



## **Weekly Briefing**

**Poland economy briefing:  
Action to reduce coal prices  
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## **Action to reduce coal prices**

### **Summary**

*Poland has finally stopped importing coal and gas from Russia. This action has resulted in increased prices of raw materials, especially coal. The coal issue is particularly important due to the fact that Poland is the largest coal energy producer in Europe, and this raw material is the most important source of energy for Polish households. The Polish government assures that Poland is energy secure and ready to move away from Russian raw materials. The Polish Energy Strategy until 2040 was updated, which emphasizes the need for accelerated diversification of the country's raw materials in the context of moving away from Russian resources. The Polish government presented a package of legislative solutions aimed at lowering coal prices by limiting the role of middlemen in the coal trade and subsidising middlemen.*

### **Introduction**

On April the 26th Gazprom Export informed Poland and Bulgaria to suspend gas deliveries from April the 27th. The official reason for the decision is the lack of consent of both countries to pay for the import of the raw material in rubles. Poland finally stopped importing Russian coal in May. The Polish government indicates that it has no intention of financing the Russian aggression against Ukraine by purchasing Russian resources.

### **Poland is ready to suspend the import of Russian raw materials**

Poland is in a good position as its gas reserves are filled in three fourths, thanks to which turning off the tap will not affect the immediate supply of the raw material. This is one of the highest levels among the EU countries, where the average value reaches less than 32%. - According to the statement published by Aggregated Gas Storage Inventory (AGSI). i This does not mean, however, that Polish companies will not feel the consequences. However, the situation should not directly affect the gas supplies to individual customers - analysts estimate.

Piotr Naimski, the government plenipotentiary for strategic energy infrastructure affairs, assured that all consumers of gas in Poland would receive it in the existing volume. The company responsible for gas supplies, Gaz-System, is pursuing a strategy of diversifying gas supply sources and the option of cutting off Russian supplies was being prepared. The Polish authorities assure that the country is prepared to cope without the Russian gas already today, long before the Baltic Pipe pipeline is launched, which will secure our supplies of the

Norwegian raw material, from which the supplies are to start in autumn. - We are ready for full independence from Russian raw materials - the Minister of Climate and Environment Anna Moskwa also confirms.

"Thanks to the implementation of the government's strategy for diversification of gas fuel supply sources, Polskie Górnictwo Naftowe i Gazownictwo - PGNiG is prepared to obtain gas from various directions, among others through gas connections on the western and southern border and the LNG Terminal in Swinoujście, which is successively increasing the number of methane carriers to be served," - informed the Polish energy group PGNiG.<sup>ii</sup>

During a visit to the Gaz-System gas compressor station Morawiecki said: - This shows how effectively we are working for an independent Ukraine and how effectively we were able to act to defend ourselves against Poland's gas blackmail. Since today (27 April), since Russia stopped sending gas, we have ceased to depend on Russia in any way - said the head of government.<sup>iii</sup> - Securing Poland in gas is absolutely certain," Morawiecki stressed. As he added, "with the assumption of the government helm, we took the decision to increase production and search for new sources of gas, and we managed to significantly increase domestic production." He also reminded that interconnectors and the Baltic gas pipeline were consistently built.

The volume of imported gas in Poland from the eastern direction has increased in 20 years by 46 percent (from 6.6 billion m<sup>3</sup> to 9.6 billion m<sup>3</sup>). Thanks to the LNG terminal in Świnoujście and the reverse flow from the western direction - the share of Russia in total imports has decreased and amounted to 55%.<sup>iv</sup> Other directions of gas imports to Poland in 2019 are: Germany (21 percent), Qatar (13 percent), USA (6 percent), Norway (2 percent).

On May 13, the Polish government adopted a resolution on the termination of the agreement with Russia on the construction of gas pipeline systems for gas transit through the territory of Poland and supply of Russian gas from Russia from 1993, last annexed in 2010. - The termination of the agreement unequivocally and decisively ends the history of Polish-Russian gas relations," said Anna Moskwa, the Minister for Climate and Environment <sup>v</sup>. She added that the Yamal pipeline is operating in full compliance with the European law, without any disturbances. Thanks to this the so-called physical reverse, i.e. the ability to transmit gas to Poland from Germany, works without any obstacles.

### **International Energy Agency praises Polish diversification plans**

The International Energy Agency praised Poland for diversification of gas supplies and development of renewable energy sources. It expects, however, that the share of fossil fuels - especially coal - in the energy mix will be effectively limited. In May the agency published a report on the energy policy of our country - "Poland 2022: Energy Policy Review", in which it

indicates that in recent years Poland has done a lot to improve the security and stability of its energy system vi. However, according to the report, it is necessary to significantly accelerate the transition to clean energy in order to reduce CO2 emissions that result from the dominant role of coal in the sector.

Previous such report was published by IEA 6 years ago. Now it appreciated Polish actions. According to the report, the decisions, actions and investments in recent years aimed at diversification of natural gas supplies "should enable Poland to overcome disruptions in supplies from Russia in connection with the Russian invasion of Ukraine". The agency reminds that Russia's share of Polish gas imports has already fallen from 90 percent in 2010 to 55 percent in 2020 thanks to investments in LNG terminals and pipeline connections with other EU countries. Poland is also significantly expanding both LNG capacity and pipeline connections with other EU countries.

