CEE bankwatch network

Issue paper

For more information

Name
Kuba Gogolewski

Position
Energy campaigner

Contact details
CEE Bankwatch Network
Wspólna Street 41, flat 72,
00-519, Warsaw
Tel: (+48) 228920086
Email: kuba.gogolewski@bankwatch.org

CEE Bankwatch Network's mission is to prevent environmentally and socially harmful impacts of international development finance, and to promote alternative solutions and public participation.

www.bankwatch.org

The EBRD and the Polish coal sector

The Polish energy market is at the crossroads. Almost 90 percent of electricity is produced from coal, and two thirds of installed coal capacity is older than 30 years, and one third is nearly 40 years old[1]. According to the Public Consultancy Board for the National Programme of Emission Reduction, more than 6 GW of ageing generation capacity, or nearly 20 percent of the total current installed capacity, will need to be taken out of operation by 2015. For this reason massive investments in energy capacity are needed in order to maintain the current levels of energy generation[2] and to meet the ever-increasing requirements of EU climate and environmental legislation. It is therefore an opportune moment for international financial institutions to channel investments that support EU climate and energy policy targets and as well the transition towards a resource-efficent energy production model based on renewables.

The EBRD could play a crucial role in that process by providing financial assistance to energy efficiency projects and renewable energy and at the same time refraining from further fossil fuel investments. Such financing needs are especially relevant given that the cost estimates required for energy generation and infrastructure in Poland until 2020 range from EUR 41 billion[3] to EUR 98,5 billion[4].

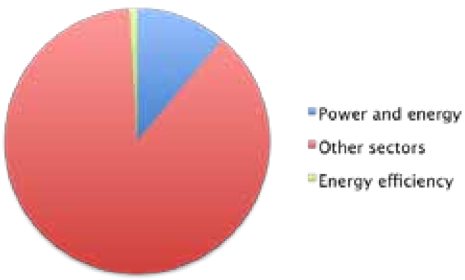
The need for new energy generation capacity in Poland

One of the most pressing issues facing Poland in the coming decades is the need to upgrade both its energy infrastructure and power generation capacity. There is no consensus about what direction the energy production sector take. The Polish government is strongly pushing to obtain free carbon emissions allowances for new power stations with a combined generation capacity of up to 15 000 MW and as well considers that both energy efficiency measures and renewable energy can play only a marginal role in the newly-constructed power infrastructure[5]. At the same time, the European Council has called for an 80 to 95 percent reduction of greenhouse gas emissions in developed countries by 2050. The EU's goal of becoming a resource-efficient, renewables-based economy by 2050 is further outlined in the Comission's recent publication "Roadmap for moving to a low-carbon economy in 2050"[6] which demonstrates that the cost-effective path to reach this goal requires a near-total decarbonisation of the EU energy sector by 2050.

What role for the EBRD?

The EBRD can play a positive role in driving the transition of new Member States towards resource-efficient, renewables-based economies. The EBRD provides much needed financing for new wind farms, energy transmission infrastructure and other energy efficiency and renewable energy projects, and much more financing in those areas is required. We commend the EBRD for its commitment to energy efficiency and renewable energy with initatives like the Poland Sustainable Energy Financing Facility (PolSEFF), launched at the end of January 2011, and the recent report written together with Grantham Research Institute "The low carbon transition Special Report on Climate Change". Although CEE Bankwatch Network does not share all of the EBRD's positions and conclusions in this study, opening a dialogue about the ways in which to limit the impacts from EBRD operations on climate change is a welcome sign of change at the bank.

In spite of these laudible efforts, there are as well examples in which EBRD financing has been provided under the guise of energy efficiency[7] but when in fact the financing has been used for fossil fuel projects[8]. On the whole of its operations in Poland, the EBRD has invested over EUR 4,5 billion in various sectors of the economy and 12 projects have been for power and energy or energy efficiency, totaling EUR 340,3 million in 2009[9] and over EUR 500 million at the end of 2010. Of that amount a mere EUR 39,9[10] million was spent on energy efficiency, or 5,5 percent of the total lending in this sector, including a EUR 7,6 million equity investment in Dalkia Polska S.A. to finance the acquisition of ZEC Lodz. The most recent project categorised under energy efficiency was approved over half a decade ago in January 2006. Almost twice as much money as was spent on energy efficiency – EUR 188,9 million — went for two lignite power plants – Belchatow II and Patnow II. The renewable energy sector has received EUR 273 million, amounting for the bulk of the loans and more than a half of the money that the EBRD provided in Poland since 2008.



EBRD lending portfolio in Poland as of 2010

The EBRD has announced that it has been approached by investors for two planned power plants, including the largest greenfield coal project under development in the EU, the 2000 MW Północ Power Plant (Elektrownia Północ) in the northern Pomerania region[11] and the IGCC power plant in Kedzierzyn-Kozle[12]. Costs of the Północ Power project are estimated between EUR 3.1 billion and EUR 3.86 billion and the Board Members of the Północ Power Plant Ltd. have admitted that they are talking to the EBRD as recently as 17 March 2011[13]. No information has been provided by the EBRD about the sum they would consider financing.

What is certain however is that if either of these projects receives EBRD financing, precious resources will be driven away from energy efficiency and renewable energy projects, and Poland will remain chained to its fossil fuel-intensive energy production model, making almost certain its inabililty to achieve EU emission reductions goals.

Recommendations

Provided their role in supporting the transition to a safer and sustainable future the EBRD should:

1. Increase its renewable energy and energy efficiency lending in Poland given that it supports the goals of the Bank's Strategy for Poland 2010-2013.
2. Discontinue financing for fossil fuel projects and, as a first step, avoid all financial support for a the coal sector
3. Avoid supporting new coal mines, coal power plants and coal-fired heating plants.
4. Avoid supporting the modernisation of existing coal facilities when this results in prolonging lifetimes or increasing production.
5. Stop acquiring equity stakes in companies that are investing in coal or plan to do so

Notes

1. Age distribution of Poland's power plants by fuel, International Energy Agency, 2010.
2. Poland generated a total of 35 762 MWhrs of electric power in 2009 and was a net exporter of electricity.
3. Estimates by Krzysztof Żmijewski, secretary general of the Public Consultancy Board for the National Programme of Emission Reduction and
4. "Polska 2030" report prepared by the Strategic Advisors Body to the Prime Miniter of Poland (June 2009).
5. Poland's energy policy until 2030, 10th of November 2009.
6. Roadmap for moving to a low-carbon economy in 2050, http://ec.europa.eu/clima/documentation/roadmap/docs/com_2011_112_en.pdf
7. A loan for Dalkia Polska - Lodz Cogeneration Privatisation in 2004 for example.
8. The most recent cases for EBRD being Belchatow II project in 2005 and Patnow II in 2003 (both lignite power plants): http://www.ebrd.com/saf/search.html;jsessionid=720DD3FA5644BF92D3399D8E30A9EA41?page=2
9. Country strategy for Poland 2010-2013, EBRD, July 2010
10. 1 EUR = 4 PLN throught the issue paper.
11. PAP (Polish Press Agency) on the 16th of September 2010 Board Member of Elektrownia Północ Ltd -Karol Pawlak – stated that conversations on investment financing are held with both the EBRD and the EIB.
12. The EIB has agreed to finance up to 50% of the demonstration CCS project. An additional condition for securing a minimum of EUR 250 million from the NER300 fund had not been met as the investors have withdrawn temporarily from the application for NER300 funds at the end of March 2011. The EBRD has confirmed that it has been approached by the invstor, however denies any formal conversations are taking place.
13. Statement by the investor during a meeting in Pelplin Town Hall.