



# ENERGY PRIORITIES OF THE POLISH PRESIDENCY OF THE EU COUNCIL: THE CZECH PERSPECTIVE

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## Energy Security as a Part of the EU Agenda

Energy is an important precondition for European economic development. Ensuring stable energy supplies is crucial at the EU level as well as at the level of every single member state of the Union. With energy import dependency of the EU reaching 80 percent in oil and 55 percent in gas, the relations with energy importing countries are of a vital interest. For many years energy was not an important priority. However, with the experience of the oil shocks during the 1970's, situation started to change. With the dissolution of the Soviet Union and the gas crisis, *communitarisation* of the energy policy in multiple areas seems to be inevitable.

From 2004 onwards, energy issues became even more important with the accession of the new member states. Due to increasing concerns about the asymmetric dependence of Eastern Europe on a single supplier, Russia, energy security issues began to dominate both internal policy debates and external relations. In response, The "New Energy Policy for Europe", as agreed in January 2007, outlined the way the EU should address the chal-

lenges of developing and implementing energy policy at the EU level.

The discussion concerning the EU energy policy resulted in developing a legislation setting up a common energy market mechanism with liberalization and regulation as cornerstones of European electricity and natural gas sectors in the European Union. The debate resulted in the second energy package adopted in 2003 and the third energy package agreed in 2009 during the Czech EU Council Presidency. The third energy package came into force in March 2011 and its successful adoption is expected to be a precondition for the efficient common energy market that will bolster European energy security. These legislative measures have been aimed at developing the single energy market, efficient energy consumption and ensuring security of energy supplies. Security of supplies is also a matter of physical infrastructure. For this reason the European Union developed the Trans-European Network – Energy (TEN-E) programme aimed at the construction of the stable energy network among the member states.

However, European energy security can't be assured only at the level of the Union with its overall



high energy import dependency. EU external energy relations with importing and transit countries are the other side of the coin. The focus on external energy relations is historically connected with the oil shocks from 1970's through to 1990's. Today, member states are obliged to maintain petroleum stocks covering 90 days of the average daily consumption. This system allows for an effective resource management in case of oil imports disruptions. Nevertheless, spiking prices of oil since the 2003 are still an important factor for European economic development. Current unrest in the Middle East North Africa region (MENA) and rising competition for oil from China and India could have a long term impact on international oil market and this serves as a reminder that security of oil supplies can't be underestimated even after the four decades' experience, oil shocks included.

Nowadays, there is a new focal point in the European debate concerning security of supplies. The debate on natural gas supplies is firmly focused eastwards. The EU gas market liberalization, restructuring of the gas transit chain with new states participating and the EU eastern enlargement, these are the key events resulting from economic and political changes in last twenty years. As a result, the European Union with natural gas as the key element in the environmental friendly energy mix has to face new challenges in ensuring secure, affordable and sustainable gas imports.

Since the team presidency concept was introduced in 2007, energy issues have become part of the Presidency agenda on the permanent basis. Although the priorities of the individual presidencies differ, energy in terms of environmental protection, market liberalization or external energy relations has become an inseparable point of the Presidency programme.

## **Polish Energy Sector: the State of Play**

Before examining the priorities of the Polish Presidency in more detail, it is beneficial to outline the arena of the Polish energy sector. Domestic

coal reserves are of vital importance for the Polish economy. Poland is the biggest hard coal producer in the EU. Nearly all of its produced electricity (around 92–94 percent) comes from coal-firing power plants fuelled principally with hard coal. This is primarily due to Poland's vast domestic coal deposits. According to Poland's National Energy Strategy, the country's energy mix is going to change over the next two decades due to the rise in the use of renewable resources, natural gas and nuclear energy. At present, due to the significant role of coal in the Polish energy mix, Poland ranks the lowest among the EU-27 in terms of its level of energy import dependency, which is one of the principal arguments in domestic energy security debate. Poland's energy import dependency level is 19.9 percent, while the EU-27 average is 53.8 percent.<sup>[1]</sup> The situation in import dependency for oil and gas is different from the coal. Poland imports nearly 90 percent of its crude oil and 66 percent of its natural gas. Russia remains its principal supplier with 94 percent share of total crude oil imports and 90 percent share of natural gas imports. Poland's amount of Russian energy imports in the past was higher than it is today largely because of Poland's consistent policy of supplier diversification implemented over the past decade.

Besides the high import dependency in oil and gas from Russia and principal importance of domestic coal for electricity production, it is the lack of diversity in electricity production sector that defines the current energy debate at the national level. Environmental targets in the EU 2020 agenda requires 15 percent share of renewables by 2020. The actual share is 7.2 percent which is already behind the 2008 target of 7.8 percent of total energy consumption.

