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COVER STORY

# Paweł Olechnowicz on COP-21: Central Europe satisfied with Paris results

Beata Szydło, Prime Minister of Poland


**Paweł Olechnowicz**
Chairman of the Board of Directors
Central Europe Energy Partners (CEEP)

**The climate summit in Paris resulted in an important and fair compromise. All references to decarbonisation were removed from the landmark deal. Instead, a clause on protecting forests was included. This powerful contribution from the Polish delegation proves that climate and economic goals may be achieved, if based on a reasonable balance between carbon output and emission absorption.**

Central European states delegations made considerable and widely appreciated impact on COP-21 proceedings. That refers particularly to Poland – the region's largest player. Prime Minister Beata Szydło and Jan Szyszko, Minister for Environment, arrived in Paris well-armed with facts and figures and willing to defend its energy sector and energy-intensive industry. The two strategic aims were clearly defined. The first one was to reach a truly global, rather than regional agreement. It was obvious that failure to work out a universal compromise would be dangerous for the European Union. Although EU member states are responsible for only 11% of worldwide greenhouse gas emissions, they take the lead in their reduction. It is a heavy burden which results in the competitiveness of the European economy continuously falling.

The other goal was to make sure that, general as the final agreement should be, it would allow each nation to protect its specific interests. This was not a question of a symbolic gesture, but a factor that may have a fundamental meaning for defining individual environmental burdens and policies in the forthcoming years. This is especially important, as in the past decade, the global debate was focused not so much on the combat against greenhouse gas emissions, but on eliminating coal from the international environment. As coal fired power stations supply the bulk of Central Europe's electricity and provide the region with strategic energy security, they had to be defended as one of area vital interests.

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As a result, the Paris agreement provides each state-signatory with the option to pursue its own path towards meeting the set goals. The agreement stipulates that every five years all countries will resubmit their plans. They will be analysed and assessed, based on a more transparent and comprehensive system. It is the transparency of data that Central Europe Energy Partners has been calling for ahead of COP-21. Strongly backed by our Central European governments partners, this goal was achieved.

In particular, countries that now produce the bulk of the world emissions – such as the United States, Russia, or China – will be part of that system. The data prove the dramatic gap between the EU, which emits around 7.5 tonnes of $CO_2$ per capita, and other countries, such as the US, where emissions are double that figure. According to the Paris agreement, all countries must participate in the effort to reduce emissions. Yet, they are free to choose their individual ways and solutions suitable to them. This applies also for Central Europe, which faces a number of specific challenges in the energy sector and energy-intensive industry. We may, therefore, see the deal as an umbrella, under which various visions of reaching the same goals find their proper place.

One of these visions is balancing $CO_2$ emissions by planting new forests and halting the deforestation process. It was a widely discussed proposal, successfully promoted by the Polish government and its allies. This idea fits into the climate neutrality philosophy, whose aim is to ensure a balance between $CO_2$ emissions and their natural absorption. This would allow for both the development of industry and ensuring that the world becomes a greener place. This concept was written in the official document which concludes the Paris summit. It proves that the European emissions trading system cannot be treated as the only way to tackle the results of industrial emissions. The climate summit agreement provides, therefore, a welcome opportunity to discuss and review the current concept of the ETS and especially MSR, on the EU's internal forum.

In a situation whereby other countries worldwide will follow a different path, retaining the ETS in its current form will tantamount to a further slide of the EU's industry competitiveness. This would have a particularly negative impact on Central Europe. It is no wonder, then, that the Central European stance was particularly tough ahead of the Paris summit. Views presented were critical, yet well founded – and they proved effective. Central Europe maintained high profile in the French capital. Rather than acting as silent observers of the new regulations being born, our governmental leaders took some bold and well-coordinated actions in order to protect the interests of our region's industry and consumers. As well as the rest of Europe. It was well received by the COP-21 delegates, experts, and the media.

The deal that was reached may not be perfect, but it is definitely the best we could hope for in the current geopolitical and macroeconomic circumstances. Apart from regulatory measures, raising global awareness about the impact of greenhouse gas emission on climate change should, undoubtedly be considered as the summit's most positive and far reaching effect. We certainly need time to properly evaluate the real value of the Paris agreement. The next

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climate conference, scheduled for 2023, will surely serve as a good opportunity to appraise the progress made towards the set goals. On the one hand, it is a distant date, but on the other – taking into consideration the perspective of average investment process in the energy sector, energy-intensive industries, and the whole economy – we should do our best to use the time left to us most efficiently. ▪

ALSO IN THIS ISSUE

CEO's EDITORIAL

# The time for unshackling industry in Europe

**Marcin Bodio**
CEO, CEEP

**Let the year 2016, be the time for unshackling the energy sector and energy-intensive industry in Europe through the revision of those EU regulations that block their competitiveness.**

Environmental regulations in Europe, economic slowdown in China, and commodity prices in the global markets: with these challenges in mind, CEEP members have entered the new year, 2016. As we approached the New Year, we experienced at least two factors that may additionally impact upon industry's condition. Firstly, in mid-December, 2015, after less than two weeks of negotiations, a global agreement was initiated at the Climate Conference in Paris. At CEEP, we welcomed this document with hope, and even more so because it does not include the concept of an emissions trading system (ETS), the way it was adopted in the EU. This reinforces how important it is for the European Union to review its ETS system.

