LV

A ‘green’ veneer, but at what cost?

Climate action in EU Cohesion Policy funding for Latvia, 2014-2020

The EU Cohesion Policy investments 2014-2020 will support Latvia's continuous and steady progress towards its national climate goals for 2020 and 2030. However, the investments will support the rather incoherent existing policies and strategies and will not have a significant impact on improving the overall strategic approach to reach sustainability and transform the energy system.

- The National Development Plan for Latvia 2020 largely neglects climate change mitigation and most of the strategic priorities do not refer to impact on environment and climate change.
- The Sustainable Development Strategy of Latvia 2030 remains an island, not a blueprint for long-term investment plans.
- Climate change mitigation as a horizontal principle is poorly implemented in the Partnership Agreement, the Operational Programme 'Growth and Employment' and the project selection criteria.
- EU Cohesion Policy investments in the energy sector are mostly determined by political debates on gas import diversification considerations and the investments do not support the transformation of the energy sector.
- EU Cohesion Policy investments do not support the use of sustainable renewable resources and diversification of renewables. The investments are focused on the development of use of biomass (fuel wood) only and development of wind power and solar power is neglected.
- EU Cohesion Policy Funds' allocations for energy efficiency are insufficient compared to the poor situation regarding energy efficiency in residential buildings. A more comprehensive and strategic policy focusing on attracting private investments and development of a competitive market for ESCOs is needed.
- EU Cohesion Policy investments in the transport sector do not meet GHG reduction objectives although this is declared as a strategic objective. The majority of the investments in the transport sector have little impact on GHG reduction and a high share of emissions remains unaddressed.

Introduction

The structure of Latvia's economy has changed drastically since 1991 – the year of regaining independence – from a high energy consuming industrialised economy to one dominated by trade and services[98]. The transition has no doubt had a positive impact on decreasing the GHG emissions level and today Latvia has the lowest per capita GHG emissions in the EU. It is very likely that Latvia will achieve its national 2020 GHG emissions target by 2020 – and will not increase non-ETS sector emissions by more than 17% compared to 2005.

Although GHG emissions have decreased drastically in the energy sector (a third of the 1990 level), this sector remains the largest polluter among all sectors, i.e., transport, agriculture, industrial processes, waste management. Even though the transition to a lower energy consuming economy after the collapse of the Soviet Union opened potential development paths towards reducing GHG emissions, reducing GHG emissions is rather on the political table thanks to the EU climate change policy framework. Latvia`s official commitment to treat the transition to a low-carbon economy as a priority does not lead to comprehensive actions or tap the full potential that Latvia has to transit to a truly sustainable clean energy economy. Public discussions on terminating dependency on Russian gas have been dominated by discussions on diversification of natural gas supplies which has pushed aside discussions on investments in locally available renewable energy sources (RES). In addition, over-reliance on widely available, but unsustainable, biomass (fuel wood) as an energy source, indicates that the Latvian government is not so far thinking with a long term perspective. The lack of ambition to use Latvia's full potential of renewables is also reflected in the national allocations of the European Structural and Investment Funds for the 2014-2020 programming period. According to the Partnership Agreement (PA) for the European Union Investment Funds Programming 2014–2020 between Latvia and the European Commission, the EU will provide EUR 4.51 billion worth of investment. All Cohesion Policy investment funds (European Regional Development Fund, the European Social Fund, the Cohesion Fund) are compiled under one operational programme - 'Growth and Employment' (OP) approved by the EC on November 13, 2014. EUR 755 million is earmarked for investments to support climate change objectives which accounts for 17.20% of total Cohesion Policy investment in Latvia. A major question is, however, how much this 17.20% contributes to the mitigation of climate change.

