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Future Climate Change Policy in the Baltic States:

Looking beyond 2012

**Workshop in Riga/Jurmala,
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Chairmen's Summary

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On 25 and 26 April 2006, representatives from the Baltic States and the European Commission met in Jurmala for a two-day international workshop on future EU climate change policies. Latvian Minister of Environment, Raimonds Vejonis, opened the Workshop, which was attended by about 40 participants from governments, business, NGOs and academia. A consortium, led by Ecologic – Institute for International and Environmental Policy (Berlin) – organised the workshop. The workshop was sponsored by the European Commission and was the second in a series of events, intended to promote stakeholder and policymaker dialogue on this very important issue within New Member States (NMS), Accession Countries (AC) and Candidate Countries (CC).

R. Andreas Kraemer, Director of Ecologic, and Nils Meyer-Ohlendorf, Senior Fellow with Ecologic, chaired the event. A press conference with Minister Raimonds Vejonis, Tom van Ierland (DG Environment) and R. Andreas Kraemer was attended by representatives of the Latvian press and TV. The following chairmen's conclusions do not constitute a binding or exhaustive summary of the discussion.

The workshop addressed a wide range of issues pertaining to future EU climate change policies and the implications for the Baltic States. The discussions were extensive and productive. The workshop was held against the background of COP 11 and at the eve of SB 24. The workshop's discussions benefited from various introductory presentations and brief kick-off statements, which were given by representatives from business, government agencies, academia and NGOs. Prof. Dagnija Blumberga of the Riga Technical University conducted a questionnaire among participants concerning the future Baltic energy mix and the potential of energy efficiency in the region.

Participants agreed that climate change poses a threat to the Baltic States, although there are still great uncertainties concerning timing and dimension. Damages caused by the winter storm in 2005 demonstrated the vulnerability of the Baltic States to extreme weather events. While participants stressed that the Baltic States are on track to meet their reduction targets under the first commitment period of the Kyoto-Protocol, it was agreed that the Baltic States should prepare to accept further cuts in greenhouse gas emissions. Many participants underlined that the reduction of greenhouse gas emissions would offer a range of opportunities to enhance economic development, such as fuel cost savings and decreased exposure to volatile fossil fuel prices.

It was understood that the negotiations for the second commitment period will be complex. To drive these negotiations in the right direction, participants agreed that active and early involvement in this process will be of pivotal importance. However, participants noted that the discussions in the Baltic States on a second commitment period are still at an early stage. To support these discussions, a joint Baltic Working Group, consisting of representatives of the responsible government agencies, was proposed. The up-coming Baltic Council of Ministers, scheduled on June 1st, was considered to be a very good opportunity to advance the discussions in the Baltic States for post-2012 issues.

In more detail, discussions touched mainly upon the following issues:

- **Baltic perspectives of international discussions and negotiation on future climate change policies**

Baltic States will meet the reduction targets of the 1st commitment period under the Kyoto Protocol (KP). It was agreed, however, that the KP is only a first step in combating global warming and that after 2012 further emission cuts will be needed from all developed countries, along with their differentiated capabilities and responsibilities. It was noted that greenhouse gas emissions from the Baltic States are projected to raise. The Baltic States may repeat the patterns seen for Greece, Ireland, Portugal and Spain in which high economic growth brought with it strong growth in the transport sector and increasing emissions. In this respect, the **Baltic States should take an active role in shaping climate change policy** both within the EU and at the international level.

It was understood that negotiations for the second commitment period will be complex and there is a large number of options on how the future climate change regime could be designed. Participants agreed that active and early involvement in this process will be critical. However, participants shared the view that the **discussions on future climate change policies have merely started** in the Baltic States and little thought has been given to the design of an international regime for the second commitment period which would serve well the specific needs of the Baltic States. The post-2012 discussion appeared to be a distant prospect, as Baltic States are in compliance with the current targets and currently occupied with other pressing issues, such as the negotiations of the second national allocation plan. It was also said that other environmental problems are felt much more strongly than climate change, e.g. water quality, waste water treatment, SO_x, and NO_x emissions.