Another important document, touching upon the same subject, was adopted in Warsaw. It is the formal decision of the Polish government to bring a lawsuit before the European Court of Justice against the reform of the ETS. This was also welcomed by us at CEEP. At every single stage of work in progress on the market stability reserve (MSR) mechanism, we underlined that it brings threats to the energy and energy-intensive companies in Europe.

For the less affluent part of Europe, which must develop its industry, the price of CO2 emission units is of fundamental importance. The introduction of the MSR will, therefore, be equal to a further deterioration of the EU's competitiveness.

At CEEP, our aim is to make 2016 the year for unshackling the energy sector and energy-intensive industry in Europe. We realise how great a challenge this is. Yet, we believe that by actng tohether we can be effective in making the voice of Central Europe heard, both at the EU level, and in international forums. This is CEEP's commitment for 2016.

CEEP MEMBERS VIEW

# CEEP members on COP-21: major challenges for European industry remain

**Jan Jujeczka**
Spokesperson, CEEP

**CEEP members feel the same effect: the Paris agreement is bringing a new framework for their business activities in the energy sector and energy-intensive industries. The main challenge is the general and declarative form of the final document. This demands a specified action plan, which needs to be tailor-made for each market.**

It goes without saying that the global character of the Paris agreement is a major step towards enhancing the global climate perspective. "We welcome the fact that a large part of the international community has come together to formulate a framework settlement. Yet, binding and comparable targets were not specified. We are still far away from a fair global level playing field for industry in the sphere of climate policy," noted Tomasz Ślęzak, Country Manager of ArcelorMittal Poland. To illustrate his point, he turned to the European steel industry, as a good example, when analysing the effects of the Paris deal, indicating that Europe is already the most efficient steel production region in the world. Yet, the reform of the ETS will be of utmost importance for us within the global CO2 reduction targets that were discussed in Paris. Currently, the ETS reform proposals leads to a large gap of free allowances for EU steel producers towards competitors outside the EU. "Thus, we first need a global level playing field. Binding climate targets should, therefore, take into account the regional situations and CO2 reduction potentials," noted Mr. Ślęzak.

The challenge facing the steel industry is that the current ETS proposals would lead to huge shortages of emission allowances for steel. This would result in strong carbon, investment, and job leakage. This situation is similar in the case of the non-ferrous metals sector, including copper mining and smelting. According to Wacław Gąsior from KGHM, the Paris agreement is too general to provide a proper balance between the EU's plans to cut emissions by 40%, and China's decision to raise them. "In this situation, a more rational ETS policy is a must. We believe that, after 2020, Europe should implement a harmonised system of allowances for direct CO2 emissions, as well as financial compensation for the cost of indirect emissions (resulting from electricity consumption). There should also be proper compensation of what the process emits. These may not be fully controlled in the copper industry, due to organic carbon from concentrates being the main source of these discharges. Therefore, carbon leakage allowances should be granted, based on real technological benchmarks, and not simple arithmetical reductions."

CEEP MEMBERS VIEW

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The specifics of emissions allowances is equally important for the chemical and fertilizer industry. Marek Kapłucha, Vice-President of Grupa Azoty, underlines that it is also in this field that the Paris summit will impact upon the company's business activities. "In our industry, two-thirds of CO2 emissions are generated by the usage of natural gas in the process of ammonia production, and not heat generation. This is the only ammonia production technology available in the world, and CO2 emissions are inevitable in this process. In Europe, we are already close to the most energy effective model of this production process, and further CO2 emission reductions are hardly possible, and virtually impossible. In this case, the only solution is to have a guarantee of 100% free allowances for each installation that has met global benchmarks. Otherwise, Europe will be losing capacity and will not be able to compete with other regions, in which environmental regulations are not so stringent. This will inevitably lead to the leakage of industry outside the EU, to such countries as Russia, China, or the US. The consequence will be, not only the loss of jobs in Europe, but also raising – rather than lowering – global emissions."

The way CEEP members see it, the system of emission allowances should be planned to create incentives to boost production in the EU. "If we do not want to continuously lose our global competitiveness, we need to find a compromise between climate goals and technological solutions that are currently available," stated Jan Woźniak, a Member of the Board of Impexmetal, a metals production and trade company. That is why the Paris summit should open a gate for the re-orientation of the global energy system to one that is consistent with global climate goals. This is also important for the refining industry, which is continuously seeking to improve its energy efficiency, based on valuable technological know-how. Anna Dąbrowska, from Grupa LOTOS, hopes that all countries align their efforts in the fight against climate change, so that regulatory differences are equal, particularly between the EU and other major world economies. "Fighting climate change is a global challenge, requiring effective measures to be undertaken by all significant world economies, under an effective and clear international global agreement," she stressed.

