Commission Green Paper on the 2030 climate- and energy policy framework

Estonian position

Present state/ lessons learned

The most important question in the present state of the Estonian energy system that needs to be dealt with is the fact that building new electricity generation capacity (including base- load capacity) is not possible without state subsidies. This requires urgent attention in order to ensure energy security (security of supply, affordability and sustainability) in Estonia and in the region.

There are two main reasons for this:

- Lack of a global climate agreement allows for carbon leakage: vicinity of third country energy producers that do not have to comply with similar environmental and climate regulation as the EU producers;
- Uncertainty over the climate- and energy policy framework including over the carbon price in ETS and support for renewable energy sources;

It is therefore important to reach an agreement on a long- term EU climate- and energy policy framework that ensures a stable investment environment in the energy sector. The EU should agree, on the level of principles and proposals, upon a negotiating mandate prior to 2015 on the United Nations Framework Convention on Climate Change Conference of the Parties (UNFCCC COP 21) in order to facilitate an international climate agreement. Estonia considers it important that the discussions on the EU's mandate for the negotiations are based on a thorough analysis and policy options.

One of Estonia's most important priorities in the context of both energy foreign policy and functioning of the internal market is to ensure that EU electricity producers should be guaranteed a level playing field with electricity producers outside the European Economic Area. To this end, it is important to establish common rules for electricity imports from third countries.

Estonia supports the view that in order to harmonize market condition vis-à-vis neighbouring third countries. The EU should impose stronger pressure also on Russia in order to achieve a level playing field for the union electricity producers.

Estonia has started developing a new Energy economy development plan in June 2013 with the aim of providing guidance on how to tackle questions like energy security and technical aspects of the electricity system but also the impacts of the energy economy to use of resources, public health and to the economy in general. The document should be finalized by November 2014. The discussion over the 2030 climate- and energy policy framework plays an important two- way role in this process. On one hand, the possible outcome of the 2030 framework will impact Estonian policy making and on the other hand, the studies and analyses carried out for the development plan will have an impact on the Estonian position in the 2030 framework negotiations in the Council.

With regards to the current 2020 framework, there are several lessons to be learned. While Estonia is on track to meet the main aims of the 20-20-20 framework[1], some of the sub-targets and harmonized implementing regulation may not be appropriate in the Estonian context:

- The forthcoming Fuel Quality Directive's implementing act under Article 7a shall, *inter alia*, include a methodology for the calculation of life cycle greenhouse gas emissions from fuels other than biofuels and from energy to supplement Member States' action to decrease their CO_2 emissions. In the Estonian case, however, the implementing act may have, depending on the methodology, an adverse effect. The Estonian oil shale sector has invested considerable resources (33% of Estonian R&D spending in 2011) to produce more refined products out of this indigenous energy source. Producing oil from oil shale provides three times more added value and decreases CO_2 emissions in the production phase by two times while providing for security of supply, growth and jobs. If the implementing act will be adopted as proposed by the Commission in 2011, it will hinder transforming the Estonian oil shale sector into more environmentally friendly as it will channel oil shale back towards the considerably more environmentally harmful electricity production.
- Estonia has already achieved its 2020 renewable energy target (25,9% in 2012). 66% of the target is achieved by using biomass. A possible forthcoming sustainability criteria, due to the possibly accompanying heavy administrative burden, could endanger achieving not only the 2020 but may have a similar impact on any further targets such as a renewable target for 2030. Almost half of Estonia's land area is covered with forest, of which 43,5% is natural forest. Biomass that is derived from this natural renewable resource is considered as sustainable. Sustainable forest management in Estonia is ensured by the Forest Act and its implementing legislation, in conformity with current EU legislation. Principles of sustainable forestry have been transposed in Estonian law and they are consistent with the Forest Declaration of the UN Conference on Environment and Development as agreed upon in Rio de Janeiro in 1992. However, question of establishing biomass sustainability criteria based on the RED Directive would possibly create serious concerns for Estonia and heavily undermine our efforts to reach the climate and energy targets.
- Achieving the share of renewable energy in transport (10% in 2020, current share of renewables is 0,2%) needs considerable efforts in Estonia (estimated costs 60M €/year till 2020 (250 € per reduction of ton of CO_2)[2]. There is indeed a lot of potential to decrease carbon intensity of the Estonian transport sector as the average CO_2 emissions of new cars in 2011 was 157 g/km (20% higher than the EU average) while the average age of the car fleet was 13,5 years in 2012. Recent studies show the