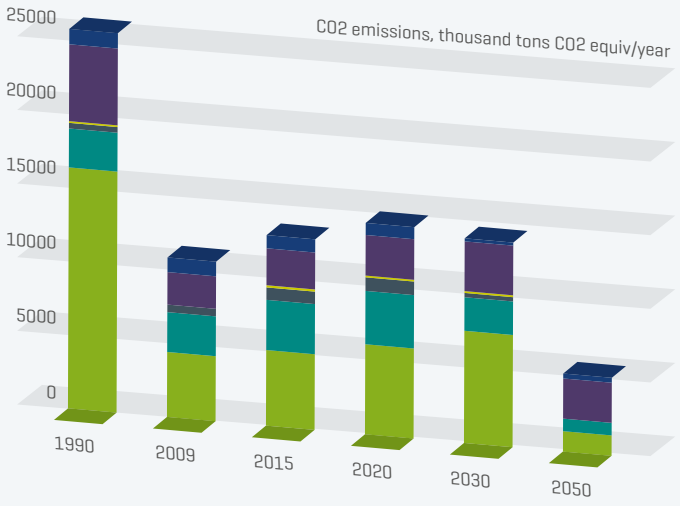
98 http://innovation.lv/wp-content/uploads/2015/02/Zinojums_par_LV_tautasaimniecibas_attistibu_2014_dec_lv.pdf

NATIONAL GHG EMISSIONS

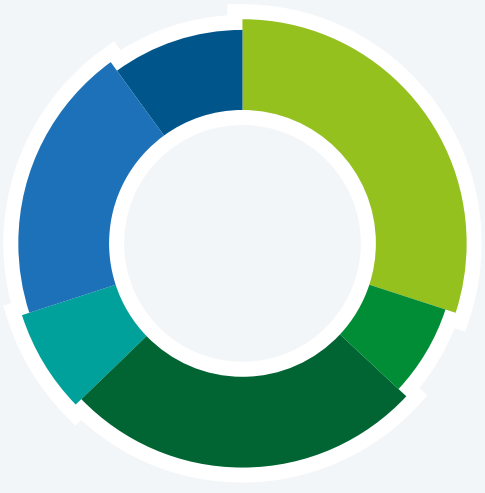
The transition to a trade and services dominated economy resulted in a GHG emissions decrease of 58% between 1990 and 2013, reaching the lowest point in 2000 and slowly increasing year by year since then[99]. Lower GHG emissions in 2020 and 2050 are expected due to the transition of the energy sector to energy-efficient end-use and use of RES. In the period up to 2050, a gradual decrease in the use of fossil fuels will allow Latvia to reduce GHG levels in the energy sector to 20% of the 1990 level. (Graph 32).
The transport sector is the most significant source of GHG emissions with 30% of the total emissions in 2012, while agriculture makes up 26% and the energy industries 20% (Graph 33).

GHG emissions have fluctuated in recent years mainly according to economic trends, the energy supply structure and climatic conditions. As the 'Green Energy Strategy 2050 for Latvia: a Pathway towards a Low Carbon Society, 2014' suggests, in a 2050 scenario, major GHG reductions would come from the energy and transport sector, i.e., those sectors which receive EU funds today. In order to catalyse this 2050 transition, EU funds should already now invest into structural changes of both the energy and transport sectors. Latvia will likely achieve its national GHG emissions target for 2020 as it requires no reductions, but limits non-ETS emissions to no more than 17% above the 2005 level.[101] Between 2005 and 2013 the level of non-ETS emissions increased by approximately 1%. However, Latvia's successful progress in meeting its GHG emissions goals is not the result of a comprehensive and wise energy and environment policy. It is determined by a shift from a manufacturing-dominated to a trade-and-services-dominated economy and, most of

GRAPH 32: Historical GHG emissions pattern and GHG emissions forecast (including transport), source - Green Energy Strategy 2050 for Latvia: a Pathway towards a Low Carbon Society, 2014



GRAPH 33: GHG emissions shares by sectors, 2012, Source – Eurostat



99 http://www.meteo.lv/fs/CKFinderJava/userfiles/files/Vide/Klimats/Zin_starpt_org/Draft_LV_NIR_30_06_2015.pdf
100 http://www.aidic.it/cet/14/39/252.pdf

all, by the most widely available renewable resource in Latvia - biomass, or fuel-wood (see the Energy sector section).

NATIONAL STRATEGIES AND POLICIES

Sustainable development and climate action can be found as horizontal priorities in Latvia's national strategies and policy plans, although in some sectors efficient action towards sustainability loses out to actions aiming towards economic growth. The Sustainable Development Strategy of Latvia 2030, adopted in 2010 by the Parliament of Latvia, is a framework-setting programming document for all strategies and policies in Latvia. Latvia 2030 applies a sustainability model and has been developed in alignment with European and international laws and policies: It should bring to life global sustainable development goals at the national level. The document clearly explains that '...the idea of sustainable development invites to satisfy the needs of the present generation, balancing public welfare and environmental and economic development interests and concurrently ensuring the observation of the environmental requirements and the preservation of natural diversity in order to avoid the reduction of possibilities to satisfy the needs of future generations.' One of the three overall goals of the Sustainable Development Strategy of Latvia until 2030 explicitly refers to sustainability.[102] The question is to what extent these sustainable development claims are translated into EU funds' planning documents, namely the Partnership Agreement and Operational Programme?