It is the global perspective of the energy markets that is most important for coal producers. According to the World Coal Association, up till 2040, the production of energy from coal will grow by almost one-fourth. This, however, applies for ▶

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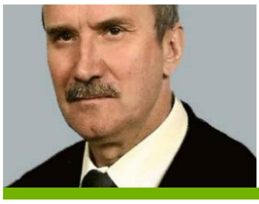
**Tomasz Ślęzak**
Country Manager
ArcelorMittal Poland



A more rational ETS policy is a must. After 2020, Europe should implement a harmonised system of allowances for direct CO2 emissions, as well as financial compensation for the cost of indirect emissions (resulting from electricity consumption). There should also be proper compensation of what the process emits. These may not be fully controlled in the copper industry, due to organic carbon from concentrates being the main source of these discharges

**Wacław Gąsior**
Chief Smelting Engineer
KGHM

CEEP MEMBERS VIEW

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mostly developing countries, with major energy deficits. At the same time, the readiness to reduce CO2 emissions was – for the first time in history – officially declared by such countries as China and the US. "These countries are the world's leading coal producers and consumers. Once they proceed with CO2 emission reductions through lower coal consumption, we will see additional over-supply of this resource in the international markets. This will lead to a further drop in coal prices, which will negatively impact upon Polish and European mining companies," said Piotr Bojarski from JSW, the EU's largest coking coal producer and an active CEEP member in 2015. Furthermore, Daivis Virbickas, CEO of Litgrid (Lithuania's electricity TSO), declared that, in such a situation, the electricity producers who use traditional fossil fuel for power generation, will have to revise their operations and implement measures mitigating environmental impact.

That is one of many challenges faced by the power industry in Europe, especially Central Europe. According to Perica Jukić, Chief Executive of HEP (Croatia's leading energy company), enabling renewable penetration, customer involvement and digitalisation requires a transformation and involvement of the demand side, through new efficiency business models. "We need to map out the technical and financial feasibility, along with the environmental benefits of different penetration levels for electrification. Within the COP-21 agreement, developed countries are supposed to continue taking the lead by undertaking absolute emission reduction targets. The biggest challenge is that, as Annex I of UNFCCC states, Croatia is officially declared as a developed country. Yet, taking into account that our GDP per capita is only 59% of the EU-28 average, it will be very hard for our power sector to tackle and achieve those absolute emission reduction targets."

CEEP members agree that despite the lack of specific solutions and binding regulations, the results of the Paris summit are going to impact upon their businesses. The word 'compromise' is used by most of them, as if they were relieved that something much worse could have happened. At the same time, none of the major challenges of the European energy sector and energy-intensive industry have been solved. The COP-21 agreement dealt with global issues and specifics, not European ones, and this is the underlying concern for Europe's energy and energy-intensive sectors, whilst the spectre of ETS reform may yet present further problems. Yes, major challenges for European industry remain!

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**Marek Kapłucha**
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**Perica Jukić**
Chief Executive Officer
HEP

ANALYSIS

# The EU Presidency's 'Trio programme' – a blueprint for continuity and co-operation

**Peter Whiley**
Specialist, Grupa LOTOS S.A.

**The Member States behind the next three Presidencies of the Council of the European Union, namely, the Netherlands, Slovakia, and Malta, have applied what has been called the 'Trio programme', a mutual plan which each country will implement during their six-monthly tenures.**

Four priority areas have been agreed by them, and these are: migration and international security, Europe as an innovator and job creator, sound finances and a robust Euro-zone, and a forward-looking climate and energy policy. The Netherlands, began its turn as the rotating Presidency of the Council, on the 1st of January, and will be primarily concerned with economic growth and jobs through innovation, with a Union that connects with civil society. "What matters to Europe's citizens and businesses", is the underlying message behind their plans.

Guided by the priorities of the Strategic Agenda (June 2014), and the recent conclusions of the European Council, the 'Trio' has put particular emphasis on the first pillar of that document, as inclusive, smart and sustainable growth, jobs and competitiveness remain the top priorities over the next 18 months. It rightly states that the EU's economy is showing signs of recovery, but that it "also faces unprecedented challenges, notably to its security and as a result of migration".

Better regulation and a reduction in regulatory burdens, which echo the desired EU reform demands of the UK's David Cameron, are seen as important drivers for economic growth and competitiveness, and are a recurring feature of the Trio's 24-page programme outline. Many other factors are highlighted as being crucial to the EU's development: international trade, for instance, is seen as 'a lever for growth', especially as the TTIP, and free trade agreements with Vietnam, Japan, Singapore, and Canada, are all 'in the pipeline'. The restoration of former good investment levels is also seen as essential, and the three Presidencies have promised to encourage further implementation of Juncker's Investment Plan for Europe. Investment in human capital, education, skills, performance and innovation, is also viewed as another major priority area.

As for energy, a complete and fully-functioning internal energy market heads the priority list for the Trio. They promise to make progress with the interconnection of energy infrastructures, hitting the 15% target for 2030, through implementation of the TEN-E programme, and will strengthen regional co-operation, as well as international co-operation in energy matters. Increasing energy security through diversification of suppliers, sources, and routes, will also remain a key objective, reinforced by the governance system of the developing Energy Union. Overall, energy efficiency, prices and renewable energy will receive due focus from the Trio, and be seen in relation to competitiveness. It is notable, though, that the section devoted to energy in their plans, is the slimmest one of all the areas outlined.

In the Energy Efficiency Package that they intend to produce, they will review the Buildings Directive, whilst an Electricity Market Design Plan will involve a re-design of electricity market proposals, and an ACER review. Another draft document, regarding Renewable Energy, will include sustainability criteria for biomass. They will also oversee a review of the ETS Directive, and be involved with an ETS Directive for Aviation. In terms of transport, which they see, along with logistics and mobility, as "key to a strong European economy and a dynamic society", they will review the regulations setting emission performance standards targets for cars and vans, for the post-2020 period.

Climate issues will require an appropriate follow-up to COP-21, along with preparation and plans for COP-22. The Trio will try to ensure that implementation of the 2030 energy and climate package, goes ahead, including the proposals on the ETS, and the expected proposals on emissions reduction in other sectors ('non-ETS'). They will also consider carefully, inclusion of land use, land use change, and forestry, (LULUCF), into the 2030 package.

