

POSITION ON

THE JUST TRANSITION FUND – A POLISH PERSPECTIVE

The Polish energy sector is to a significant degree dependent on coal. Approx. 78% of all domestically produced electricity comes from this raw material. At the same time, the average share of solid fuels in the energy mix in the EU amounts to ca. 17%. A gradual reduction of coal-derived electricity and the development of renewable energy sources, required from the point of view of achieving the ambitious climate goals set at the European Union level, will certainly be an enormous infrastructural, economic, and social challenge. The scale of the project is evidenced by the fact that the total cost of Poland's energy transformation does indeed vary depending on who presents it; however, in any and all scenarios, it reaches several hundred billion euros. The estimates differ, depending on their complexity, from EUR 140 billion to even EUR 900 billion. Moreover, according to a report by the European Commission, from all the regions in Europe, Silesia will suffer the most negative consequences of this transformation, where up to 40,000 people may lose their jobs.

There is no doubt that Poland's incurring of the costs indicated above on its very own, even if it were spread over multiple years, basically borders on the impossible. The draft budget act for 2020 assumes that revenues will be equal to expenses, and will amount to PLN 429.5 billion, which is equivalent to approx. EUR 100 billion. In the most comprehensive of the options presented in the course of public debate, enforcing the energy transformation would therefore require devoting all budget revenues to this end for a period of nine years. Given this, the possibilities for financial participation of the European Union in a gigantic economic transformation project seem to be particularly interesting.

The Just Transition Fund, a key element of the mechanism that is to launch, according to the assumptions, EUR 100 billion of investments, may become one of the financing tools for this transformation. In connection with the lively discussion over recent weeks about the gravity of the Fund and its benefits for Poland, several remarks should be made.

First of all, whatever funds to be transferred to Poland from the Just Transition Fund will not be sufficient to cover all costs of Poland's energy transformation. The "fresh" money in the Fund is to be EUR 7.5 billion, constituting the basis to mobilise a total of EUR 100 billion within

seven years under public and private investment. Even if the mechanism would work with 100% efficiency and if all the money from it went to Poland only, it would still not allow for a complete financing of the country's energy transformation.

Secondly, owing to the fact that the Fund is to be credited with only EUR 7.5 billion, doubts have been raised on numerous occasions regarding the possibility of generating with these funds the expected capital expenditure. It should be noted, however, that a similar mechanism proved successful (in terms of efficiency of generating investments) in the case of the Juncker Plan, under which it was possible to mobilise by December 2019 almost EUR 460 billion in investments (from the initial EUR 21 billion), by co-financing projects by member states, private investment or instruments of the EIB. Furthermore, Poland was one of the main beneficiaries of the plan in terms of euro invested per GDP. This experience suggests that although there is relatively little "fresh money" in the fund, it may serve as leverage to stimulate higher capital expenditure many times over.

And thirdly, the EUR 2 billion that are to be transferred from the Fund's budget to Poland are simultaneously a lot and a little. A lot, because all signs point to the fact that Poland will be the country to receive the largest amount of funds. A little, because – as Małgorzata Jarosińska-Jedynak, the Minister of Development Funds and Regional Policy, rightly pointed out – this is still a drop in the vast ocean of needs. And contrary to initial reports, the funds are to reach not only regions strongly dependent on coal, but also those in which peat is extracted or oil from shale is exploited.

To sum up, the Just Transition Fund might be an interesting tool to support Poland's energy transformation, but it certainly will not be the primary source of its financing. Poland will still have to make use of other sources of support from the EU and mobilise considerable resources of its own.