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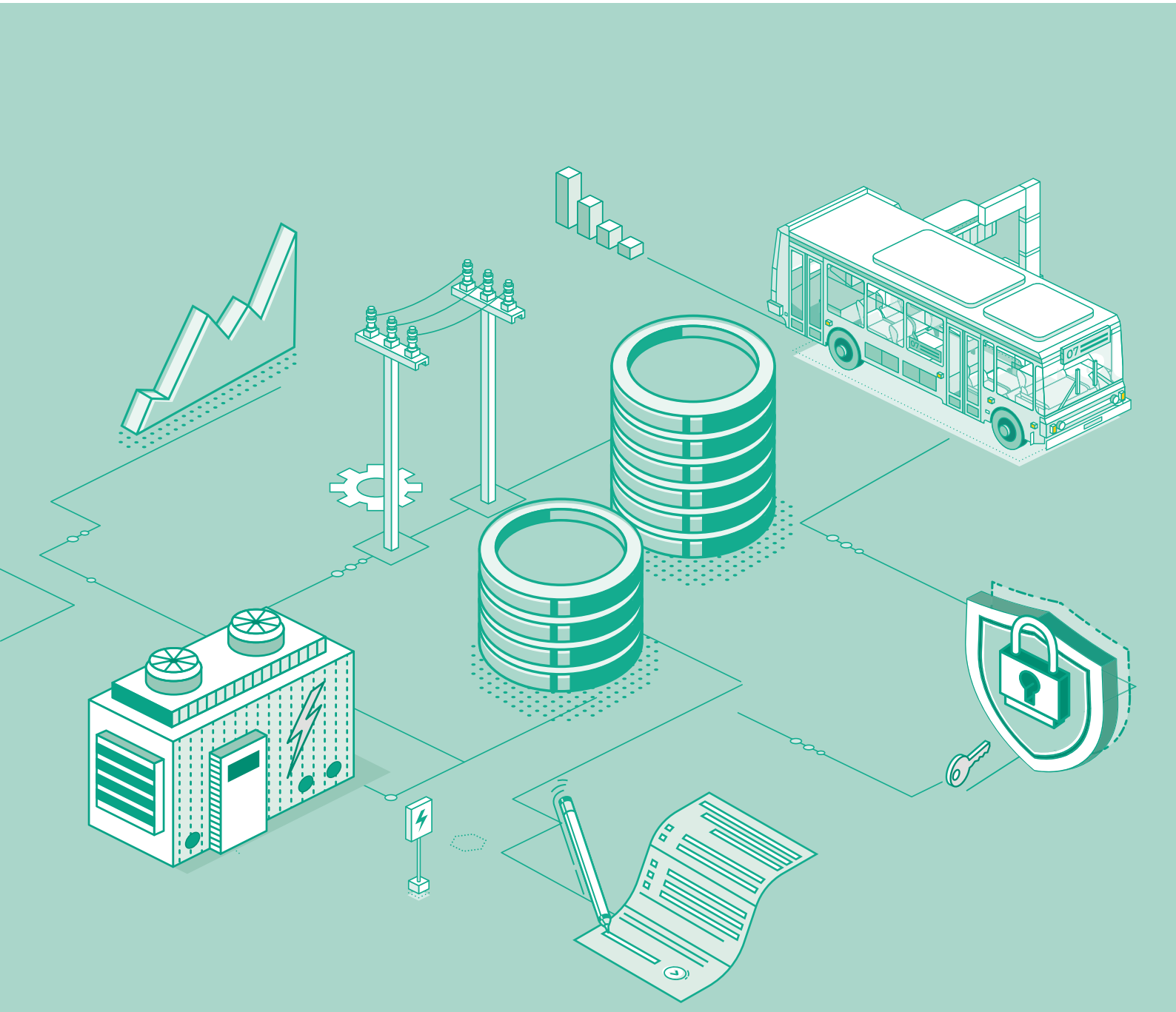
How Much Energy in the New EU Budget?



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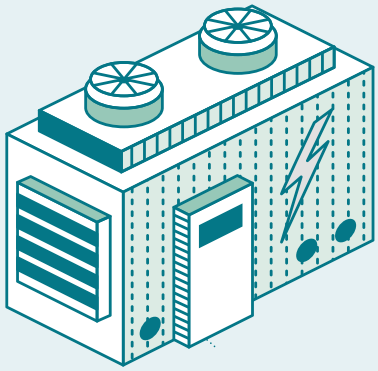

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Warsaw, December 2025

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This report is the second part of a series of publications devoted to financing investments aiming to transform Poland's energy sector. It underscores the role and importance of EU funds, with a particular emphasis on large projects. The first part, entitled 'European Funds Provide the Power', addresses the role of the European Union in the energy transition.

Key Conclusions

1 **Negotiations on the multiannual financial framework (MFF) for 2028–2034 coincide with a review of the EU's priorities.** Improving industrial competitiveness and counteracting the deindustrialisation of the continent have become key priorities. At the same time, an ambitious climate policy is being pursued, striving to implement the EU's climate neutrality goal by 2050 and achieve a 90 per cent reduction in emissions by 2040 - all while taking into account the limited role of international credits. This priority is reflected, in the new budget proposal, by the EUR 409 billion European Competitiveness Fund (ECF), but its structure may hinder equal access to support for Member States and regions. To ensure that the ECF is an effective tool, it needs to be designed in a way that takes into account the level of development, the structure of the energy sector and the scale of investment challenges prevailing in individual Member States.

2 **The EU faces the challenge of unprecedented defence and security spending.** This is due to the tense geopolitical situation and Russia's clearly confrontational attitude towards Europe. Therefore, the largest part of the ECF – EUR 131 billion, or 32 per cent of the funds available – will be allocated to security and the space sector. It is essential, however, to permanently incorporate energy security and the dual use of civilian infrastructure – that may also be relied upon for defence-related purposes – into security policy.

3 **The EU's new priorities do not mitigate investment needs that exist in the energy sector** - an industry that faces the complex challenge of decarbonising power generation sources and meeting the growing demand for electricity caused the electrification of transport and individual heating, as well as from the EU's abandonment of fossil fuels from Russia, and the development of digital technologies. In this context, the financing of electricity infrastructure should focus on the most price-sensitive elements: generation and networks that increase the flexibility of the system, thus enabling the full integration of renewable energy sources and strengthening the sustainable competitiveness of the entire economy. The heating sector is also of particular importance here, as it requires stable and predictable financing mechanisms. In order to meet these challenges, the new MFF should respect the principle of technological neutrality and the freedom of individual Member States in shaping their energy mix.

4 **According to the European Commission, integrated management of multiple funds, including the Cohesion Fund, should allow for more effective spending of MFF funding between 2028-2034.** A single pool totalling EUR 865 billion is expected to simplify the system for spending EU funding and offer the individual countries greater allocation flexibility, but it may also make it more difficult to balance the varying priorities. The Commission also proposes introducing a 'money for reforms' mech-

anism, which is already known from the Recovery and Resilience Facility (RRF), but appears for the first time in the context of the MFF. This raises concerns as to whether expenditure on, for example, energy transition will be dependent on reforms unrelated to this specific area. MFF-related negotiations are therefore an opportunity to promote and improve the the approach to financing strategic investments (as defined in the National Recovery Plan), so that funds are allocated dynamically and flexibly, but also in a way that improves the regulatory environment for investors.