> A complete and fully-functioning internal energy market heads the priority list for the Trio. They promise to make progress with the interconnection of energy infrastructures, hitting the 15% target for 2030

One of the main features of the Trio's programme concerns the role of the EU as a strong, global actor, in an atmosphere of uncertainty, "in which threats, challenges and opportunities co-exist, and the EU's internal and external security are increasingly intertwined". Against this background, effective progress of the West Balkans region is seen as strategically important.

Terrorism; cyber-attacks; piracy; extremism; human trafficking; irregular migration; and smuggling, are all identified as rising problems, which the EU must confront. A comprehensive approach to the effective application of EU policies is, therefore, regarded as essential – linking dipolmacy, trade, energy, development, migration, human rights, security and defence together. The Trio's programme certainly does just that: it seeks to look at the EU's policies through a 'multi-stakeholder' approach, with increased co-operation with partner organisations – NATO, the UN, the OSCE, the African Union, etc.

The Trio's programme is a worthy and certainly appropriate measure to adopt, at this point in time, and the continuity it offers, is of paramount importance. Member States increasingly need to work together, especially on border issues, and the next 18 months promise an intensive period of progress with packages, policies, directives, and reviews, put forward into the EU's domain by the three Presidencies, as they seek to bolster the idea of a Union that empowers and protects all its' citizens.

ANALYSIS

# Lifting of the US oil export ban and LNG exports begin – CEEP claims some credit

**Peter Whiley**
Specialist, Grupa LOTOS S.A.

**As the United States recently lifted its 40-year ban on the export of crude oil, the first shipment of oil has already reached Europe. The cargo has been sold to Vitol, the commodity trading company based in Switzerland. The light, low-sulfur type of crude, abundant in US shale fields, is favoured by many European refineries that are not equipped to handle heavier grades of oil, so this makes US crude oil all the more attractive to many European buyers.**

Meanwhile, in a few days, Cheniere Energy Sabine Pass facility on the Gulf coast will be the first to export LNG from US shale fields. When fully operational before 2019, Sabine Pass will be able to export 3.5 Bcf/a day. Cheniere plans to add production trains every six months until mid-2019. The US, after Qatar and Australia could become the third largest global supplier of LNG by 2020, and the US Department of Energy has already approved projects that may send as much as 10 Bcf a day of US gas abroad, whilst it considers further applications. The US gas industry, has it should be remembered, a big advantage over its' competitors in Europe and North-East Asia, where gas prices have been 2-3 times higher.

CEEP, as well as its Chairman of the Board of Directors, Paweł Olechnowicz, had long advocated for the ban on crude oil to be lifted, and an article in the CEEP Report (last November), outlining his speech, as the special guest, to the American Exports Breakfast Seminar, where the US's top energy representatives were gathered, made it clear that the necessary infrastructure in Central Europe already existed for receiving crude oil imports. Mr. Olechnowicz enthusiastically stated that: "we eagerly await the lifting of the US ban on exports of crude oil. This will have both a direct and an indirect impact on Central European countries". He explained that access to cheaper crude oil would be important for the competitiveness of Europe's refining sector, and the lower prices of oil would benefit the trade balances of European countries, whilst increasing the purchasing power of their citizens.

However, CEEP had been campaigning on this issue, long before the notable Washington meeting, reminding the US that Central Europe is a significant market, with a population exceeding 100 million consumers, and that the lifting of the 40-year ban would present the US and Europe with 'a win-win situation'. In June, 2015, at a Brussels press briefing, Marcin Bodio, the present CEO of CEEP, had significantly pointed out that there were no export restrictions on US coal coming to Europe from the EU side, and that he was hopeful that would soon be no restrictions for gas and crude oi export to Europe from the American administration. He added that CEEP was in the process of "defining the level of interest among companies this autumn", regarding energy imports from the US.

At another meeting in Washington, in 2015, hosted by the Energy Allies Association, Paweł Olechnowicz, had stressed that US exports of crude oil and LNG would diversify and strengthen European domestic markets, as well as increase the efficiency of numerous industries, such as the refining and chemical industries.

We at CEEP, feel that we were heavily involved in efforts to spur US oil and LNG exports, and strongly conveyed our message to the US authorities, regarding the value to Europe of such exports, 'loud and clear', and that we were undoubtedly listened to. The news of the lifting of the crude oil ban, and the commencement of LNG exports, has indeed been a good start to 2016 for CEEP, and we will strive for further success, in relation to this major boost for European energy security.

## JUDGEMENTS OF THE COURT OF JUSTICE OF THE EUROPEAN UNION

Prepared by Wardynski & Partners, a CEEP member

**C-36/14 Commission v Poland**

The obligation, for energy undertakings, to apply prices for supplies of natural gas, which have been approved by the Energy Regulation Authority is incompatible with Directive 2009/73/EC. The characteristic features of the obligation: (i) unlimited in time; (ii) no obligation on the authorities to check, at regular intervals, the necessity and nature of the application of that intervention in the gas sector, with regard to the level of development of that sector; (iii) application to an unlimited group of users or customers, without any distinction being drawn, according to customers, and without any differentiation of the situation of individuals, within the context of individual groups of customers.