The National Development Plan of Latvia for 2014-2020 (NDP 2020) is the main mid-term programming document in Latvia which sets the framework for national development policies. According to the Partnership Agreement, EU Cohesion Policy investments should comply with Europe 2020 and national level development priorities defined in the NDP 2020 and other programming documents. Basically, all investments planned in the Operational Programme support strategic priorities set in NDP 2020, however, unfortunately, the NDP 2020 fails to include the sustainability goals set out in Latvia 2030. Within the NDP 2020, sustainability and climate action is not so visible and well incorporated in every sector and the document implies development and growth as core targets, neglecting to interweave sustainability through all priorities and sectors. There are three priority areas in the NDP 2020 – 1) Growth of National Economy, 2) Human Securitability (a form of resilience) and 3) Growth of Regions. Only one strategic objective of the plan refers to environmental sustainability - Sustainable Management of Natural and Cultural Capital with goal 1 'Maintain the natural capital as the basis for sustainable economic growth and promote its sustainable uses while minimising natural and human risks to the quality of the environment.' Some strategic objectives partly consider sustainability, for example, 'Highly Productive Manufacturing and Internationally Competitive Services with Export Potential and Energy Efficiency and Energy Production'.[103] However, in other strategic objectives, sustainability criteria are not visible and the objectives are driven by competitiveness, productivity and commercialisation of knowledge. The NDP 2020 states 'that the use of the natural capital of Latvia is associated with sustainable uses of land, forests, waters and natural resources, an increased volume of ecosystem services, the diversification of production and the raising of productivity, while developing to an equal extent both intense production and 'green' production – as well as 'green' consumption. It also seeks to preserve the natural capital and prevent its depletion, creating and maintaining the image of Latvia as a 'green' country'. However, this seems to be paying lip service rather than taking a realistic approach to sustainability since it is not interwoven in all priority areas of the NDP 2020.

Since the Partnership Agreement and Operational Programme have been developed in alignment with the NDP 2020, it is not surprising that all the NDP's flaws in implementing sustainable development are transferred to EU funds' planning. The EUR 4.51 billion investments allocated from the EU Cohesion Policy 2014-2020 will support Latvia's continuous and steady progress towards its national climate goals for 2020 and 2030, but the investments will also support the rather incoherent NDP 2020 strategic goals and will not have a significant impact on the transformation of the system towards sustainability.

ENERGY SECTOR

Latvia is well known for its rich natural capital, although the territory of the country is small – 64,589 km^2. When it comes to the energy sector, the only locally-available energy sources for primary energy production are renewable energy sources. The Latvian Renewable Energy Federation has estimated that locally-available energy resources – biomass, bio-gas, wind, solar and hydro have the potential to fully meet the energy demand in Latvia. But the historically and geopolitically-determined current situation in the energy sector has sidelined discussions on increasing the country's energy security by using only locally-available resources. Energy transformation is shared between RES (29%) and natural gas (70%). (see Graph 34).

Natural gas imports to meet local energy demand are the main reason why the energy sector in Latvia is one of the most politicised sectors of the economy. In the current situation, Latvia is dependent on the Latvian Gas gas supply

101 http://ec.europa.eu/eurostat/statistics-explained/index.php/Europe_2020_indicators_-_climate_change_and_energy
102 http://www.pkc.gov.lv/images/LV2030/LIAS_2030_en.pdf
103 http://www.pkc.gov.lv/images/NAP2020%20dokumenti/NDP2020_English_Final__.pdf