Despite Poland's commitments under the Kyoto CO<sub>2</sub> emissions target, there is a pressure on Poland to adopt more environmental friendly means of electricity production. It is not only about the use of renewables but also about gas fired power plants and nuclear energy, which has no share in electricity production in Poland so far. Nuclear energy is a very important topic for the future of the Polish energy mix. Poland wants to have one nucle-



ar power plant operational by 2020 as the policy makers seek to decrease gas imports and reliance on coal-firing power plants in order to match environmental goals. Thus, not only the question of external energy relations but also of environmental policy shapes the energy debate in Poland.

Another important issue for the Polish energy sector is shale gas. Poland seems to be blessed with abundant resources of unconventional gas. However, shale gas extraction is not exactly environmentally friendly and there are also social obstacles like “Not in my backyard” (NIMBY) factor, which could restrict fractioning. For that reason, domestic production of shale gas does not seem to be an acceptable solution for the planned decrease in importance of the coal-firing power plants in the Polish energy mix. Therefore it is more likely that the increased demand for natural gas in the near future will be covered by gas imports from Russia or the Middle East in the form of liquefied natural gas (LNG).

It is possible that the Polish energy sector characteristics and current energy policy debate will somehow interfere with the Presidency priorities, especially with regard to external energy relations and the EU single energy market goals.

## Polish Presidency Energy Security Priorities

The focus on external energy relations directed eastwards on the EU transit and import partners has become one of the great concerns for all post-communist EU member states, Poland and Czech Republic included. In 2009, the Czech Republic, taking over the EU Council Presidency from France, focused on the legal basis of the European single energy market and on external energy relations and crisis management. Under the circumstances of gas crisis at the beginning of 2009, environmental issues became a little bit of a side agenda.

Considering the Central Europe and the EU external energy relations, the Polish Presidency in

the second half of 2011 could be judged as the last significant one for a long time in respect to Eastern Europe. Neither Denmark nor Cyprus, who will assume the Presidency after Poland, have their energy interest in the region and the relations with the East will not be considered as a major issue unless some urgent crisis interferes with the agenda. Therefore it is up to Poland to make energy policy an essential priority of the Presidency, especially in relation to energy relationships with transit and supplier countries.

On 15 March, 2011, the EU Council of Ministers published the document “The Six-month Programme of the Polish Presidency of the EU Council in the Second Half of 2011” [2]. Proposals included in this document were the bottom line for the final priorities of the Polish Presidency. The energy related issues were not considered a separate priority yet. Energy security issues were specifically mentioned as a part of the broader priority area that has been defined as *Secure Europe*. However, external energy relations at the time emerged as the key topic for the Polish energy agenda. According to the document, the priority was to examine the condition of the external EU energy policy and to develop solutions that will strengthen it. Apart from this priority, there were two others mentioned in the *Secure Europe* agenda – *European Integration as a Source of Development* and *Europe Benefiting from Openness* – that partly deal with energy related issues too. Despite the importance of energy topics, it is expected that energy will become one of the subtopics in the debate over the new EU multiannual financial framework, which will be another major issue of the current EU debate.

A few days before the Polish Presidency began on 1 July, 2011, the official program of the Presidency was published which deals with energy in a somewhat more detailed manner than the previous document. Energy security issues are included not only in the rambling area of *Secure Europe* but they extend across a number of operational programmes on the common market, external relations and infrastructural development. Therefore, one can see that the energy policy is not a stan-



alone priority but rather a part of the complex set of energy related questions stretching from the internal market to the infrastructure and external relations. In general, targets in the field of energy security for Poland can be expressed as "*solidarity and competitiveness*". To fulfil this simple motto, Poland will have to focus on two principal priorities that need to be addressed during the Presidency.

The first priority for Poland is the functional EU internal market as the key precondition for energy security. The first pillar of such a market is regulation. At the moment, Polish priority is the implementation of the third energy package which came into force in March 2011. In the second half of 2011, the Polish Presidency will aim at identifying and correcting imperfections that stem from the current design of internal energy market. In addition to the legal basis of the internal market, the Polish Presidency will focus on technical and infrastructural issues. It is very likely that during the Polish Presidency some pressure on further development of infrastructure projects within the European Union will occur which will seek to create a stable and interconnected Communitarian network with the focus on electricity and natural gas infrastructure. Judged by the draft of Polish priorities, Warsaw is well aware of the need of maintaining the balance between the two pillars of the energy policy: the legal basis of the common market and maintenance and development of the internal infrastructure, i.e. the interconnectivity between national markets within the European Union.

The second priority briefly examines the external dimension of the EU energy relations with energy exporters. This is determined by Polish dependence on gas imported from Russia as well as by growing pressure to decrease the share of coal-firing power plants on electricity production in favour of more environmental friendly technologies.