**C-99/14P Carbunión v Council**

Provisions of the Decision 2010/787/EU concerning definitive closure of coal production units, deadline of the closure plan, and overall amounts of closure aid, are intrinsically linked with the very substance of the Decision, and cannot be annulled.

**C-349/13 Oil Trading Poland**

Lubricating oils, used for purposes other than as motor fuels, or as heating fuels, can be made subject to a tax, governed by rules identical to those relating to the harmonised excise duty arrangements provided in Directives 92/12/EEC and 2008/118/EC, only if such a tax does not produce obstacles to the crossing of frontiers within the EU.

**C-43/14 ŠKO-ENERGO**

Directive 2003/87/EC precludes the imposition of a gift tax, if it does not respect the 10% ceiling on the allocation of emission allowances for consideration. The adoption of national economic policy measures must not neutralise the principle that, at least 90%, of the emission allowances are to be allocated free of charge. Gift tax was to be charged on the acquisition free of charge of greenhouse gas emission allowances in 2011 and 2012, and its rate was 32%. The basis of assessment to gift tax was the average market value of the greenhouse gas emission allowance on the 28th of February, of the relevant calendar year, multiplied by the number of allowances acquired free of charge, for the production of electricity for the relevant calendar year.

REPORT

# New interconnections open electricity highways to Europe for the Baltic countries

On 14th December 2015, the symbolic ceremony of commissioning of LitPol Link and NordBalt was held in the Palace of the Grand Dukes of Lithuania in Vilnius

**Vilija Railaitė**
Head of Communications, Litgrid, CEEP member

**Two new international electricity interconnections, the LitPol Link and NordBalt, have placed Lithuania and the Baltic countries firmly back on the map of Europe's electricity grid. A new energy victory, symbolically commemorated end of 2015.**

"Over the past five years, we've gained invaluable experience, while simultaneously implementing two strategic projects involving high technology, which is the first of its kind in the Lithuanian grid. We've accomplished the huge NordBalt and LitPol Link projects with like-minded partners in Poland and Sweden, and our unity and trust in each other is an example for all Europe: by co-operating with neighbours, we can create a single and sustainable energy market in the EU", Daivis Virbickas, CEO and Board Chairman of Lithuanian electricity transmission system operator, Litgrid, declared.

Lithuania is connected to Poland and Sweden, using high voltage direct currents. This technology is designed to connect asynchronous grids, transmit power over long distances with lower losses, and control electricity flows. According to Mr. Virbickas, LitPol Link and NordBalt have removed the last infrastructure barriers in the Baltic region, and now, all efforts are being aimed at new ambitious goals – single electricity market projects, and the synchronisation of the Baltic countries with the electricity system of Western Europe.

The construction of both interconnections will be the single largest investment in the Lithuanian electricity system since the re-establishment of independence. By 2020, the demand for electricity in Lithuania, Latvia and Estonia will rise by 1.1 – annually. As soon as the NordBalt and LitPol Link begin to be fully operative, the opportunities of Baltic countries to transmit electricity from their neighbours will increase by one-third.

The LitPol Link is the new supply source of up to 500 MW, available in the Lithuanian bidding area of the Nord Pool Spot. "Both Poland and Lithuania have enhanced their energy security through the ability to import and export power. The increase of transmission capacity of cross-border interconnections is extremely important, considering the security of supply", Henryk Majchrzak, former President of the Management Board of the Polish electricity transmission system operator, PSE, stressed. "A reliable infrastructure, being the platform for uninterrupted exchange, and supply of electricity is the key element of the modern state, because it is determining its economic growth", Mr. Majchrzak added.

The NordBalt system tests will determine the secure exploitation of the interconnection for the next 30 years. The Lithuanian and Swedish interconnection control centres are 450 km apart – one in Klaipėda, and the other in Nybro. "I am happy to recognise that we are now fulfilling a dream of the early 90s, creating a Baltic Ring that electrically connects the states surrounding the Baltic Sea. This contributes to the independence of Estonia, Latvia, and Lithuania, but also enables us to utilise the combined production resources in the Nordic-Baltic region, in a more efficient way, for the benefit of both welfare and the environment", Mikael Odenberg, CEO and Board Chairman of the Swedish electricity transmission system operator, Svenska kraftnät, pointed out.

**About the Lithuanian-Polish interconnection: LitPol Link**

With a capacity of 500 MW, the LitPol Link completes the electricity ring of the Baltic region. The 400 kV overhead power line extends 163 km through the districts of Alytus and Lazdijai in Lithuania, and Podlachia, Warmia, and Mazury in Poland. The project investment in Poland amounted to 430 million EUR, and almost half of it was financed by the EU. In Lithuania, all works related to the interconnection received 150 million EUR, and the EU contribution was 31.4 million EUR. The first Lithuania-Poland interconnection project was implemented by Litgrid and PSE, Lithuania and Poland's respective electricity transmission system operators.

**About the Lithuanian-Swedish interconnection: NordBalt**

With a capacity of 700 MW, NordBalt can cover almost half of the electricity demand on a warm (temperature) winter's day in Lithuania. The coasts of Lithuania and Sweden were connected by a 400km high voltage direct current submarine cable. Another 53 km of cable is installed underground – in Lithuania directed at Klaipėda, and in Sweden reaching Nybro. The project investment is 550 million EUR. The EU invested 131 million EUR, and Lithuania and Sweden split equally, the remaining amount. The first Lithuanian-Swedish energy project was implemented by Litgrid and Svenska kraftnät, the respective Lithuanian and Swedish electricity transmission system operators.

