Warsaw, 1st April 2020

PGNIG POSITION ON INCEPTION IMPACT ASSESSMENT CONCERNING

CARBON BORDER ADJUSTMENT MECHANISM

PGNiG welcomes the opportunity to comment on the inception impact assessment concerning Carbon Border Adjustment Mechanism. Proper identification and application of measures ensuring level playing field for EU industry and industry from third countries are crucial to stimulate GHG emissions reduction globally, as differences in levels of environmental ambition worldwide persist. As long as such situation occurs, there is a risk of carbon leakage, either because production is transferred from the EU to third countries with lower ambition for emission reduction, or because products manufactured in the EU are replaced by more carbon-intensive but cheaper products manufactured outside the EU.

GENERAL COMMENTS

- **PGNiG supports the introduction of Carbon Border Adjustment Mechanism, however in our view it should complement existing tools, rather than replace them. Therefore we call for development of Carbon Border Adjustment Mechanism along with strengthening existing measures (allowances for energy intensive industry and compensation of EU ETS indirect costs).**
- **A level playing field ensured by such set of policies would ensure that European industry would still be involved in development of new technologies and solutions for transition towards climate neutral economy. This will help the EU to maintain its position as a global leader.**
- **Carbon leakage is a real threat to environment and if not addressed appropriately, it could result in increase of global emissions up to 70%.**
- **At first, sectors most exposed to carbon leakage risk, that experience significant decline of export of manufactured goods outside the European Union (as well as import of these goods to the EU) due to emission reduction requirements should be a subject to a CBAM measure. Introduction of pilot CBAM for one or several sectors would be reasonable.**

1) GAS SECTOR AS THE BACKBONE OF A LOW-CARBON ECONOMY

PGNiG plays a key role on the Polish gas market and, as its leader, is responsible for preserving Poland's energy security. Gas sector is a crucial element of energy transformation. **Natural gas emits approx. 50% less CO_2 than coal when used to generate heat, which is necessary in industrial processes.** Therefore natural gas as a transitional fuel will play significant role. However, gas should be also considered as target fuel, as gas sector can provide innovative solutions such as hydrogen, biogas, bio-methane.

2) CARBON LEAKAGE AS A REAL THREAT TO THE ENVIRONMENT

According to the KOBiZE[1] report[2], which assesses the possible scale of the carbon leakage using different assumptions and policy scenarios within the EU, **carbon leakage can limit the effectiveness of EU ETS and overall the comprehensive EU efforts to reduce global emission and the implementation of the Paris Agreement**. Report states that: *'Adoption of more stringent policies in the EU will create incentives for other countries to relax their own emission reduction commitments. Thus not only would carbon leakage result in the loss of the EU industries by 'leaking' to places with weaker commitments, but it also means that global emissions could even increase as shown in the results of this paper'.* **According to the report, depending on specific scenario and assumptions, total emissions projection for the regions outside the EU would raise 20-70%** between 2015 and 2030. **Therefore, strengthening the existing measures preventing carbon leakage phenomenon is crucial to achieve Paris Agreement target and reduce emissions globally.**

3) ROLE OF INDUSTRY IN EU CLIMATE POLICY

The European Union strives to become climate-neutral and lead the global energy transformation. We agree that carbon adjustment can sour changes toward more sustainable products in the EU and third countries. With a support from the European Union (e.g. Horizon 2020 Programme), the EU industry (including gas sector, which develops solutions i.a. for hydrogen and biogases) plays a crucial role in this process as it develops innovative clean solutions, without which global energy transformation would decelerate, as industry in other parts of the world might not be that highly incentivized to develop low carbon solutions**. A level playing field would ensure that energy intensive industry remains in Europe and thus, will be involved in development of new technologies/solutions contributing to achievement of EU climate ambitions.** The commitment of European industry to decarbonization was stressed in the European Green Deal Communication[3]. Keeping energy intensive industry will not only stimulate growth of EU economy but will have a positive impact on climate, air quality and public health .

4) SIGNIFICANCE OF THE EU INDUSTRY/ SECURITY OF EU ECONOMY

The outbreak of coronavirus SARS-CoV-2 showed the weaknesses of economic models based on geographically stretched supply chains. As stated in the European Green Deal Communication energy-intensive industries, such as steel, chemicals and cement, are indispensable to Europe's economy, as they supply several key value chains**.** As EU economy is highly dependent on economic relations with third countries, many European companies experienced disruptions in production due to broken supply chains. This results in economic losses across the EU and also applies to industry considered as exposed to carbon leakage risk. To mitigate the negative impact of such unexpected situations, the EU should introduce measures stimulating a development of European supply chains. An example of such measure could be a CBAM, by which EU would ensure the existence of its industry. This would shorten the supply chains and increase the security of EU

[1] https://www.kobize.pl/en/page/id/409/about-us
[2] http://climatecake.pl/wp-content/uploads/2019/07/CAKE_CL_Risk-of-CL_ENG.pdf
[3] COM (2019) 640

economy, which would also benefit development of solutions for transformation to climate neutral economy.

5) IMPORTANCE OF EXISTING TOOLS

It is of key importance not to replace existing tools that prevent carbon leakage, but to complement them. The EU ETS is a cornerstone of the EU's climate policy and a key tool in helping it to achieve its objective of reducing GHG emissions. Auctioning is the general method for allocating emission allowances to companies that participate in the EU ETS. However, as an exception to that rule, the free allocation of emission allowances might be provided to well-defined industry sectors and subsectors as a safeguard measure against a significant risk of carbon leakage until comparable climate policy measures are undertaken by other countries. To address the risk of carbon leakage, pursuant to **Article 10b of a Directive 2003/87/EC** those sectors and subsectors are to receive free allowances at 100% of the quantity determined pursuant to Article 10a.

Moreover, pursuant **to Article 10a (6) of Directive 2003/87/EC**, Member States are entitled to adopt financial measures in favour of sectors or subsectors which are exposed to a genuine risk of carbon leakage due to significant indirect costs that are actually incurred from GHG emission costs passed on in electricity prices.

Above mentioned measures are crucial, but not sufficient for EU industry to stay competitive globally. **Abandoning these tools will result in unequal conditions for competition outside the European Union. EU companies willing to exports goods to third countries would still need to bear the cost of EU climate policy, while their competitors not. Therefore, we call for reinforcement through CBAM, rather than replacement of existing tools.**

6) PILOT CBAM

Development of Carbon Border Adjustment Mechanism is challenging and several concepts are under consideration. Regardless of selected option, launching a pilot CBAM for one or several sectors exposed on carbon leakage risk would be reasonable. **At first sectors most exposed to carbon leakage risk that experience significant decline of export of manufactured goods outside the European Union (as well as import of these goods to the EU) due to EU climate policy should be a subject to a CBAM measure (e.g. fertilizer industry).**