The focus on external energy relations is not accidental but perfectly logical, given the experience of past gas crisis in 2006 and 2009 and due to the

fact that most predictions reckon that in the upcoming decades the import dependence on oil and gas from countries outside the EU will increase. During its presidency, Poland will work on setting up mechanisms of preventing any repetition of the gas crisis of 2006 and 2009 and will seek to further enhance the energy security of the European Union member states. In general, the aim in the field of energy security can be expressed as "solidarity and competitiveness", which is not only the case of energy policy but of the whole Polish Presidency. For Poland and its energy priorities, this single task has two dimensions that need to be considered during the Presidency agenda.

## The Czech Position: Cautious Support

The Czech Republic and Poland share not only the history and experience of post-communist Central Europe, but also many characteristics in the energy sector. If we look at the energy mix of the two countries, there are similarities as well as differences. Both countries are to a great extent dependent on domestic coal reserves in electricity production. Russia is their major energy partner as far as oil and natural gas are concerned. Furthermore, in both cases natural gas is going to increase its share in electricity production next year. For Poland this is a long-term plan in shifting from coal-firing power plants towards a more environmental friendly means of production.

Poland wants to increase the share of gas-fired power plants from 3 percent to 10 percent on total electricity production in this decade. In the Czech Republic there are currently two projects of gas-fired power plants to be constructed in this decade. What differs in comparison of the two countries so far is the domestic production of natural gas in Poland and the 30 percent share of nuclear power in electricity production in the Czech Republic. As Poland wants to commission one nuclear power plant by 2020, it is widely expected that the energy mixes of Poland and the Czech Republic will get alike in means of the energy mix structure.



The Czech Republic and Poland share the notion that the key precondition for the security of gas supplies in Central Europe is the diversification of supply routes and of importing countries. The need to complete the North-South interconnection is highly topical. Especially the interconnection between the LNG terminal in Polish Swinoujscie and LNG terminal in Omisalj on the Croatian island of Krk is well perceived and widely supported. In this case, the Czech Republic should be one of the transit countries.

Both countries also share the idea of the common energy market as the key precondition for European energy security. From this point of view, the Polish priority is to promote regulatory legislation through the implementation of the 3<sup>rd</sup> energy package. The common market represents regulation not only as a set of restrictive rules but also market liberalization which will create a more customer-friendly market environment.

As was noted before in relation to the Polish energy sector, environmental protection and, primarily, reduction of the CO<sub>2</sub> emissions are the key goals of the Polish energy sector, which is also reflected in the Presidency priorities. Poland is falling behind in meeting its renewable energy targets. Both the Czech Republic and Poland are under pressure of the international community to be more ambitious in setting their environmental goals. The legacy of energy-inefficient economies with high dependency on fossil fuels is not easy to overcome. However, both countries are getting closer to balanced and diversified energy mixes with a prospect of becoming low carbon economies by 2050.

As noted above, the similarity of the Czech Republic and Poland in terms of energy policy is only limited. But as countries of the former Eastern Bloc, they do share similar historical experience when it comes to relations with Russia, especially when sustainable and secure natural gas imports are at stake. These similarities dictate to some degree their shared view on the EU external energy

relations and priority energy projects. Based on these assumptions, it is possible to expect that the Czech Republic will stay close to the Polish position on key energy issues at the EU level in decades to come. From the Polish perspective, more attention should be paid to a position of the EU Diplomatic service (EEAS) and the Commission that pursue external energy relations and environmental energy targets as their important priorities. Moreover, Poland should prioritize projects of further cooperation both at the regional (V4) and European level with respect to energy transit and importing countries.

## Conclusion

It would be naive to expect the Polish Presidency to produce any principal breakthrough in the EU energy policy. What we can expect from the Polish Presidency is to stir the debate on the EU energy policy on the solid ground. The key obstacle Poland will have to face is the diversity of interests among the EU member states. Differences between the “old” and the “new” EU member states (especially vis-à-vis Russia when energy is at stake) and interests of various actors seem to be a major and persistent challenge. This does not concern only energy but also different issues on the EU agenda with misunderstandings and differences spilling over across the policies. Nowadays, more attention is paid to the economic crisis and the Euro zone debt crisis which are not over yet, with the debate over the new EU budget also taking momentum and drawing ever more attention. A potential gas crisis seems to be off the debate as well as other topics of external energy relations. The fact that North Africa and the Middle East events somehow overshadowed energy relations with Russia in the field of EU external relations also matters. Furthermore, questions of internal market and climate policy seem to be more important in the current EU energy policy debate than external energy relations. These circumstances will definitely shape the Presidency and Poland’s ability to meet energy-related objectives.



[1]

<http://www.energy.eu/>

[2]

<http://brussels.ifa.ie/ifa/brussels/media/april%202%200%201%201/Polish%20Presidency%20Programme.pdf>

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