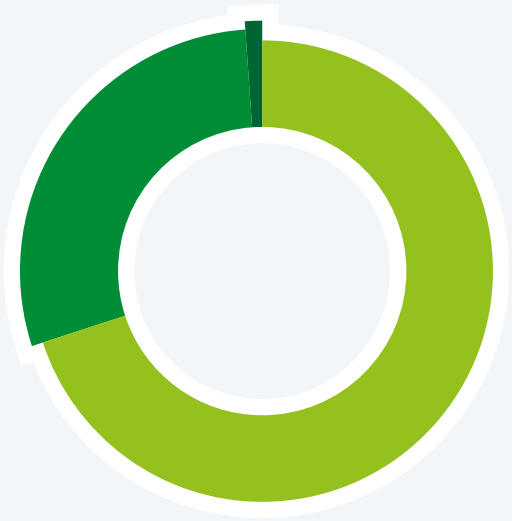
monopoly (which imports Russia`s gas, and is owned by Germany's E.on – 47%, Gazprom – 34%, and Iteria Latvia – 16%), over which the government has little control. Experts say Putin's Russia has become increasingly confident in using its energy corporations such as Rosneft, Gazprom, and others, to further its political and economic goals[104] towards those 'near abroad' and it is obvious in Latvia as well. In 2013, gas provided 70% of Latvia's electricity and heat. Therefore the energy security discussion is mostly reduced to discussion between Latvian Gas and those who are in favour of liberalisation of the Latvian gas market and development of interconnections to access EU gas networks. This is one of the main reasons why a strategically wise approach to energy sector development has been lacking and the role of renewables and reduction of energy consumption in achieving 'energy security' in Latvia is neglected – even though Latvia has great potential to develop energy infrastructure and safe energy to become self-sufficient.[105]

Current progress in increasing the share of RES indicates that Latvia will reach its 2020 target of 40% renewables (37% in 2013) and this puts Latvia in second place in the EU (after Sweden) (see Graph 35).

TRANSPORT SECTOR

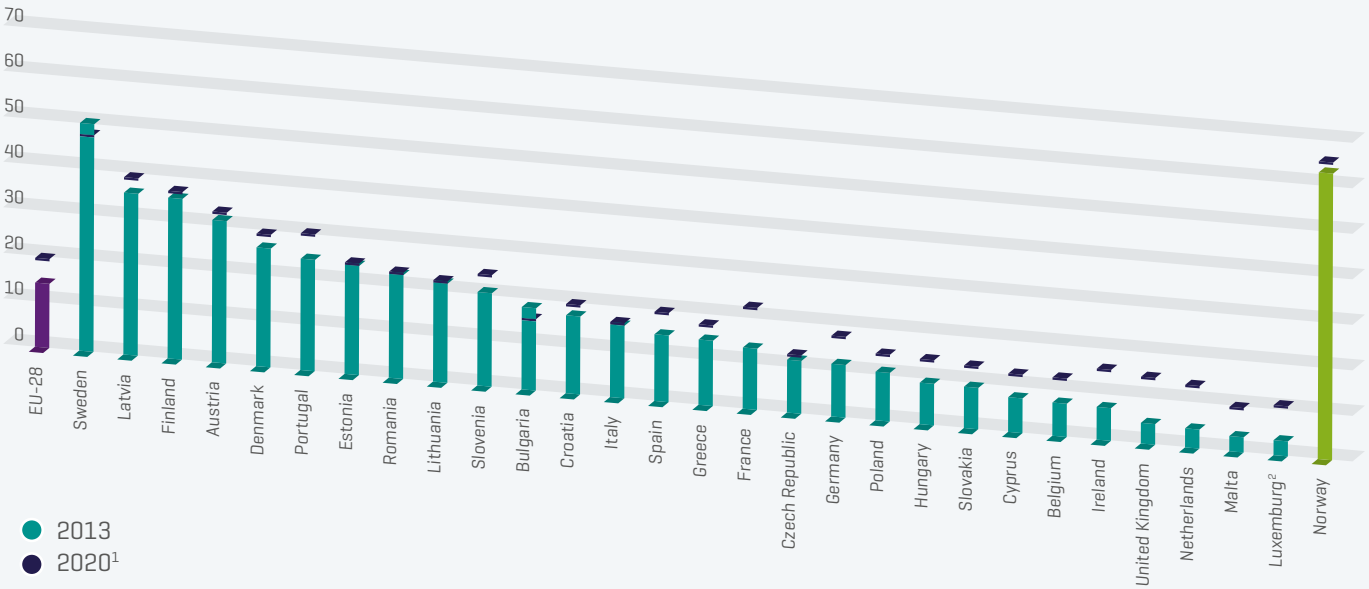
Latvia`s transport sector is one of the most important sectors in the country's economy due to the country`s geographical