For the further discussions, participants called for the **involvement of Ministries beyond the Ministries of environment**, which has the overall responsibility for climate change policies. Other relevant ministries include the ministries of the economy, finance, transport and agriculture. Consistency needs to be ensured between interrelated strategies published by different ministries, such as climate and energy strategies. Other ministries should be involved in the drafting process of such documents. Often, other ministries do not anticipate in what way climate change policy issues could affect their areas of work. Hence, awareness-raising is not only needed with respect to the broader population, but also in the sense of “**governmental awareness-raising**”. This highlights certain aspects most related to the core business of each ministry. There might be some truth in stating that the level at which we can set targets depends on the extent of institutional co-operation within a country.

Participants underlined that, while the **Baltic States have established a good co-operation** among each other, the Baltics are deemed too small for successful bargaining. Hence, it was argued, the Baltic States should build alliances with other NMS which are in similar situations, keeping in mind the need to work within the frame of the EU.

Participants agreed that climate change mitigation efforts have **potential benefits**, such as energy savings and increased energy efficiency. In this context, the question of winners and losers of future climate policy in the Baltic States was raised but it was felt that this debate was yet premature in the Baltic States. Participants found that the lack of detailed cost-benefit studies for the NMS should be addressed, despite the inherent shortcomings of cost-

benefit analysis in the context of climate change. The research agenda should include cost-benefit analysis for the NMS.

- **Future Burden-sharing**

Given the early stage of international negotiations, it is not yet clear whether a new international regime will allow for a burden sharing agreement, or whether it will set individual targets for individual countries. Participants agreed, however, that **burden sharing appears is necessary** for a cost-effective reduction of EU emissions. A burden sharing agreement between old and new EU members was deemed unlikely as there is no interest at EU level to maintain the division between „old“ and „new“ member states.

For the time being, there have not been public discussions on future burden sharing in the Baltic States. It appeared to be an uncontested view that **discussions in the Baltic States on future burden-sharing should start now** and that this requires the Baltic States – as part of their homework – to build capacities to:

- understand their avoidance costs;
- consider realistic targets and benchmarking;
- model different scenarios, i.e. what will happen if we accept an ambitious or less ambitious target?
- promote stakeholder participation for wide acceptance of climate policies by businesses and the whole society;
- understand their „bargaining chips“ and trade-offs;
- make their interests heard so that targets are not imposed.

For the differentiation of future reduction commitments, participants named the following **criteria** (1) cumulative emissions (relates to historical responsibilities); (2) GDP per capita (relates to current capacities); (3) carbon intensity of electricity production (relates to reduction potentials); or (4) tons of CO₂ emissions per person.

Participants voiced the concern that targets must be carefully formulated. It must be avoided that current performance is converted into future commitments in an unfair manner, as has been the case with renewable energy targets for Latvia in the course of EU accession. In this context, participants agreed that compliance of the Annex I countries with their existing Kyoto targets will be pivotal. It was also considered essential to analyse the experiences of the EU-15 burden-sharing under the first commitment period. It was also mentioned that **industries** will measure future climate change policies along the following criteria:

- commitments/targets should be for a longer period than 5 years (at least 10 years).
- new reduction commitments should be moderate and realistic, i.e. max. 30% reduction in emissions by 2020 (keeping the base year 1990), and 50-60% reductions by 2050.

- secure a target reserve (sometimes referred to as “hot air”) for the next commitment period; the possibility of financing measures for cleaner energy via green investment schemes will be maintained.

Although emissions are projected to increase, Latvia could accept a **much more stringent target in the 2nd commitment period** (e.g. –20%) and still be certain to comply with a surplus. As energy intensity in the Baltic States is still double that of the average of old member states, and important decisions in the investment circle of the Baltic energy sector will be taken in the near future, there is a great potential for further reductions at relatively low cost.

- **Future of Flexible Mechanisms**

The pre-Kyoto period of the EU ETS is important for gaining valuable experience for the 1st commitment period and for post-2012. At present, Baltic companies are sellers on the market, but experience gained now will also help should they become buyers.