5

The new EU budget may not be able to meet energy transition-related challenges existing in Poland. The funds may prove insufficient to meet the investment needs, especially if their value is eroded by inflation, as investment expenditure will increase sharply in the coming years. The lack of funds earmarked for the just transition of coal-dependent regions will also make it difficult to plan the measures necessary to continue the process of phasing out coal-based energy in a socially acceptable manner. In this decade, one of the main financial drivers of Polish transition is the Modernisation Fund, financed under the ETS system. Its strengthening and extending beyond 2030 is essential to maintain the pace of decarbonisation. Otherwise, the costs of investment will be passed on, to a greater extent, to end users, which will increase energy prices and reduce public support for the energy transition in Poland.

6

Strategic investments by large energy companies translate into increased competitiveness of the entire economy, as they impact energy prices and the carbon intensity of the energy mix. EU funds may help facilitate the funding of capital-intensive projects, such as offshore wind farms, and reduce end users' exposure to the costs of modernising and expanding electricity networks. However, for the support to be effective, it needs to be ensured that unding is allocated based on competitive and transparent procedures.

7

In order to increase the resilience of the EU economy, investments need to be planned in such a way as to maximise the participation of EU entities in the implementation of strategic projects. Accelerating investment in strategic areas gives European contractors the opportunity to develop their know-how and ability to compete on the global market, while providing the contracting authorities with greater predictability in terms of cooperation conditions and certainty regarding the origin and security of components and IT solutions. In designing mechanisms to support local content, such as qualitative criteria applied in public procurement procedures, the EU should act in a manner that supports the balanced development of all Member States while ensuring proportionality and non-discrimination, so that the tenders do not lead to excessive investment costs and guarantee fair competition, in particular within the single market.

List of Abbreviations

ACER	Agency for the Cooperation of Energy Regulators
ARA	Amsterdam, Rotterdam, Antwerp
CEF	Connecting Europe Facility
CID	Clean Industrial Deal
CISAF	Clean Industrial Deal State Aid Framework
DSO	Distribution system operator
EC	European Commission
ECF	European Competitiveness Fund
EIB	European Investment Bank
EIF	European Investment Fund
ENTSO-E	European Network of Transmission System Operators for Electricity
ERDF	European Regional Development Fund
ETS	Emissions Trading Scheme
EU	European Union
GBER	General Block Exemption Regulation
GDP	Gross domestic product
GNI	Gross national income
LNG	Liquefied natural gas
MFF	Multiannual Financial Framework
NGEU	NextGenerationEU
NRPP	National and regional partnership plans
PTEC	Polish Society of Heat Energy
RES	Renewable energy sources
RRF	Recovery and Resilience Facility
TCTF	Temporary Crisis and Transition Framework
TTF	Title Transfer Facility

Introduction

The EU is at a turning point in its energy transition. To achieve its climate goals, it needs to speed up investments in zero- and low-carbon technologies, including ones that have not been rolled out on a big scale yet. At the same time, it faces new challenges related to energy security and competitiveness, which creates new investment needs and increases risks.

The Polish energy sector brings these challenges into sharp focus. Investors continue to expand available gas-fired generation sources, modernise electricity, gas and heating networks, invest in RES and energy storage facilities, and decarbonise district heating. Poland also plans to expand its gas import infrastructure, which is necessary to ensure stable and diversified supplies for the country and the region. Finally, it is implementing large-scale nuclear power plant projects and plans the implementation of SMRs, which will operate at the base of the power system in the future. Investments build long-term competitiveness and security, but translate into increased energy costs, which creates social risks, including a decline in support for the fight against the climate turmoil.

The acceleration of the energy transition in Poland is part of a broader process: the revision of EU policies, the reform of industrial policy and the start of negotiations on the multiannual financial framework for 2028–2034. The common goal of these actions is to create more transparent and accessible support mechanisms for strategic investments that are in line with the EU's new priorities, while simplifying the architecture of European funds. Regulatory changes do not have to halt the cross-political trend of energy transition – on the contrary, if implemented in a spirit of solidarity and fair cost sharing, and if the projects they support measurably increase the EU's energy security and competitiveness, they may facilitate the process.

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This research note is an attempt to map the challenges and opportunities facing the EU in relation to the energy transition. It complements the paper titled Funds provide the power, in which we analysed the structure and effectiveness of European funding earmarked, in the current EU budget cycle (i.e. 2021 - 2027), for the energy sector in Poland.

EUROPEAN FUNDS PROMOTING ENERGY TRANSITION

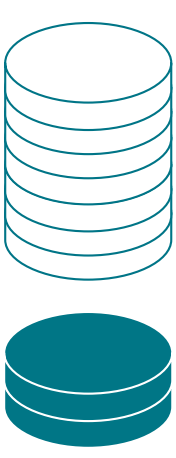
2021-2027 BUDGET

COHESION POLICY (NATIONAL ENVELOPES):

POLAND:
largest beneficent - aprox. **EUR 72.2 billion** (including Cohesion Fund, ERDF) plus **EUR 3.8 billion** from the Just Transition Fund

Forms of support: grants, loans, guarantees, blended instruments (provided through competitive and non-competitive procedures)

Selected scope: RES, energy efficiency (buildings/SMEs), smart grids, energy storage, district heating, low-emission transport



EUR 72.2 billion
including European Cohesion Fund, ERDF

EUR 3.8 billion
from the Just Transition Fund

WITHOUT NATIONAL ENVELOPES

LIFE – CLEAN ENERGY TRANSITION

National envelopes: no
Budget: approx. EUR 1 billion
Forms: grants
Selected scope: cooperatives, competences, investment preparation

InvestEU – SUSTAINABLE INFRASTRUCTURE WINDOW

National envelopes: no
Budget: EUR 26.2 billion
Forms: guarantees/debt/equity by the EIB/EIF and national partners
Selected scope: networks, energy storage, RES, efficiency

CEF – ENERGY

National envelopes: no
Budget: EUR 5.84 billion
Forms: grants
Scope: cross-border energy projects

FUNDS OUT OF MFF

RRF

Polska: EUR 59.8 billion (grants: EUR 25.3 billion + loans EUR 34.5 billion)
Forms of support: grants and loans
Selected scope: RES, energy storage, heat pumps, thermal modernisation, hydrogen

SOCIAL CLIMATE FUND

Poland: approx EUR 11.4 billion + 25% own contribution
Period of operation: 2026–2032
Forms: investment grants and income support for vulnerable recipients
Selected scope: thermal modernisation, RES in buildings, clean heating and transport

INNOVATION FUND

National envelopes: no
Scale: approx. EUA 530 million (value dependent on EUA prices)
Forms: grants
Selected scope: industrial decarbonisation, hydrogen, CCUS, energy storage, innovative RES

MODERNISATION FUND

Poland: 43.4 per cent of proceeds from the sale of 2 per cent of EUAs in 2021–2030 and 34.2 per cent of the additional 2.5 per cent of EUAs in 2024–2030
Period of operation: 2021–2030
Scale: approx EUR 57 billion at EUR 75 per tonne of CO_2 (depending on EUA prices)
Forms: grants and loans
Selected scope: energy storage, smart meters, cogeneration, distribution networks

2028-2034 BUDGET (DRAFT1)

NATIONAL AND REGIONAL PARTNERSHIP PLANS (NRPP)

Pool: approx. EUR 865 billion (+approx. EUR 123 billion for Poland)

Objectives:
• merger of 14 existing funds
• reduction in the number of programmes from 52 to 16, faster payments, greater transparency

Scope:
cohesion policy,
common agricultural policy,
Social Climate Fund,
European Social Fund, funds for migration and security under shared management

Climate and environmental target: 43 per cent

How it works:
the autonomy of EU Member States in planning reforms, investments, and the allocation of funds

Conditionality:
payments may be suspended in the event of a breach of the rule of law and the Charter of Fundamental Rights;
payments are conditional on the implementation of milestones.