GRAPH 34: Latvian energy mix 2013. Source – Eurostat



- **70%** Natural Gas
- **29%** Total renewables
- **1%** Solid fuels

GRAPH 35: Share of renewables in gross final energy consumption, 2013 and 2020 (%), source – Eurostat



[1] Legally binding targets for 2020

[2] 2013: estimate

104 http://liia.lv/site/docs/Energy_Brief_2014_web_1.pdf

105 http://www.atjaunojam.lv/attachments/article/114/AE_LocalE_1806_2015.pdf

position. Latvia is a border country of the EU and, as a transit country, it plays an important role in trade between the EU, Russia and other countries of the Commonwealth of Independent States (CIS) (as the shortest route between the EU and CIS). The cargo traffic is divided almost equally between water transport, road and rail. As vitally important export and transit-transhipment points for Latvia itself and for several neighbouring countries, the three largest Latvian ice-free ports provide access 365 days a year. The total length of Latvia's road network is 72,441 km. Latvia possesses a relatively dense railroad network connecting the country to destinations as far as the Russian Far East.[106] The intensity of cargo traffic is increasing year by year. (see Graph 36).

Intensity of passenger traffic and turnover is also increasing year by year – from 254.7 million passengers in 2010 to 260.4 million in 2014, and so is the number of passenger cars – from 636,664 in 2010 to 657,799 in 2014.[107] Although the level of GHG emissions in transport is slowly decreasing year by year, the sector still remains the most significant source of GHGs in the country. The Latvian State Roads company reports that passenger car traffic intensity in 2014 has increased by 4% compared to 2013 which may change the trend of GHG emissions. [108]

The Transport Development Strategy 2014-2020 adopted by the Government in 2013 clearly defines the main policy goal in the transport sector, …'transport policy goal is competitive, sustainable, co-modal transport system, which provides high quality of mobility by effective consumption of resources, including EU funds. The vision of the sustainable transport system is infrastructure integrated in TEN-T network, high traffic safety level, transport and logistics services, new workplaces, increased export service volume and accessible public transport'.[109]
The strategy, more than programming documents in other sectors, emphasises environmental aspects and continuous reduction of GHG emissions in the sector and this is reflected in two (out of four) priorities listed in the 2020 Strategy – Priority 2, electrification of the railroad (outcome of the action: electrified railroads extended by 20%, CO_2 emissions reduction in cargo railroads by 60% compared to 2012) and Priority 3, improvement of the public transport system (outcome of the action: opportunities to reach destinations such as educational facilities, healthcare facilities, work location, state and municipal facilities in office hours are provided for everyone). The balance of environmental and economic factors is mentioned as one of the aspects of sustainability – to enhance transport solutions and choice of means of transport which reduces CO_2 emissions, improves the quality of air and mitigates the negative noise impact on the population.

The transport sector has been one of the priorities of Latvia`s development, which is also reflected in the amount of public investments in transport compared to other sectors. EU Cohesion Policy investments in the transport sector accounted for 30% (almost EUR 1.4 billion)[110] of all investments in the previous programming period 2007-2013. The priorities of the Transport Development Strategy 2014-2020 have been adopted in the OP as well and EU Cohesion Policy funds support most of the actions and priorities under the Strategy by continuing with significant investments (26% of all Cohesion Policy investments, total EUR 1.3 billion).

INVESTMENTS IN SECTORS AND SUPPORT FOR CLIMATE CHANGE OBJECTIVES

According to the Partnership Agreement, EU Cohesion Policy will contribute EUR 4.5 billion to the development of Latvia. Breaking down Cohesion Policy investments by area (see Graph 37), transport receives the largest share (30% or EUR 1.3 billion) followed by the environment (EUR 546 million). Energy infrastructure receives 9% of all EU funding. Thus, the transport sector remains the most supported EU Cohesion Policy investment sector.

EU Cohesion Policy investments for supporting climate change objectives amount to a total of EUR 754.9 million or 17.20% of total Cohesion Policy investments in Latvia. Investments into renewable energy sources, energy efficiency and smart electricity distribution, though, make up only for 8,25% or EUR 362 million, with energy efficiency receiving the largest amount.

