Polish non-paper on financing climate neutrality

In order to achieve the very ambitious goals we wish to set for the EU climate policy, we need to develop new instruments (including finances) in order to support effectively the transition to a climate neutral economy. We have a clear goal but there are still some important dilemmas to be solved. The necessary and sought "green transition" is related to significant costs and challenges faced by our economies.

We must ensure that such a transition – which both preserves and enhances European competitiveness - is just and socially balanced and takes account of Member States' national circumstances. At the same time, new instruments, including Carbon Border Tax, should reinforce the effects of a unilateral climate action undertaken by the European Union so far and contribute to combating carbon leakage. A significant fraction of GHG emission reductions within the EU countries has already "leaked" outside the Union. This is particularly important in the case of energy-intensive and trade-exposed (EITE) sectors.

The IPCC underlines that the necessary transitions - not only in energy, but also in land, urban and infrastructure, as well as in industry - are unprecedented in terms of scale and imply deep emission reductions in all sectors. Therefore a wide portfolio of mitigation options and a significant upscaling of investments in those options are needed. It will require changing the value chains in our industry and service sectors, modifying consumers behaviour and will have an impact on the livelihood of all citizens.

In June 2019 the Commission and the Council were invited by the European Council "to advance work on the conditions, the incentives and the enabling framework to be put in place so as to ensure a transition to a climate-neutral EU in line with the Paris Agreement that will preserve European competitiveness, be just and socially balanced, take account of Member States' national circumstances and respect their right to decide on their own energy mix, while building on the already agreed measures to achieve the 2030 reduction target".

In this context, the Just Transition Fund could be a step in the right direction. If designed properly, it can contribute to the development and ensure a high quality of life of citizens living in the regions, which will be most affected by the climate policy. This is a matter of solidarity with the regions concerned across Europe as no one should be left behind.

In order to be able to ensure a just transition in all regions relying today heavily on solid fossil fuels extraction and for electricity production, the Just Transition Fund needs to be significantly larger, adequate to the scale of challenges, on top of EC proposal for the next MFF and go well beyond 2021-2027 financial perspective (the Commission has assessed the additional investment for the EU required to reach the 1.5°C objective at the level of 180-290 bln EUR per year). As the transition costs can vary significantly across the EU, we expect that the Commission will present concrete figures broken down by Member States representing the necessary investments across the EU and in particular in the regions facing the biggest challenges.

When designing the appropriate instruments to support our climate objective, the differences between Member States and regions should be reflected and following factors considered:

- **differences in development level** and economic resilience which result in differentiated capacities to finance transition of economy, support growth and cope with weakened competitiveness;

- **different energy mixes** (based on historical and economic circumstances) and hence starting points for emission reductions;
- **different level of emissions** that necessitates more financial resources where emissions are the highest;
- **unequal access to capital** due to less developed financial markets and already high debt of energy sector companies which engaged in vast investment programs over the last 20 years;
- **difference in wealth** and purchasing power of individual citizens (while taking into account similar pricing of consumer goods on the single market).

The existing framework and instruments will not be sufficient to achieve climate neutrality. Increasing ambition should go hand in hand with intensified actions, so that this ambition can actually be reached. Financing should be directed where it is most needed and where it can bring the biggest benefit. We cannot exclude from financing those sectors, regions and Member States that have not yet achieved specific climate requirements – but create a system where resources are allocated exactly where the biggest modernisation needs are.

In order to ensure the highest possible efficiency of our policies, these funds should be allocated in priority to those sectors, regions and Member States where emissions are the highest and challenges with access to capital are the greatest. A negative conditionality which benefits those that have already achieved some specific targets, should not be applied. Otherwise, those facing the biggest challenges would be deprive of the necessary support. The conditionality should be replaced by positive incentives. That will enable sectors, regions and Member States with the biggest needs and challenges to follow the transition path, receive real support and gain resources to catch up. This will put the whole EU on track of reaching climate neutrality.

Role of the European financial institutions will also be crucial to enable the transition.

We need to carefully design new energy lending policy of EIB and eligibility criteria of projects in the next MFF. In particular these policies need to allow for gas-related projects both in terms of transmission networks and in power-generation.

We also envisage a role for central banks, especially ECB in supporting a transformation to low-emission economy. Support of green bond issuance is one of possible actions to be undertaken by ECB.

We expect the Commission to propose specific mechanisms that meet the above criteria.