EUROPEAN COMPETITIVENESS FUND

Pool:
EUR 234.3 billion, including EUR 26.2 billion for the clean transition and the decarbonisation of industry

Objectives:
• scaling strategic technologies
• promoting products and services 'made in Europe'

Scope:
clean transition, digital leadership, resilience and security, defence and space, health and biotechnology, agriculture and bioeconomy

Climate and environmental objective:
16.5 per cent

How it works:
grants, loans, procurement or financial instruments, including equity investments

CONNECTING EUROPE FACILITY

Pool:
EUR 81.5 billion, including EUR 29.9 billion for the energy component

Objectives:
• development of trans-European transport and energy networks
• strengthening cross-border cooperation and synergies between the transport and energy sectors

Scope:
developing the trans-European transport network and adapting it to military mobility needs, supporting cross-border electricity, hydrogen and CO_2 transmission projects

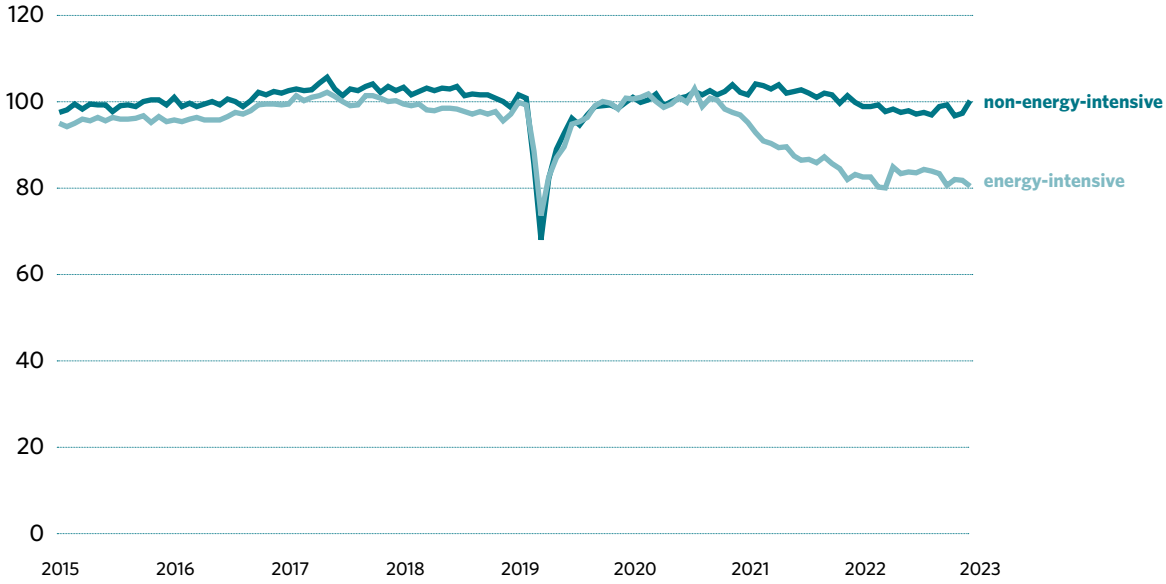
How it works:
grants, prizes, contracts, non-financial donations

What Drives Investment Needs in the Energy Sector?

PRIORITY 1. COMPETITIVENESS

In terms of competitiveness, the EU is guided by the conclusions of the report published in September 2024 by former Italian PM and former head of the European Central Bank (ECB) Mario Draghi entitled 'A Competitiveness Strategy for Europe'. He confirms that the pace of economic growth in the EU has slowed down compared to other global economies, especially the US and China. The decline in production is particularly evident in energy-intensive sectors (Chart 1). Draghi sees the reasons for the decline in the competitiveness of the European economy in high gas and electricity prices (Chart 2), technological obsolescence and low productivity. He concludes that the EU is faced with an 'existential challenge'. To face this challenge, Draghi writes, the UE should invest an additional EUR 800 billion per year, which is almost equivalent to the NextGenerationEU budget. Possible ways of raising such substantial funds, including new joint loan facilities, became one of the main topics of the debate concerning the report, which served as the basis for the Clean Industrial Deal (CID).

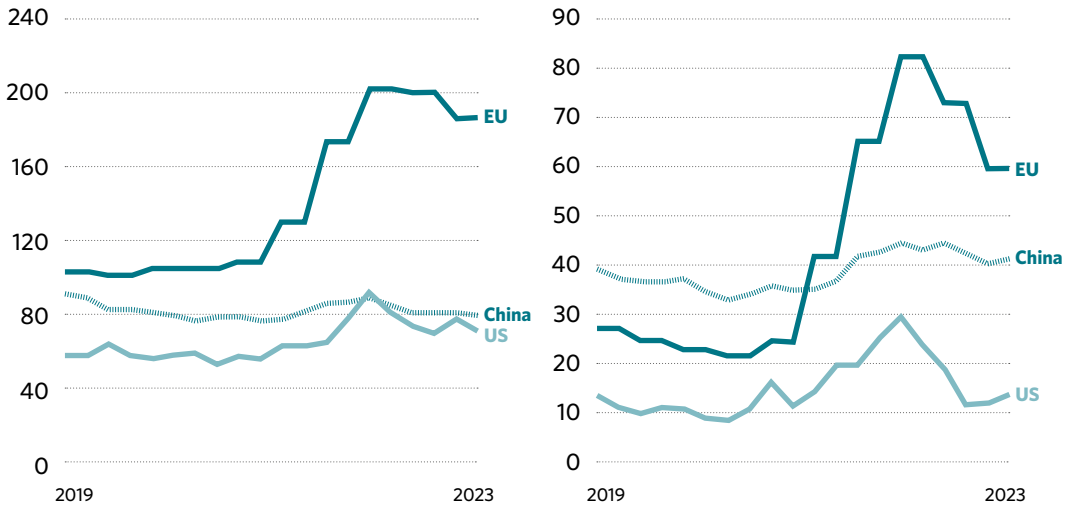
CHART 1. DECLINE IN NON-ENERGY-INTENSIVE AND ENERGY-INTENSIVE INDUSTRIAL PRODUCTION IN THE EU [%]



SOURCE: BRUEGEL, BASED ON DESTATIS AND EUROSTAT.

Draghi's claim concerning the link between ambitious decarbonisation efforst and competitiveness turns into an even more complex issue when confronted with national circumstances. The report was published at a time when energy-intensive industries, including chemical, steel and automotive sectors, began to notice the negative impact of climate policy burdens on their ability to compete in the global market. Nevertheless, the former ECB chairman does not question the EU's climate goals, but stresses that their implementation requires good coordination. Subsequent analyses have shown, however, that economic risks associated with energy transition vary across different EU Member States. Poland is the most exposed country, with these risks accounting for 43 per cent of its GDP. The average rate for the EU as a whole was 16.2 per cent[2].

CHART 2. ELECTRICITY AND GAS PRICES FOR INDUSTRY COMPARED TO CHINA AND US [EUR / MWH]



SOURCE: EUROPEAN COMMISSION.