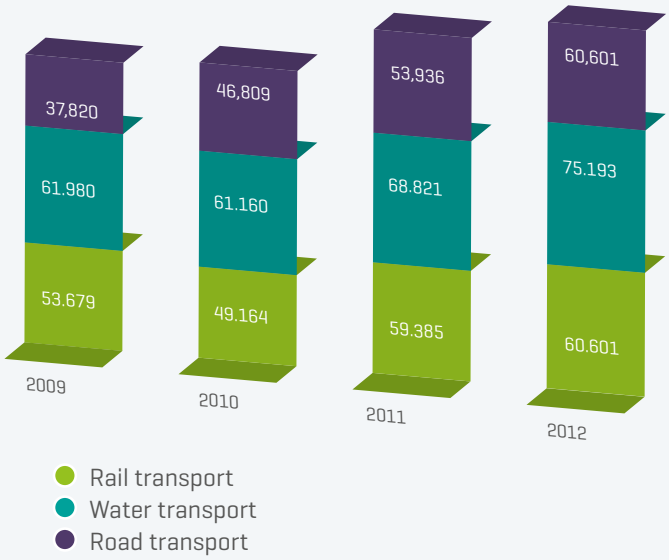
SUSTAINABLE DEVELOPMENT HORIZONTAL PRINCIPLE

The Partnership Agreement is based on the Latvia 2030 strategy and most of the relevant sustainable development criteria are included:

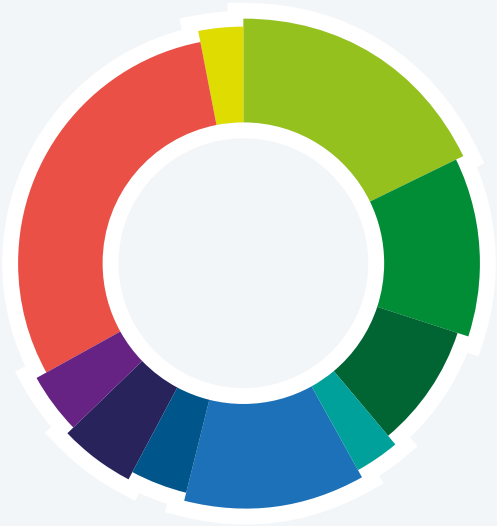
- Reduction of emissions of pollutants into the environment.
- Reduction of GHG emissions.

106 http://www.liaa.gov.lv/invest-latvia/investor-business-guide/business-infrastructure
107 http://www.csb.gov.lv/sites/default/files/nr_29_transports_latvija_2015_15_00_lv_en.pdf
108 http://www.irlv.lv/2015/10/27/latvijas-sabiedriska-transporta-sistema-izveles-prieksa
109 http://polsis.mk.gov.lv/view.do?id=4607
110 http://www.esfondi.lv/finansejuma-sadalijums

GRAPH 36: Cargo traffic by mode of transport in thousand tonnes, source - Central Statistical Bureau of Latvia



GRAPH 37: Shares of EU Structural Funds 2014-2020 allocations by investment area. Source: our own calculations based on approved Operational Programmes according to categories of intervention



		euro
30%	transport	1316,738,686
18%	production and consumption	773,867,357
12%	education	515,961,279
12%	environment	546,461,680
9%	energy infrastructure	406,358,614
5%	social inclusion	225,160,750
4%	social infrastructure	193,377,447
4%	information and communication technology	172,783,829
3%	employment	135410,788
3%	other	103,102,145

- Waste water management.
- Protection and management of groundwater and surface water.
- Biodiversity conservation and protection of landscapes.
- Efficient use and management of natural and energy resources.
- Waste management and prevention.
- Decrease of noise and vibration.
- Research and education devoted to environmental protection.
- Mitigation, prevention of environmental and climate risks.

At first glance, these dimensions of environmental protection seem to establish a strong sustainability framework for Cohesion Policy in Latvia. However, the Partnership Agreement does not go beyond this list of topics. When it comes to translating this into mechanisms for implementing sustainable development, to set up a horizontal framework of specific objectives and indicative activities, the Operational Programme falls short. The programming documents in general fail to implement Sustainable Development as a horizontal principle and in most of the specific objectives the impact on sustainable development is poorly explained and limited to proclamations like 'direct positive impact'. Relevant indicators or mechanisms for horizontal integration, ensuring quality and compliance, are left to regulations to be decided on by the Cabinet of Ministers.