Of the three present Kyoto mechanisms, the Baltic States are looking mostly at **international emissions trading**. A transparent and increasingly liquid emissions market is expected to evolve. The state owned energy companies do not have a special interest in JI or CDM. Participation in these mechanisms is associated with considerable effort and risks. Businesses in general do not show much interest in JI as the ERU price is low compared to the price of allowances they could sell. Investment in CDM projects may, however, become an issue for the Baltic States after the 1st commitment period – this remains to be seen.

JI prospects in the electricity sector depend on baseline CO₂ intensity of electricity generation, which is highest in Estonia and lowest for Latvia (due to the relatively high share of imported electricity and considerable hydro resources). Concerning JI projects in the district heating sector, municipalities show little interest. At present, they usually wait for financial aid from EU structural and cohesion funds. However, it could be explored if a combination with JI opens up opportunities for additional benefits, still taking into account the double accounting problem with EU ETS.

Apart from energy, **waste/landfill** is another sector with potential for JI. However, also in this sector the ‘additionality question’ is crucial, in view of compliance with EU legislation. Furthermore, the Testing Ground Facility under the Baltic Sea Region Energy Co-operation (**BASREC**) is a valuable instrument for exploring JI potentials and achieving economies of scale.

Overall, participants agreed that, even for the first commitment period, there are many uncertainties associated with JI. Hence, it is very difficult to make any predictions on the role of JI in future commitment periods. Further work is needed in all Baltic States in order to become eligible for the Track 1 JI procedure. Regarding the exact procedures to make JI operational, little guidance is available at present from the JI Supervisory Committee or the European Commission. The Baltic States will be able to process JI projects if they are available, but another question is whether there will actually be any.

- **Future Energy Mixes in the Baltic States**

Simulations show that there will be - not only in Latvia as today - a **lack of energy supply capacity** in the Baltic States. The scheduled closure of *Ignalina* is an important factor in this context. In addition, the Estonian oil-shale based power generation is a major polluter and will be restructured by 2015 to comply with EU environmental legislation. At the same time, energy demand in the Baltic States is rising. In light of this, participants agreed that the current energy mix in the Baltic States will undergo fundamental changes within the next years. The investment decisions for the coming years in the Baltic States will lock in energy supply structure and greenhouse gas emissions for the next decades.

The workshop's discussions addressed intensively the future of the Baltic energy mix. Participants agreed that **renewable energies must play a bigger role** in the future. Participants underlined the potential of biomass and wind energy. It was said that renewable energies are too expensive in the short term, although it is clear that in the long term this will change. Participants deplored that the Baltic States are lacking green investment schemes and cheap loans. It was argued that a new coal power plant in Latvia and a new nuclear plant at the *Ignalina* site in Lithuania will be required to satisfy growing energy demand. At the same time, participants voiced safety concerns over nuclear energy, such as potential military use and the threat of terrorism, in addition to long term GHG emissions from the coal power plant if not linked with new CCS technologies.

During one of the working groups and on the basis of examples from Latvia, participants discussed intensively the **potential of biomass in the region**. They agreed that modern wood pellet technology has a significant potential, in particular for areas with low settlement density. Participants were generally of the opinion that the Baltic forests have a vast and currently under-used potential for cost-effective energy supply and deplored persisting misconception that forest could not meet a growing demand in biomass. In fact, costs and prices will determine the output of biomass from forests rather than natural limits. Participants criticised the lack of an effective support mechanism. It was argued that biomass has to compete with unfair subsidies for other energy producers, despite opposing allegations from politicians. At present, biomass supply lags behind demand, also because biomass is exported from the Baltic, in particular to Scandinavia. Conservation concerns were voiced regarding forests used as the prime source of biomass production in the region, but participants were generally convinced that Baltic forests were and will be managed in a sustainable manner.

Public transport in the Baltic States is rather weak, as people rely heavily on personal cars and are not satisfied with small cars. Participants underlined the importance of changing private behaviour in this respect. It was said that municipalities would have to be forced to establish a better supply of public transport.