The implementation of the recommendations contained in the Draghi report should be accelerated. According to the European Policy Innovation Council think tank, at the beginning of September 2025, 11.2 per cent of the 383 recommendations had been fully implemented, and a further 20.1 per cent had been implemented only partially[3]. The EU's limited capacity for rapid, measurable and sustainable interventions[4] increases the pressure to introduce measures improving competitiveness at national level, particularly in the form of energy subsidies for energy-intensive industries. In June 2025, such interventions were facilitated by a simplified state aid framework (CISAF) linked to the CID. It is valid until the end of 2030 and allows to subsidise up to 50 per cent of annual energy consumption, provided that half of the aid received is used for decarbonisation. In this context, it is essential to design and apply support mechanisms in a manner consistent with the principles of proportionality, transparency and non-discrimination, so as to promise a balance between the public interest and the requirements of competition in the internal market.

Draghi's report is crucial from the perspective of the energy sector, but in order to understand the overall challenges facing the EU, it is necessary to consider it in the context of other important papers drawn up in 2024 at the request of the EC: Enrico Letta's report on the future of the EU single market[5] and Sauli Niinisto's report on civil and military preparedness[6].

EU decision-makers are becoming increasingly aware of the role of local content in strategic sectors. Draghi's report confirms the negative impact of the EU's dependence on imports of strategic natural resources and technologies. The policy of increasing the share of domestic production in meeting demand in these areas is already being implemented by the EU under the Net-Zero Industry Act and the Critical Raw Materials Act, but Draghi recommends strengthening it at the level of public procurement and support instruments, such as contracts for difference, to promise predictable demand for components for clean technologies produced in the EU and to offset the effect of subsidies used in third countries, including China. In October 2025, the European Council reiterated its call for the promotion of domestic production, expressing hope that the acceleration of industrial decarbonisation would translate into stronger demand for products made in Europe[7].

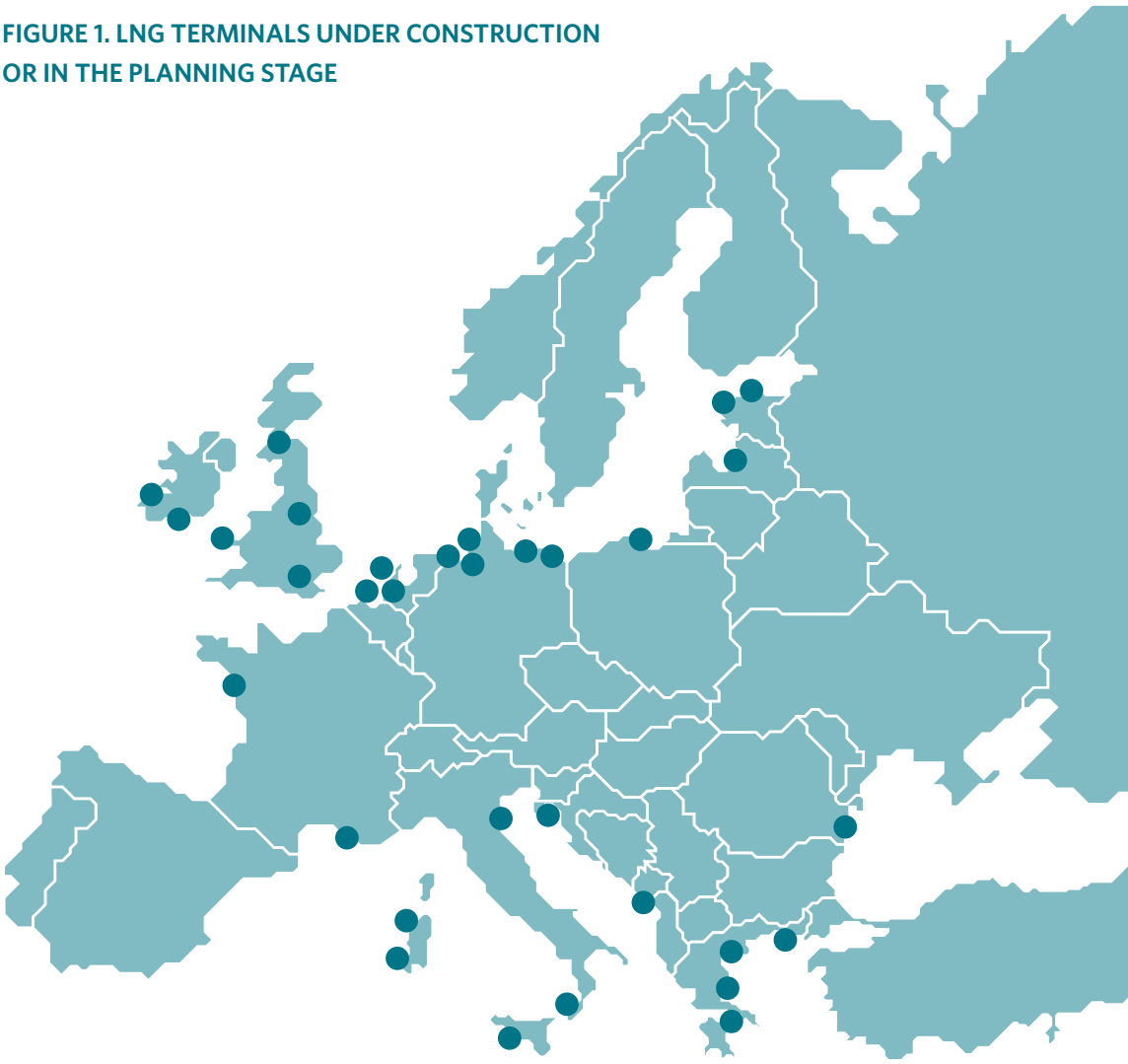
In mature technologies, the introduction of a minimum domestic content requirement does not pose any significant risks. For example, in Poland, local content in onshore wind energy is estimated at 60-70 per cent[8], and investors in power grids declare that in their case, it equals approximately 90 per cent[9]. However, in the case of some innovative technologies, mandatory local content creates the risk of increased investment costs.

PRIORITY 2. SECURITY

Russia's full-scale aggression against Ukraine has exposed the scale of the risks that the EU has allowed to develop as a result of its failure to diversify its energy sources. These risks materialised during the 2022 energy crisis. At its peak, wholesale gas prices on the Dutch TTF exchange reached EUR 320/MWh, average wholesale energy prices on European day-ahead markets jumped to around EUR 400/MWh, and coal in ARA ports rose to EUR 380 per tonne[10]. The experience of the energy crisis motivated the EU to limit imports of Russian hydrocarbons as part of successive sanctions packages[11], with the ambition of completely eliminating deliveries from this direction, and gave impetus to the development of LNG import

infrastructure in the EU (Figure 1). This is intended to enable a complete and permanent abandonment of Russian gas, which was one of the demands of the Polish Presidency of the EU Council in the first half of 2025. As a result, in December 2025, the EU formally agreed to completely wean off gas imports from Russia – LNG by the end of 2026 and pipeline-fed gas by 2027.