REPORT

# The 68th Energy Dialogue at the Reichstag

**Alexandru Zegrea**
Consultant, Pflüger International

**The 68th Special Energy Dialogue at the Reichstag discussed the results of the Paris Conference on climate change, and was held at the invitation of Prof. Dr. Friedbert Pflüger, Mr. Janusz Reiter and CEEP on December the 14th, 2015.**

Mr. Ernst Peter Fischer, Representative for Globalisation, Energy and Climate Policy of the Federal Foreign Office, and one of the main negotiators for Germany at the Conference on Climate Change, shared with the audience, the Parisian euphoria for achieving such a far-reaching agreement among 195 states. In the opinion of Mr. Fischer, the main positives of the Paris Agreement – set to become binding if at least 55 national ratifications are done, as long they collectively amount to at least an estimated 55% of global green-house gas emissions – are the 1.5-degree tar-get (instead of 2-degree target) and the non-reversible national emissions reduction goals, aiming at a de-facto decarbonisation by the middle of the century.

> The main positives of the Paris agreement are the 1.5-degree target and the non-reversible national emissions reduction goals

Dr. Roland Busch, Member of the Managing Board of Siemens AG, pointed out that his company was one of the first to welcome the German 'Energiewende'. In order to continue on this path of emission reductions, whilst also constantly improving living standards, Dr. Busch suggested concentrating on cities, as they have the greatest potential to benefit from knowledge transfers and contribute to environmental goals. Siemens, itself, has the target of cutting its emissions in half over the next five years, and becoming CO2-neutral by 2030. It is regarding this target, not as a burden, but as an opportunity, to reduce its' costs. Other sectors of the economy have a similar CO2 reduction potential, whilst for Germany as a whole, the most promising transitional solution is natural gas.

Dr. Christoph Wolff, Managing Director of the European Climate Foundation, expressed his satisfaction with the results of the negotiations, was moved by the emotional atmosphere in Paris, and was positively surprised by the 1.5-degree target. The Paris Agreement, ambitious as it may be, heralds the end of the fossil age. As renewable energies become mainstream, Germany gains a significant competitive advantage through its 'Energiewende'. Still, in Dr. Wolff's view, CO2 reduction concerns not only the greening of energy generation, but of all sectors of the economy.

## ENERGY ECHO

**Brent crude slumps to 11-year low**

Oil prices have fallen to levels not witnessed since 2004, even beating the lows seen in the recession of 2008. Brent crude is now below $30 a barrel – its weakest since July, 2004. For a stark comparison, 12 months ago, the price of Brent was $60 a barrel, whilst in June, 2014, it stood at $115. A global oversupply has driven down the price of oil, and analysts claim that there is little sign that the downward trend will change, with more US, Russian, and Iranian oil reaching the markets. Oil firms have had their profit margins squeezed, forcing them to cut spending in investment and exploration. (PW)

**Polish Institute develops innovative blue coal technology**

Poland's Institute for the Chemical Processing of Coal (IChPW) has developed a technology which allows it to enhance coal through thermal processing. The resulting blue coal does not emit any toxins. To test its capabilities, the institute has decided to provide about 400 tonnes of blue coal to the inhabitants of one of Kraków's residential districts for testing purposes.

Results show that blue coal produces 7% less tar and 50% less dust than regular quality coal. The enhanced energy source could prove to be an affordable, yet more environmentally-friendly alternative to many other sources of energy. The research project is to be completed in April 2016, allowing for a large-scale production launch of the blue coal afterwards. (JA)

**Pragmatic curbs on carbon emissions are compatible with economic growth**

The world may have reached peak emissions, claim researchers, as they predict a substantial drop in greenhouse gas levels in 2015, due to a reduction in China's coal consumption. If correct, this would mark the first time they have declined while the economy has grown markedly.

China's own emissions are expected to drop 3.9% in 2015, after a decade of rising by nearly 6.7% annually. As China is considered to be responsible for 25% of the world's emissions, global levels are, therefore, projected to fall by 0.6%.

However, a rapid growth in emissions in other emerging countries, such as India, means that emission levels are likely to rise again in a few years. Significantly, India's emissions for 2015 are said to have shot up by 6.7%. The study, 'Reaching Peak Emissions', stated that emissions in 2015 were projected to be 35.7 gigatonnes (GT) of CO2, down from 35.9 (GT) of CO2 in 2014, whilst economic growth was forecast to be 3.1% in 2015. (PW)

**V4 joined by Tusk in attack on Nord Stream 2**

The 'Visegrad Four' countries, (Poland, the Czech Republic, Slovakia and Hungary), were strongly supported by European Council President, Donald Tusk, at the EU Summit in December, in arguing against the Nord Stream 2 project.

The V4 leaders argue that the NS2 project is against the strategic interests of the EU, undermines its ambition to build an Energy Union, and economically harms Ukraine. Seven countries from Central Europe, in fact, including the V4, have recently made their opposition to the project clear. They have called upon the European Commission to assess whether the project complies with European rules.