### **Update of the Polish energy strategy**

At the end of March, the government adopted assumptions to update Poland's Energy Policy until 2040 (PEP2040). The changes assume independence from dependence on fuels from Russia, diversification of supplies and periodical increase in coal consumption.vii. The updated energy policy is supposed to take into account energy sovereignty, especially the rapid decoupling of the national economy from imported fossil fuels - coal, oil and natural gas, and derivatives such as LPG, diesel, gasoline, kerosene from Russia and other countries under economic sanctions. The revised policy also calls for reducing demand for fossil fuels from Russia and other sanctioned countries. Poland is also expected to gradually reduce its dependence on natural gas and crude oil; however, in the coming decades, it is still necessary to guarantee certainty of their supply to consumers.

### **Government presented solutions to counter high coal prices**

In response to rising coal prices, the Polish government passed a law that guarantees the price of coal on the Polish market. - (...) In order to equalise the prices available to individual customers (...) we decided to use the equalisation mechanism at the level of entities importing this coal to Poland - the guaranteed price for individual customers is currently 221 euro - said the Minister for Climate and Environment Anna Moskwa during the conference. She said that the programme will cover individual consumers, housing cooperatives and communities that use coal for heating. Now the bill will be discussed by the parliament. viii

The Government Information Centre (CIR) said in a press release that a special compensation mechanism will be introduced, thanks to which hard coal, briquette or pellet

containing at least 85% of hard coal will be sold at a price no higher than 221 euro gross per tonne. This is the amount corresponding to its average price in the last year, according to the Central Statistical Office.

This solution will be possible thanks to the introduction of a special compensation mechanism, whose beneficiaries will be households that can buy coal at a price lower than the market price. "Companies that decide to sell coal at lower prices will be compensated for potentially lost profits. The condition for receiving the compensation will be registering the company in Poland and selling coal to individual customers at the listed price." - CIR explained.

The maximum compensation for the sale of 1 tonne of solid fuel will amount to 166 euro gross. Importantly, in 2022 the maximum amount of coal purchased at a competitive price will be allowed to be 3 tonnes. The basic condition to take advantage of the support will be that the household uses the following sources for heating: a solid fuel boiler, fireplace, goat, air heater, cooking range, stove-kitchen, coal kitchen or tiled stove powered by solid fuel - reported to the Central Register of Building Emissions. Coal will be sold to households for their own consumption.

The government is to allocate 660 million euro to help individual consumers. "The increase in coal prices is mainly due to Russia's attack on Ukraine. It is also a result of increased demand for coal from 2021 onwards due to, among other things, limited availability and high natural gas prices as a result of the actions of Russia's Gazprom," the release noted.

## **Conclusion**

Limiting imports of Russian raw materials, in response to Russia's aggression against Ukraine, is a challenge for the Polish economy. However, Poland is ready for diversification, as it has been implemented for years. However, in short term it entails additional costs related to the increase in raw material prices. In order to prevent it, the Polish government presented special solutions aimed at lowering coal prices and realizes supplies of raw materials from other foreign directions.

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<sup>i</sup>The Business Insider Portal <https://businessinsider.com.pl/gospodarka/wszystko-co-musisz-wiedziec-o-wstrzymaniu-dostaw-gazu-przez-rosje/nmj0np8>

<sup>ii</sup>The Business Insider Portal <https://businessinsider.com.pl/gospodarka/wszystko-co-musisz-wiedziec-o-wstrzymaniu-dostaw-gazu-przez-rosje/nmj0np8>

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- <sup>iii</sup>The TV TVN Business Portal <https://tvn24.pl/biznes/z-kraju/gaz-ziemny-wstrzymanie-dostaw-z-rosji-premier-mateusz-morawiecki-komentuje-5689723>
- <sup>iv</sup> The TV TVN Business Portal <https://tvn24.pl/biznes/z-kraju/gaz-ziemny-wstrzymanie-dostaw-z-rosji-premier-mateusz-morawiecki-komentuje-5689723>
- <sup>v</sup> The TV Polsat Portal <https://www.polsatnews.pl/wiadomosc/2022-05-23/anna-moskwa-wypowiadamy-polsko-rosyjskie-porozumienie-ws-gazociagu-jamal/>
- <sup>vi</sup> Wgospodarce.pl Portal <https://wgospodarce.pl/informacje/111762-miedzynarodowa-agencja-chwali-polska-polityke-energetyczna>
- <sup>vii</sup> The BusinessInsider.com.pl Portal <https://businessinsider.com.pl/gospodarka/rzad-zmienia-polityke-energetyczna-polski-2040-celem-niezaleznosc-od-rosji/bmzqxv1>
- <sup>viii</sup> TVN Business TV Portal <https://tvn24.pl/biznes/z-kraju/ceny-wegla-gwarantowana-cena-wegla-dla-gospodarstw-domowych-jaka-wysokosc-rzad-przyjal-projekt-ustawy-5750607>