FIGURE 1. LNG TERMINALS UNDER CONSTRUCTION OR IN THE PLANNING STAGE

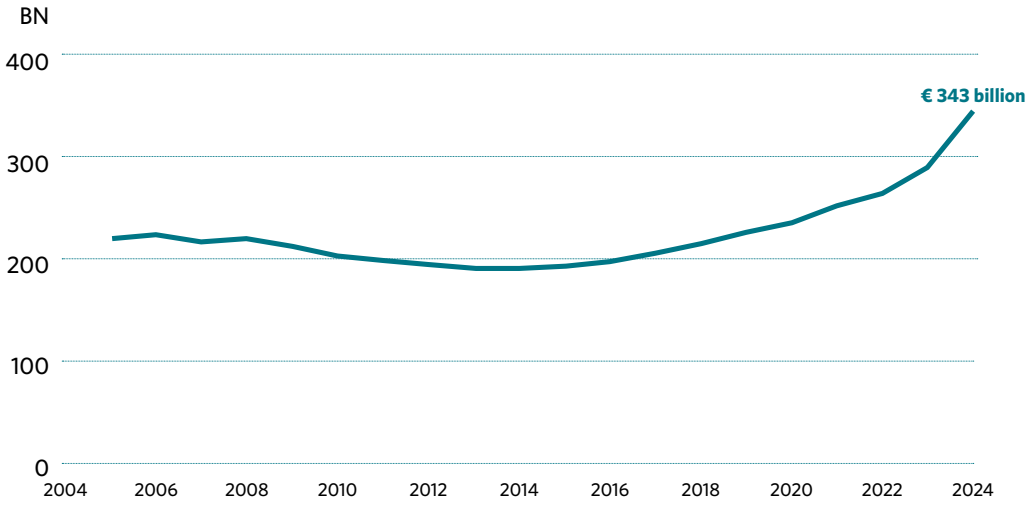


SOURCE: GLOBAL ENERGY MONITOR.

The end of the peace dividend particularly affects countries on NATO's eastern flank. Draghi states that years without armed conflicts directly affecting Europe discouraged countries from allocating 2 per cent of GDP to defence, in line with North Atlantic Treaty Organisation commitments. The current international situation has quickly reversed this trend – in 2024, EU countries spent EUR 343 billion on defence (Chart 3), 19 per cent more than the previous year, and in 2025 they are expected to reach EUR 381 billion, or 2.1 per cent of GDP[12]. At the same time, the unquestionable need for increased defence spending, based on European industry, will lead to increased production in high-emission sectors, such as those producing cement and steel. The correlation between rising military spending and increased greenhouse gas emissions has already been identified at NATO level, based on data from the European Commission and the European Environment Agency, among others.

According to NATO estimates, Poland will spend USD 44.3 billion on defence in 2025, or 4.48 per cent of GDP, compared to 1.86 per cent of GDP in 2014[13].

CHART 3. EU COUNTRIES' DEFENCE EXPENDITURE IN 2005–2024



ŹRÓDŁO: EUROPEAN DEFENCE AGENCY.

The geopolitical situation in Europe and the energy front of the war in Ukraine have made stable energy supplies a prerequisite for national security. NATO studies confirm that the Alliance's energy demand is growing[14], which increases pressure on investments in power grids, including distribution networks. Ukraine's experience also shows that energy infrastructure without adequate defending can be an easy target for enemy attacks, and such attacks also affect the civilian population. The EU's energy infrastructure in the Baltic Sea is vulnerable to hybrid attacks, which have affected the Baltic connector gas pipeline and the Estlink 2 submarine power interconnector.

Resilience of the power system to potential attacks can be increased by distributed energy storage, routing key power lines underground, digitising the grid, and developing distributed available generation sources.

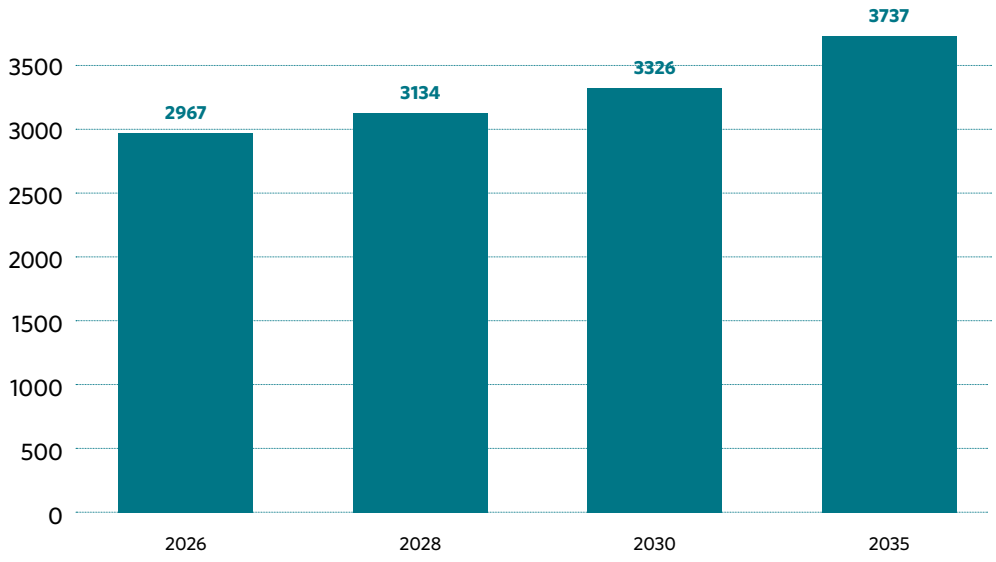
Poland will strengthen its role as a guarantor of energy security in the region. Polskie Sieci Elektroenergetyczne played a key role in the emergency synchronisation of Ukraine and Moldova with the power systems of continental Europe in March 2022, and later in the integration of these countries with the EU in the area of electricity trade. In February 2025, together with the electricity system operators of the Baltic

countries, the Polish operator confirmed their successful synchronisation with Europe. In 2029, the construction of Harmony Link, an interconnector with Lithuania, is to be completed, which will increase the energy security of the Baltic states. Ensuring the security of infrastructure is also crucial in this context. Poland and other neighbouring countries are investing in the security of their distribution networks which are more vulnerable to potential attacks due to their proximity to the war zone. Gaz-System, the Polish gas transmission system operator, is also building a floating LNG terminal in the Gulf of Gdańsk and is considering boosting its capacity even further, which could help countries in the region become independent of Russian supplies. Investments in the LNG terminal in Świnoujście and the Baltic Pipe gas pipeline have also been completed.

PRIORITY 3. ELECTRIFICATION

The demand for electricity and power will continue to grow. According to ENTSO-E data[15], that by 2035, the EU's annual energy demand could rise to 3,737 TWh by 2035, an increase of 37 per cent[16] (Chart 4), while the maximum hourly power demand may reach 602 GW, compared to 410.6 GW at peak demand in 2024[17]. The growing demand for electricity is a result of the ongoing electrification of land transport (especially in the passenger car segment), individual heating and certain industrial sectors (e.g. food industry). It is also related to the development of new energy-intensive industries, such as data centres and green hydrogen production. The increase in electricity demand is and will continue to be observed in the district heating sector due to investments in large-scale heat pumps and electrode boilers, especially in countries with a high share of district heating. According to an analysis conducted by the Polish Heat Energy Association (PTEC), the demand for electricity from this sector in Poland may exceed 15 TWh per year as soon as 2030[18].