[1] Estonian CO_2 equivalent emissions were down 48,3% in 2011 compared to 1990 and the share of renewable energy of end- consumption of primary energy was 24,3% on 2010 and 25% in 2011 and 2012 (2020 target for Estonia is 25%). It is too early to evaluate the energy efficiency target (end- consumption of primary energy in 2020 shall be at the 2010 level (2818 ktoe)), but the latest statistics suggest that Estonia is on track to meet the target (2758 in 2011, 2828 in 2012).

[2] Espenberg, S. et. al., „Eesti võimalused liikumaks konkurentsivõimelise madala süsinikuga majanduse suunas aastaks 2050" („Estonia's opportunities to move to a competitive low carbon economy by 2050") Centre for Applied Social Sciences od University of Tartu, Stockholm Environment Institute Tallinn centre and ELF by request of Ministry of the Environment, June 2013

greatest potential to decrease carbon intensity in the Estonian transport sector lies in more efficient planning, increasing the share of sustainable modes of transport, fuel efficiency of cars and share of electric and hydrogen cars. Thus, other measures, such state and local level infrastructure investments with sustainable transport in mind, guiding consumers to buy more efficient cars etc. may have more impact at a lower cost in Estonia.

To sum up the examples above, harmonized EU implementation measures may not give the desired effect in Estonia due to its unique indigenous energy sources, energy sector and geographic location. For these reasons, we strongly believe that the implementation of the climate- and energy policy framework hast to be flexible for the Member States. The framework has to take into account diversity between Member States, including with regard to use and development of energy sources.

Targets

Estonia is ready to support setting a single EU- level greenhouse gas emission reduction target for 2030, while taking into account that greenhouse gas emissions should be reduced in sectors where the appropriate measures have the greatest impact, are the most cost-effective and market-based, including taking into account the links, and the effects of the measures to other policy fields.

Estonia supports the EU ETS backloading proposal, but the removal of GHG emission allowances from the market must be followed by a Commission's plan for an EU ETS reform that would ensure certainty over the functioning of the ETS for market participants.

Estonia is ready to support setting additional targets (including increasing the share of renewable energy sources and energy- saving target) for 2030, if the EU-level action in these areas provides substantial added value, if they are proven to be cost-effective measures for reducing greenhouse gas emissions and the targets complement each other.

In any case, Member States must have greater flexibility and freedom of choice in choosing the policy measures necessary to achieve targets.

Estonia supports increasing the share of renewable sources in energy production. Of key importance in ensuring widespread use of renewable energy in the EU is that energy production from renewable energy sources is established on a market- based footing without a range of subsidies and tax incentives from the Member States which distort the production of electricity from renewable sources and energy markets in the EU at large. Therefore, the subsidies and other methods of aid have to be harmonized in the EU. Renewable energy production can then move towards subsidy- free production that is on equal terms with other market participants. From the standpoint of the internal energy market, energy must be produced where it is the cheapest, including the external and transmission costs. It is important to ensure a stable and predictable environment for investment for the development of production capacities.

Competitiveness and security of supply

Estonia supports a more widespread use of indigenous energy sources in a resource efficient way. In this context, the impacts on security of supply, energy prices and environment should be taken into account.

It is important that implementing EU legislation does not undermine possibilities for production and use of indigenous energy sources. Restrictions that are too strict on the use of local energy sources and ignore economic benefits increase the risk of carbon leakage and do not support growth and jobs.