocking ever harder on citizens' doors, will affect the reputation of climate policy in the EU and have an impact to countries outside the EU. When preparing the new Multiannual Financial Framework (MFF 2028-2034), the Commission should propose the allocation of adequate resources to the SCF and JTF for the next perspective. Funding for these initiatives should remain a priority, while taking into account the principles of equity and inclusiveness in climate action plans.

What is necessary?

- **Actively support the Member States in the implementation of the Social Climate Plans and monitor the process**

The introduction of ETS2 is an important milestone as it introduces the 'polluter pays' principle to sectors not yet covered by the mechanism. This will help to reduce emissions, but may also have side effects on EU societies if the distribution of costs does not take into account the perspective of low-income citizens. Impacting citizens solely through bans and price signals can be detrimental, if there is no technical support for implementation and relevant protection of consumer rights. Citizens cannot just be left to the actions of the market under increased pressure to change. The new Commission should monitor the process closely. First, it must assess the Social Climate Plans (SCPs), comprehensively identifying weaknesses and helping to adapt them to specific needs. Second, increasing access to data and models could support the Member States in the exchange of experience and the implementation of appropriate solutions.

- **Supporting regions in implementing the Just Transition Fund**

It is equally important to closely monitor the progress and situation in the regions supported by the Just Transition Mechanism. All coal regions should receive technical and financial support to prepare them for the transition. It is particularly essential in Poland other CEE countries. Plans and support for the next perspective should also be planned in advance, so that regions and local authorities can be sure that EU support is long-term and effective.

5) Increasing funding through the EU Energy Transition

Financing the green transformation in the EU requires a mix of private and public investment to make the projects reality. Today, the European Green Deal should evolve into an economic agenda with a strong financial and industrial component. This kind of change in the economy and society has not been implemented in such a short time. Moreover, global competition for new technologies and resources has never been so fierce. This means that the pace and scale of the transformation must be supported by dedicated financial mechanisms if the EU wants to achieve its goals.

Meanwhile, the disparity in state support for companies in the EU is growing. Currently, majority of all EU Member State subsidies are granted by just two countries: Germany and France. Such a situation is detrimental for the balanced development of the EU and there is a need to reduce the subsidy gap at the Member State level by supporting smaller and less wealthy countries that do not have significant fiscal capacity. In addition, major global players, i.e. China and the US, generously support their companies,

which creates additional competitive imbalances and undermines the growth opportunities of European companies.

What is necessary?

- **Special fund to support clean technology companies**

The new Commission should propose a dedicated fund targeting the clean energy transition. Its design could be similar to post-pandemic COVID-19 instruments such as Next Generation EU, but its rules should be much flexible and its scope should cover not only capital expenditure but also operating costs. This fund should respond to the need for increased European production capacities, particularly for the development of clean technologies and tackle the distributional implications.

- **Specialised support from the EIB**

The European Investment Bank should specialise in programmes targeting the urgent transformational needs of the energy system, so that financing decisions are made efficiently and the pool of potential recipients is well defined. We propose that the EIB should focus in particular on areas that are essential in the next decade namely: the development of grids and energy storage systems, as key to the success and acceleration of the energy transition by 2030.

6) External dimension of climate and energy policy

The geopolitical energy landscape is undergoing significant change as the world grapples with the urgent need to move towards sustainable energy sources. Priorities, definitions, and challenges in the EU are also rapidly in flux. The role of traditional energy sources is declining, as are the countries and regions where they are extracted and processed. Instead, raw materials such as cobalt or lithium are finding emerging uses, as well are fuels or gases such as hydrogen or ammonia, and their role will only grow further. These trends will reshape the global landscape and the adaptation of policies, and relations with external partners is necessary to strengthen the EU's position on the world stage. The EU should become a leader in clean energy solutions while engaging in strategic alliances around the world. Such an approach will allow Europe to play an influential role in shaping global climate and energy policies and to remain at the forefront of the fight against climate change.

It will be essential to:

- **Promoting sustainable energy diplomacy**

It is necessary to promote climate efforts in the EU neighbourhood and in developing countries. The new Commission should conduct a proactive, sustainable energy diplomacy that supports climate action, RES development, energy efficiency through alliances and partnerships (i.e., the Just Energy Transition Partnership or Global Gateway), and supports the financing of sustainable investments. Such actions would also promote European regulatory solutions and the companies involved in the transition.

- **The strategic but also pragmatic dimension of EU enlargement**

EU enlargement will have a strategic, geopolitical character in the years to come. In the case of Ukraine, it is directly linked to maintaining security in the region. However, the strategic dimension should not overshadow the need for the pragmatic benefits and challenges of EU enlargement. The formulation of boundary conditions is crucial. An absolute condition for EU enlargement should be the adoption of an emissions trading scheme and the creation of uniform operating conditions for energy companies in the new EU countries. At the same time, it will be important to define the conditions for the integration of energy markets. Poland and other countries in the region may benefit from the expansion of interconnections after the war. On the other hand, it will be crucial to identify the most important partnerships in terms of, e.g., the use of green gases, the development of RES, gas storage, and common strategic reserves.

The coming years will be a time of major transformation in the energy sector, so what priorities the European Commission sets for a new term until 2029, will largely determine the further direction of the European energy system. In our recommendations, we have tried to include a broad spectrum view of how to conduct relevant energy and climate policies so that the energy transition is efficient, economically sound and socially just. We would like this publication to be a voice in the debate on the strategic directions that the new Commission should set in order to effectively implement the regulations adopted so far, but also to influence newly emerging challenges and responsibly navigate the continent towards achieving climate neutrality.

Authors: *Maciej Jakubik - Project Coordinator for European Regulations, Forum Energii*
Joanna Pandera PhD – President of Forum Energii

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Contact for media: *Aleksandra Dziadykiewicz, a.dziadykiewicz@forum-energii.eu; +48 573 378 898*

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Forum Energii's mission is to initiate dialogue, provide solutions based on current scientific research, as well as foster actions towards a just and effective energy transition leading to climate neutrality. That mission is fulfilled through the publishing of analyses and opinions and by facilitating discussions covering decarbonisation of the main sectors of the economy.