CHART 4. FORECAST OF MAXIMUM ANNUAL ELECTRICITY DEMAND IN THE EU [TWH]

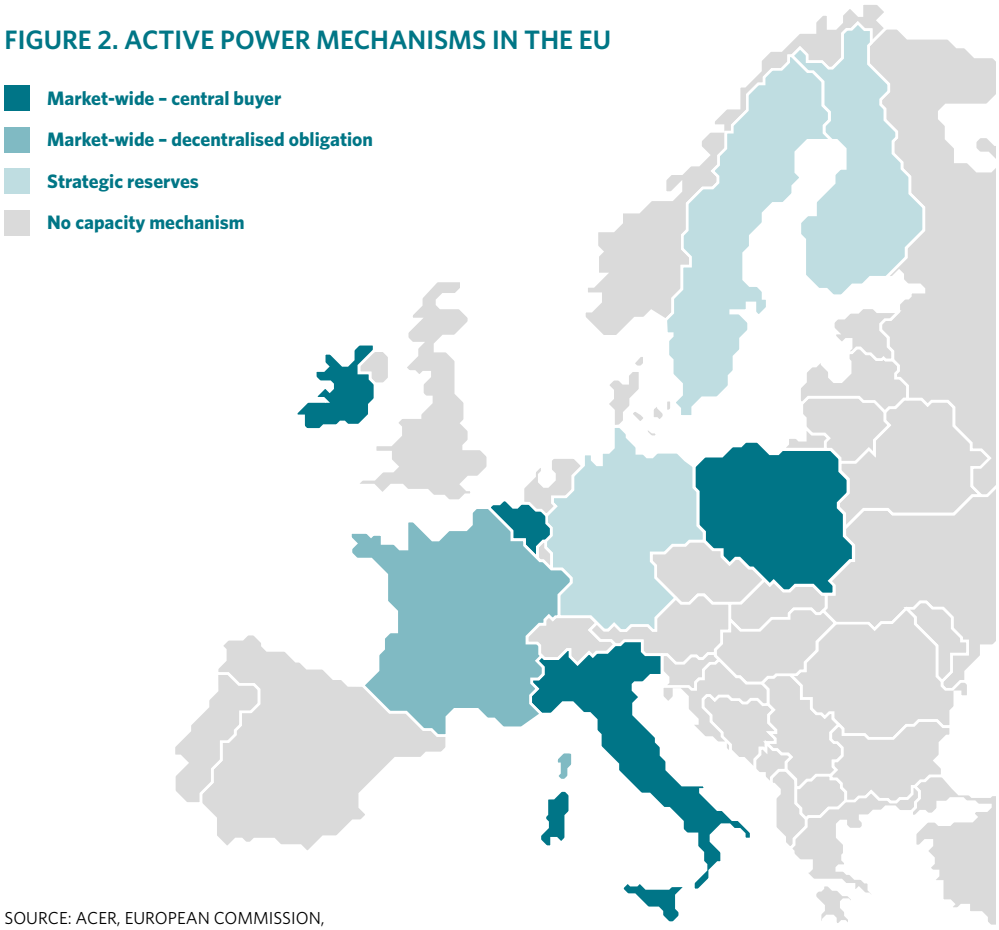


SOURCE: ENTSO-E.

‘The Clean Industry Pact’ assumes that by the end of the decade, the rate of electrification should increase from the current 21.3 per cent to 32 per cent. In practice, however, this will depend on regulatory requirements for moving away from conventional fuels in private transport and heating, as well as on the pace of development of the hydrogen economy.

The increase in the share of RES in the energy mix necessitates investment in available capacity. According to ENTSO-E, the total installed capacity of wind and photovoltaic power plants will increase from approximately 570 GW at the end of 2024 to 1.3 TW in 2030 and 1.7 TW in 2035. Balancing interconnected power systems during periods of low RES generation and high energy demand requires available generation capacity, which is why ENTSO-E, although it adopts a moderately conservative methodology for calculating the capacity gap, recommends the construction of an additional 50 GW in gas-fired power plants – especially since ENTSO-E expects 11,8 GW in coal-fired power plants to be phased out by 2030. In the future, the creation of support systems in the form of capacity mechanism that may evolve into a dual-commodity energy market. As a result of the 2024 energy market reform, these mechanisms have already been recognised as a structural element of the market and are being developed in many EU countries (Figure 2).

FIGURE 2. ACTIVE POWER MECHANISMS IN THE EU



SOURCE: ACER, EUROPEAN COMMISSION, NATIONAL STATEMENTS.

Electrification requires investment in network infrastructure. Demand resulting from the development of electric vehicle charging infrastructure and the growing use of energy by households and industry increases the pressure to expand the network, especially in the distribution segment. Investments must also include network digitisation, as it improves the efficiency of existing infrastructure and enhances the network's resilience to failures. According to European Commission estimates, by 2040 the distribution segment will account for more than half of overall network investment cost. Duly designed support measures may limit the exposure of energy consumers to investment costs and, by strengthening the energy union and increasing the system's ability to integrate energy from RES, may also stabilise wholesale energy prices.

The European Commission estimates that between 2024 and 2040, investments in distribution networks will amount to EUR 730 billion, and in transmission networks – EUR 472 billion[19]. On 10 December 2025, the EC presented the European Grid Package which aims to improve the coordination of investment plans, simplify administrative procedures for investments in transmission networks, and increase access to financing.

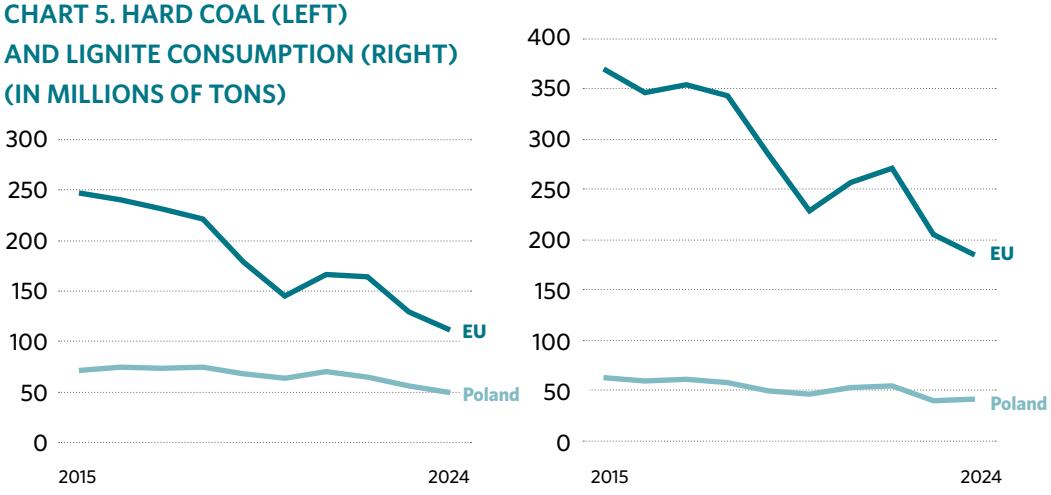
The role of large-scale energy storage facilities is growing, but unequal access to financing such undertakings remains a problem. Energy storage systems allow cheap energy from RES to be stored and released into the system during hours of low generation from renewable sources, reducing price peaks. They also provide short-term flexibility in the power system, thus stabilising the grid – it is the only technology capable of delivering up to hundreds of megawatts of power to the system in a matter of seconds. Battery-based (lithium-ion) energy storage is becoming cheaper – between 2013 and 2024, its average price fell by 86 per cent[20]. Uneven access to funding required to invest in energy storage solutions remains a problem. In countries with high gross national income (GNI), investors have free access to a wide range of commercial instruments, while in countries with lower GNI, financing options are significantly limited[21]. Power system operators also report a demand for energy storage facilities capable of long-term operation; one of the available technologies in this area is pumped-storage power plants, but their potential is limited by the availability of funding, given the capital-intensive nature of the investment.