Tusk reinforced the thinking that Nord Stream 2 would both lead to the drying out of transit through Ukraine, and lead to a loss in transit taxes of at least $2 billion a year. He stated that political leaders had agreed that any new energy infrastructure should comply with the objectives of the Energy Union, including a reduction in energy dependency, and the diversification of supply sources and routes. (PW)

MEDIA PARTNER

# The 11th edition of the annual EU Energy Law & Policy Conference


**CEEP is a media partner of the 11th edition of the annual EU Energy Law & Policy Conference which will take place in Brussels, on the 9th – 10th February, 2016.**

The theme of this energy event will be 'Exploring the Energy Union: a policy-law-finance approach, with keynote introductions by Christopher Jones (Deputy Director-General, DG ENER, EC) and Jean-Michel Glachant (Director of the Florence School of Regulation) on the Energy Union, forthcoming developments, and the status of the EU's energy policy. Some 30 expert speakers will address the major issues in: energy security, integrated internal energy market, renewable energy sustainability and energy efficiency, decarbonisation of the economy. The conference will end with a special keynote presentation on the outcome of the COP-21 conference of December, 2015: 'The way forward for energy climate in Europe'.

More info: www.euenergyconference.com

## NEWS FROM THE REGION

### Poland plans to challenge the MSR at the European Court of Justice

The Polish government has decided to bring a lawsuit before the European Court of Justice against the Emissions Trading System (ETS) reform. The newly-elected conservative cabinet believes that, as the MSR (Market Strategic Reserve) is due to start in 2019, it prevents "legal certainty and legitimate expectations" over the current 2013–2020 EU ETS trading period. By changing the rules of doing business during the current trading period, it will impact upon decisions and investments already decided. The result will be a heavy distortion of the market. A government statement additionally noted that proceeding with the emissions trading reform violates a number of EU principles. According to Poland, the reform violates the rule of loyal co-operation, by adopting a decision contrary to the Council's conclusions in 2014, and the rule of proportionality, by introducing solutions that will lead to the realisation of higher emissions targets than the EU is bound to, by international treaties. The government demands an annulment of the decision. In 2015, Poland – together with Bulgaria, Croatia, Cyprus, Hungary, and Romania – voted against the measure, objecting to its commencement in 2019, rather than, as originally pro-posed, in 2021. (premier.gov.pl)

### Romanian energy producer, CE Hunedoara, goes into insolvency

The Romanian state-owned energy company, Complexul Energetic Hunedoara, has formally entered insolvency procedures. On the 28th of December, the power producer's administration board agreed that CE Hunedoara needed to enter insolvency, and restructure itself, to avoid bankruptcy. The energy producer's total debts amount to more than EUR 250 million and it has 6,000 employees. (www.romania-insider.com)

### Latvia interested in buying gas from Lithuania's LNG terminal

Latvian district heating company, Rigas Siltums, said that it, and electricity supplier, Latvenergo, were interested in buying gas from Lithuania's LNG terminal. Latvia's energy regulator approved rules for third-party access to the country's gas infrastructure, including underground gas storage, last September. However, Latvijas Gaze, the Baltic country's gas sales, transportation, and storage company, co-owned by Gazprom, managed to get a Latvian court ruling that LNG purchases from third-parties could only start once the country's gas market has been unbundled. Latvia's government says that this will be in 2017. (www.natural-gaseurope.com)

### Krk Island LNG facility in Croatia

LNG Croatia, a joint venture between power utility, HEP, and gas system operator, Plinacro, heralded the New Year with the news that it has received seven bids to build a liquefied natural gas (LNG) terminal on the island of Krk in the northern Adriatic. The proposed terminal would be able to receive, store, and re-gasify LNG, opening Croatia up to imports from LNG suppliers such as Qatar, and help reduce Croatia's reliance on Russian gas imports. Four of the bids were from industrial investors, and three from financial ones. The project, due to be completed by mid-2019, will cost an estimated $655.5 million. (Reuters)

### Poland introduces new CCS regulation

Poland has introduced new regulations on carbon capture and storage (CCS). Starting on January the 2nd, opera-tors of CCS facilities had new requirements imposed on them to ensure, amongst others, that they are able to compensate the Polish Treasury, if they fail to perform their role. Under the new rules, potential investors will be required to demonstrate that they have sufficient means to implement investments in CCS. The amount and the form of the deposits, which will be used to safeguard the investments, will be determined by a number of factors, including the number of years in which the facilities are to be used, the maximum amount of CO2 they will be able to store, and others. Licenses to operate CCS facilities are to be awarded by the Polish Ministry of the Environment. Moreover, according to the new regulation, investors should also set aside funds to potentially compensate the National Underground CO2 Storage Facility Operator. (KAPSDW)

### Estonia and Finland gas pipeline. Grant agreement signed

A grant agreement of € 5.4 million was signed for studies necessary to launch the construction works of the Balticconnector gas pipeline. The Balticconnector will be the first gas pipeline to connect Estonia and Finland, and will significantly increase energy security in the eastern Baltic Sea region. It will be able to transport gas in both directions and – together with the gas interconnector Poland-Lithuania – will help finalise the Baltic Gas Ring, and end the isolation of the Finnish gas market. The pipeline will consist of three sections – the Finnish onshore section (22 km), the offshore section (81 km), and the Estonian onshore section (47 km). The capacity of the pipeline will be 7.2 million cubic metres per day. The total cost of the project is estimated at €250 million. The pipeline is expected to be operational by 2020. (ec.europa.eu/energy)