Historically, Baltic energy systems were part of a central planning system. In the past 15 years, the Baltic States have made use of their new freedoms to shape their national energy policies independently of each other, but it might be time to come closer together again. The idea of a **common energy market** has been discussed for some time, but policy approaches and regulatory systems still differ considerably. The regional energy market integration must be seen in the wider context of the liberalisation of energy markets of the whole EU. In the wider climate policy context, the idea of a common Baltic NAP remains difficult to imagine,

but a common greenhouse gas reduction plan for the Baltic States might be an interesting option.

Answering the **questionnaire** compiled by Prof. Blumberga, 52 % of the workshop's participants were of the opinion that the primary energy structure in the Baltic States is currently not an adequate energy mix. About 70 % deemed it possible to increase the use of wind energy and biomass in the Baltic States significantly, and an additional 8 % "after 2012". The potential of solar energy and hydroenergy was considered to be limited. 80 % of the participants considered it possible to reach a common energy market in the Baltic States after 2012, including co-operation in the development of renewable energy sources.

- **Future options: the potential of improved energy efficiency**

According to the Lithuanian Energy Strategy of 10 October 2002, 20 - 50% of the currently consumed energy resources may be saved. The Estonian government assumes an **energy saving potential** between 20-25 %, although it has not indicated a time span for implementation. Some participants questioned this data but agreed with the indicated trend in principal. Participants expressed the view that the greatest energy saving potential in the Baltic region lies by far in buildings, followed by ground transport and industry, and finally lighting.

Participants identified **various barriers** for improving energy efficiency, notably the lack of financial resources, prevailing old technologies and infrastructure, weak savings culture, and the low conviction that consumers can control their own destiny. Participants drew the attention to the fact that most flats in apartment complexes are privately owned by their inhabitants, making it difficult to reach an agreement between all owners on energy-efficiency improving measures, especially when taking into account the low levels of income of some dwellers (e.g. pensioners). Lobbying efforts from the construction and real estate sector were also viewed as an impediment to progress. In addition, conditions for adequate loans for energy saving measures are difficult, but becoming easier to obtain. Furthermore, participants identified the following challenges (by order of importance):

- Introduce incentives that actually reward the "good guys",
- Bridge the knowledge gaps (between stakeholders; between countries; between science and policy; between policy and populations)
- Track and optimise the portfolio of financial instruments (such as ecotaxes, subsidies, green certificates, emissions trading)

Regarding the latter, Estonia is currently introducing an **environmental tax reform**, including CO₂ taxation. A carbon tax has also been introduced in Latvia, but not in Lithuania. A key question is whether to include or exempt companies participating in the EU Emissions Trading Scheme. In Estonia, they are included, which raises concerns about double burdening; in Latvia, they are exempt, which led to an inquiry by the European Commission about state aid. Current car taxes are too low to set an incentive for changing behaviour. In addition, the average age of car fleet is very high, only few people buy new cars. Therefore the registration tax only reaches a small percentage of car users.

Participants called for **better auditing** of energy performance of buildings. Currently, most auditing companies lack the capacities for thorough auditing; only a few companies are able to conduct an adequate audit but are generally considered too expensive. Participants also suggested to implement a **labelling system** for the energy performance of buildings and to establish an **energy agency**, similar to the existing agency in Lithuania. Given the limited capacities of governments to **raise awareness**, participants called for a stronger role of NGOs in this respect. NGOs are often seen as credible actors, but frequently lack the financial resources to launch successful awareness raising campaigns.

According to Prof. Blumberga's **questionnaire**, participants viewed the lack of financial resources (41 %) and insufficient information (43 %) as the main obstacles to improving energy efficiency in the Baltic States. 50 % of the participants saw the main responsibility for energy efficiency measures to rest with each individual consumer, followed by governments (26 %) and municipalities (16 %). For short-term improvements in energy efficiency, participants deemed subsidies the most important measure (33 %), followed by changes in legislation (26 %), awareness-raising (19 %) and taxes (12 %). When it comes to longer-term perspectives, awareness-raising is seen as the most important measure (36 %), followed by changes in legislation (33 %) and taxes (16 %). Concerning energy efficiency projects after 2012, buildings (31 %) and industrial technologies (30 %) were mentioned most frequently, followed by energy distribution systems (21 %).