PRIORITY 4. MOVING AWAY FROM COAL

The phasing out of coal mining should take place with public acceptance. This entails addressing challenges such as job losses and a decline in local government revenues. The process requires broad financial and institutional support, including worker retraining programmes, investments in new industrial sectors, and compensation mechanisms. In the future, measures aimed at ensuring a just transition could be financed under the ESF which is to remain the EU's primary instrument for promoting and strengthening social cohesion. Supporting regions, sectors, and citizens in the just transition is also among the objectives of the ECF.

Poland continues to display the highest consumption of coal in the EU (49 mln tonnes in 2024), while Germany has the highest consumption of lignite (92 mln tonnes). Nevertheless, the EU's demand for solid fuels is gradually declining. According to Eurostat, between 1990 and 2024, annual coal consumption in the EU decreased by 72 per cent to 110.9 mln tonnes, and lignite consumption by 71 per cent to 199.3 mln tonnes. The turn of the 2030s will bring about further declines, particularly in the electricity-generation sector, where RES are pushing coal-fired power plants out of the energy market, and capacity mechanisms are contributing to a gradual shift in the role of system stabiliser to gas-fired power plants. This means that adequate support must be secured to fund benefits protecting the departing mine and power station workers.

CHART 5. HARD COAL (LEFT) AND LIGNITE CONSUMPTION (RIGHT) (IN MILLIONS OF TONS)

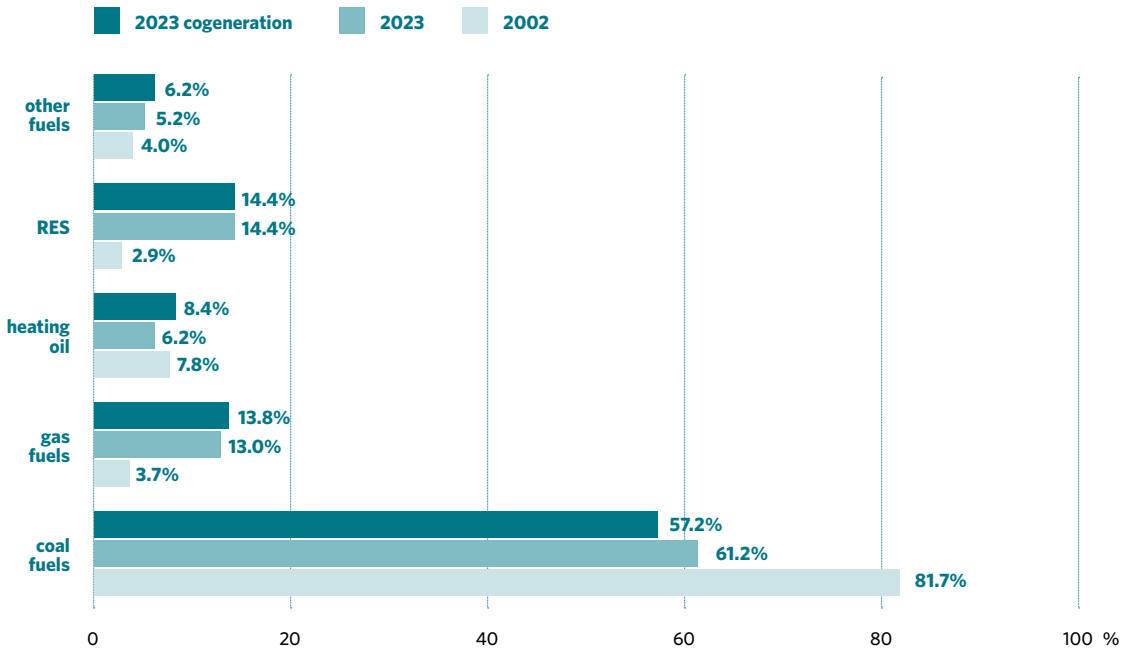


SOURCE: EUROSTAT.

The transformation of coal-dependent regions requires much more than just adaptation measures. Above all, systemic and long-term investments in new sectors of the economy capable of generating sustainable jobs and ensuring socio-economic cohesion are needed. The gradual shift away from the production and consumption of solid fuels is particularly acute for areas whose development has historically been based on the coal economy. An example is the Rybnik region, where as recently as 2022, coal-related jobs accounted for 20-50 per cent of total employment in some poviats[22]. Companies managing coal assets are investing in new energy sources and are moving away from coal, but in many instances it is impossible to promise a sufficient number of jobs. Therefore, coal-dependent regions and the companies operating therein need to be supported in their investments aiming to develop promising sectors of the economy.

Regulatory requirements are forcing an acceleration of investments in the decarbonisation of district heating. Planning decarbonisation **investments in district heating is easier than in the case of individual heating.** A high share of district heating in the heating market can therefore be an advantage. Poland - the EU's leader in terms of the number of district heating customers, is a good example, as its system covers 52.2 per cent of households[23]. The decarbonisation of district heating in Poland is progressing (Chart 6), but according to PTEC estimates, the required expenditure may reach PLN 466 billion by 2050. This creates the risk of excessive burden on end users who often do not have the option of choosing alternative suppliers. In this context, financing mechanisms are needed to promise the implementation of climate targets while limiting the cost pressure exerted on households and businesses. This requires the activation of private capital, the use of EU instruments and the creation of a stable regulatory framework.

CHART 6. CHANGE IN THE FUEL STRUCTURE IN DISTRICT HEATING IN POLAND



SOURCE: PTEC.

The concept of technological neutrality plays a key role in the debate on phasing out fossil fuels. The start of negotiations on the MFF for 2028-2034 coincided with the debate on the 2040 climate target, which, due to the challenges described above (related to concerning competitiveness, security and declining public approval for decarbonisation) became the arena for severe political dispute. EU leaders have spoken out on this issue, emphasising, among other things, the role of technological neutrality in the reindustrialisation, modernisation and decarbonisation of Europe[24]. The European Parliament took a similar position, noting in its July 2025 report on energy security in the EU the positive impact of technological neutrality on energy security, resilience and diversification of supply[25].

How to Finance Investments?

The achievement of EU priorities requires a radical increase in investment expenditure in the energy sector. This is confirmed by EC studies which show that achieving climate neutrality by 2050 in the energy sector alone requires investments of approximately EUR 565 billion per year (3.3 per cent of GDP) between 2021 and 2030 and EUR 660 billion per year (3.2 per cent of GDP) between 2031 and 2050. In the previous decade, these investments amounted to EUR 250 billion per year[26]. A significant portion of these costs will be borne by countries with a high share of emission-intensive sectors in their GDP, such as Poland and Bulgaria. Among the proposals put forward in the EU Council's position on the draft regulation setting the 2040 climate target is the inclusion of EU countries' circumstances in the design of climate policy targets and instruments for the next decade. This proposal should be reflected by adequate access to financing[27].

In the budget for 2028-2034, spending on climate and environmental protection is set to increase, but not enough to meet the needs. According to the EC's proposal, the total allocation would amount to EUR 700 billion, or 35 per cent of the total amount, compared to approximately EUR 660 billion, or 30 per cent, under the 2021-2027 MFF. Although the nominal increase is EUR 40 billion, its relative scale remains disproportionate to the needs of the energy and industrial transition. The European Commission proposes a correction mechanism to protect the real value of the budget – in the event of inflation exceeding 3 per cent, expenditure ceilings will be indexed to the actual inflation forecast rather than a fixed deflator of 2 per cent, in order to prevent the erosion of purchasing power observed in the current MFF. However, after deducting the cost of servicing the debt incurred for the NGEU, the real value of the new budget is only 1.15 per cent of GNI, which is only 0.02 percentage points more than the current budget, which limits the ability to finance transformational investments.