## TWEETS OF THE MONTH

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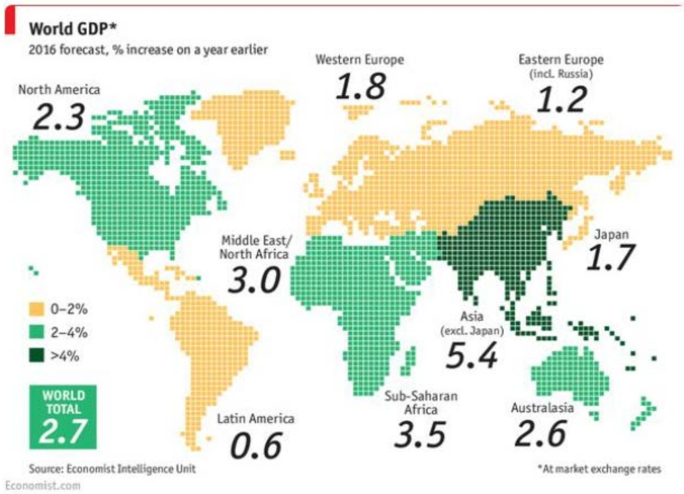


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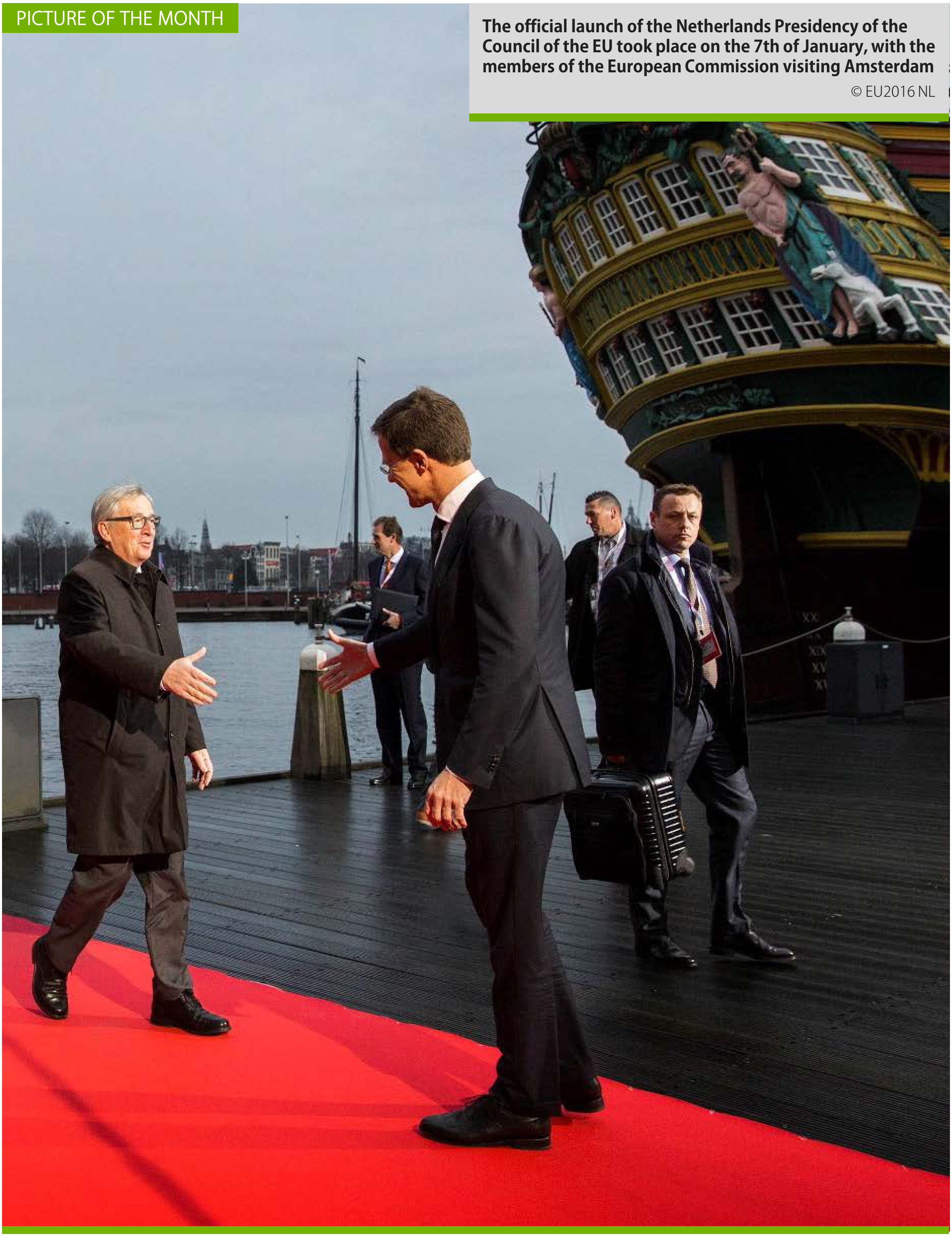
## PICTURE OF THE MONTH

**The official launch of the Netherlands Presidency of the Council of the EU took place on the 7th of January, with the members of the European Commission visiting Amsterdam**





Central Europe Energy Partners (CEEP) represents 24 energy and energy-intensive companies and organisations from six Central European countries, employing over 300,000 workers, with a total annual revenue of more than EUR 50 billion. CEEP is the first major body to represent the energy sector companies from the region at the EU level. The aim of CEEP is to strengthen the region's energy security within the framework of a common EU energy and energy security policy. CEEP is an international non-profit association with its headquarters in Brussels and a branch in Berlin.

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