The costs of the climate crisis could reduce the EU's GDP by up to 7 per cent[28]. So, a cost-effective energy transition could be worthwhile – as long as the benefits of the investments needed to make it happen outweigh the costs, especially in countries where high-emission industries make up a big part of their GDP and jobs.

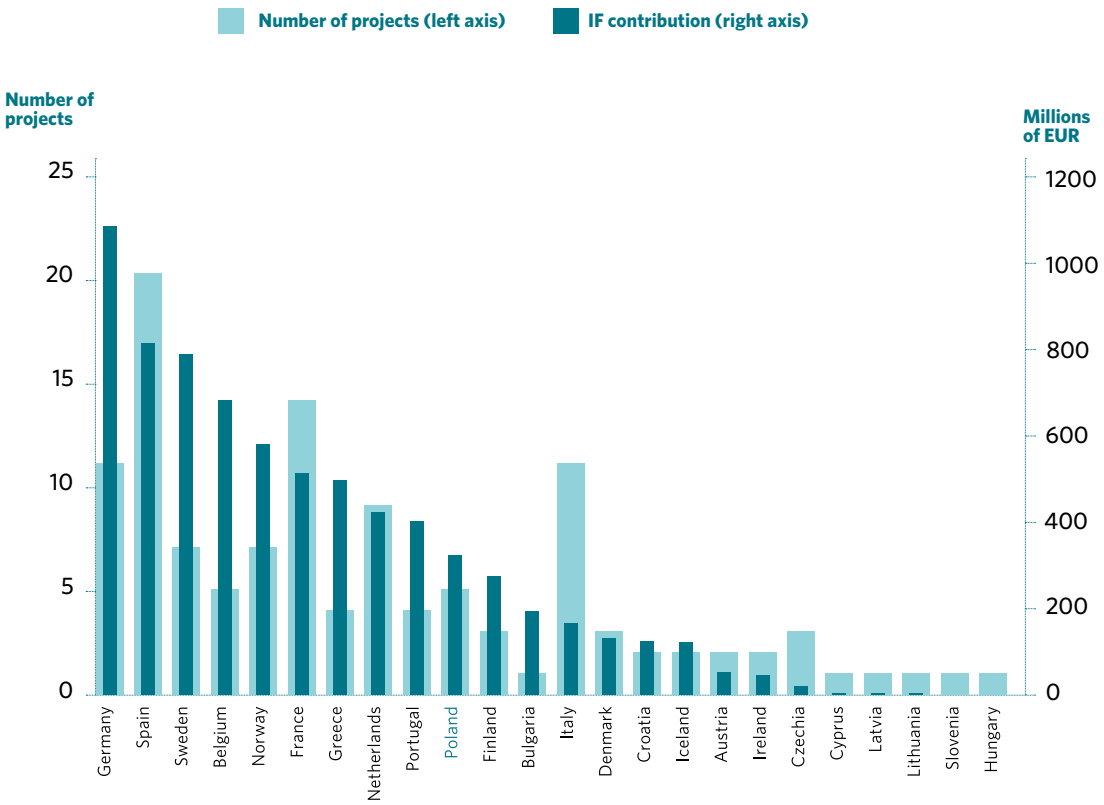
European funding should support projects with a macroeconomic impact. In the energy sector, this dimension is particularly important in the case of complex investments involving numerous companies; offshore wind energy is a good example here. In line with Draghi's recommendations, principles of financing from EU funds should promote contractors from EU countries. This recommendation can be implemented when taking advantage of European funding available under the 2028-2034 MFF, thanks to complementing EU level initiatives, such as the tripartite agreements provided for in the Affordable Energy Action Plan[29]. Support should also prioritise investment projects with the highest possible added value. The involvement of European funds and the EIB can, in such cases, reduce investment risk, limit the exposure of end recipients to costs, and mobilise private capital.

Tripartite agreements are concluded between the public sector, energy producers and industrial consumers. Their aim is to agree on a long-term investment framework to boost the competitiveness and engagement of European companies. The first agreements of this type will support the development of offshore wind energy and grids, as well as energy storage and the flexibility of electricity systems.

The energy sector is competitive for support with other strategic areas, so it should seek synergies with them. In the draft MFF 2028-2034, the financial engine driving the implementation of the recommendations of the Draghi report is the European Competitiveness Fund, which is intended to stimulate investment in strategic sectors. These are: defence and space (EUR 130.7 billion); clean transition (EUR 67.4 billion); digital transformation (EUR 54.8 billion); as well as health and bioeconomy (EUR 22.6 billion). These allocations show a clear priority for the defence and security segment, resulting from the need for an unprecedented strengthening of the EU's defence capabilities. However, with this architecture in place, the ECF can provide particular support for projects that combine the benefits of security and clean transition, and potentially also digital transition; this would allow for more effective spending of EU funds and the implementation of the priorities of the Clean Industry Pact. Public-private partnerships involving scientific institutions can help develop synergies between such fields as energy, industrial and digital transformation as well as security. Assigning higher value to such projects under the MFF 2028-2034 would give a boost to research and development. It is important that the fund supports all EU Member States, taking into account the scale of their challenges in areas of strategic significance, in order to facilitate EU cohesion.

Revised political and economic priorities increase the pressure to adjust support levels to the challenges facing specific EU countries. Investment needs in the areas covered by the EIF are not uniform across all Member States. In order to respond to these needs, it is necessary to structure the EIF in such a way as to allow adequate access to funds for all countries. This conclusion stems from the limited effectiveness of the current Innovation Fund in financing projects in many EU countries (Chart 7). Allocations suitable to national needs would also be supported by programmes dedicated to selected areas, such as just transition of coal-dependent regions, taking advatnage of the potential of European coastlines in the context of developing new industries, or increasing the defence capabilities of the EU's easternmost regions.

CHART 7. PROJECTS FINANCED UNDER THE INNOVATION FUND, BY COUNTRY



SOURCE: 2025 ANNUAL KNOWLEDGE SHARING REPORT OF THE INNOVATION FUND[30].

National and regional partnership plans (NRPPs) will be crucial for flexible and autonomous allocation of funds. When designing and operating them, EU countries will be able to draw on their experience from the implementation of national recovery plans. The advantage of NRPPs is that they simplify the mechanisms for financing projects which have so far been supported under 14 funds and 52 programmes. This may improve access to support for entities with little experience in using European funds. On the other hand, such a model may make it more difficult to manage funds

and balance priorities. NRPPs will also be implemented according to the 'money for reforms' principle which, in line with Draghi's recommendation, may improve the introduction of investor-friendly regulations that go beyond the implementation of EU law. However, in order to exploit the potential of this formula, it is important to link, as closely as possible, payments to reforms, so that the latter have a measurable, positive impact on the completion of investment projects.

European funds are complemented by effectively allocated state aid. In June 2025, the new CISAF state aid framework came into force, which specifies how EU Member States can design state aid mechanisms to effectively support industrial and climate transition objectives. It replaced the TCTF and will remain in effect until the end of 2030. This means that it will be revised during the 2028-2034 MFF. However, its main objectives are unlikely to change, as they aim to promise rapid access to public funds for investors pursuing CID objectives and supporting energy-intensive industries with high energy costs that are ready to invest in decarbonisation. In addition, the revision of the GBER, i.e. the General Block Exemption Regulation, is scheduled to be completed in 2026. The coming years will test the effectiveness of the new state aid rules and their alignment with the principles governing European funds. They should be assessed in terms of the scale of investments that would not be commercially viable under market conditions and without state support.

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