The implementation of horizontal principles needs to be ensured by applying quality or compliance criteria and by including activities in these regulations on the implementation of specific objectives. But neither the project selection criteria, the methodology for implementation of the project selection criteria approved by EU Structural Funds Monitoring Committee nor the draft regulations of the Cabinet of Ministers for the specific objectives have a single reference to any of the sustainable development criteria set in the Partnership Agreement, so the extent of the impact of these investments is unclear. A partial exception is that the project selection criteria for some strategic objectives on transport networks promote Green Public Procurement.

For example, the Partnership Agreement explains that the 'application of the principle of sustainable and balanced

development will promote efficient use of the existing resources, while use of new resources will be in line with the EC Roadmap to a Resource Efficient Europe and Europe 2020, for instance... use of renewable energy in industrial, public and dwelling houses'. But there is no more explicit explanation on what renewables will be supported, what are the national priorities in renewables use and the development of energy infrastructure, how this will affect sustainability and whether it will have a positive impact on the mitigation of climate change. In addition, the Operational Programme does not address the sustainable use of renewables. This is a particular omission given the high share of biomass in the Latvian energy mix and the fact that biomass is the sole RES which will receive EU funding (see Graph 38)

Both the Partnership Agreement and Operational Programme avoid broaching the issue regarding the sustainability of biomass sourcing, because the planned increased use of renewable energy in industrial, public and residential houses in fact means more use of biomass, namely fuel-wood. This unconditioned growth of biomass use in itself is a risk to sustainable development as there are natural limits to the sustainability of biomass.

INVESTMENTS IN THE ENERGY SECTOR

EU funds' investments in energy infrastructure amount to almost EUR 406 million. Investments into renewable energy sources, energy efficiency and smart electricity distribution, though, make up only 8,25% or EUR 362 million, with energy efficiency receiving the largest chunk (see Graph 39):

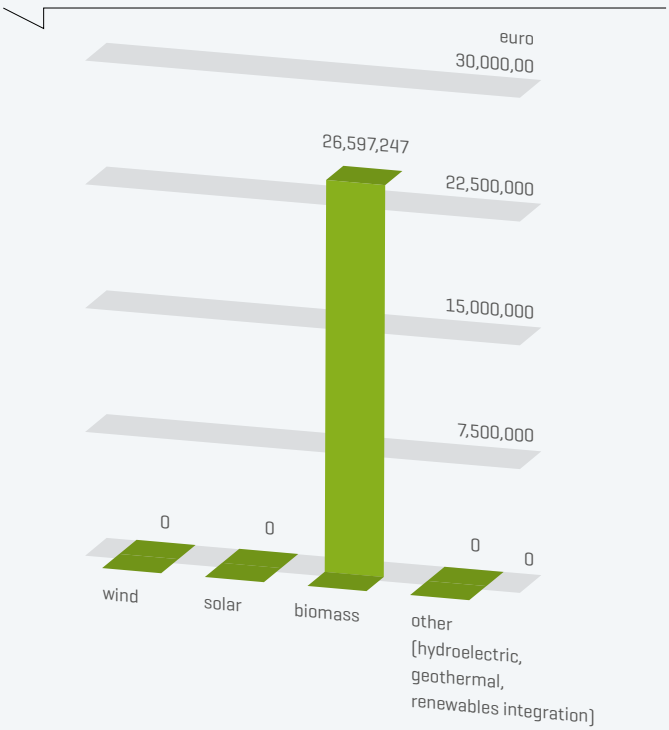
Latvia will invest in the following intervention fields supporting climate change objectives – renewable energy: biomass (EUR 26.5 million), energy efficient renovation of public infrastructure, demonstration projects and supporting measures (EUR 129 million), energy efficient renovation of existing housing stock, demonstration projects and supporting measures (EUR 150 million), and high efficiency co-generation and district heating (EUR 26.5 million)[see graphs 38, 39].

According to the new Energy Development Strategy 2014-2020 (not yet adopted by the Government at the time of writing)[111], the main goal of energy policy in Latvia is a competitive economy with two specific goals – sustainable energy and increase in energy supply security. Under the sustainable energy goal, specific activities are planned to increase RES in Latvia's energy mix. Energy efficiency aligns with the energy supply security goal. However the strategy is, like the OP, missing the sustainable solutions outlined in the 'Latvia 2030'.

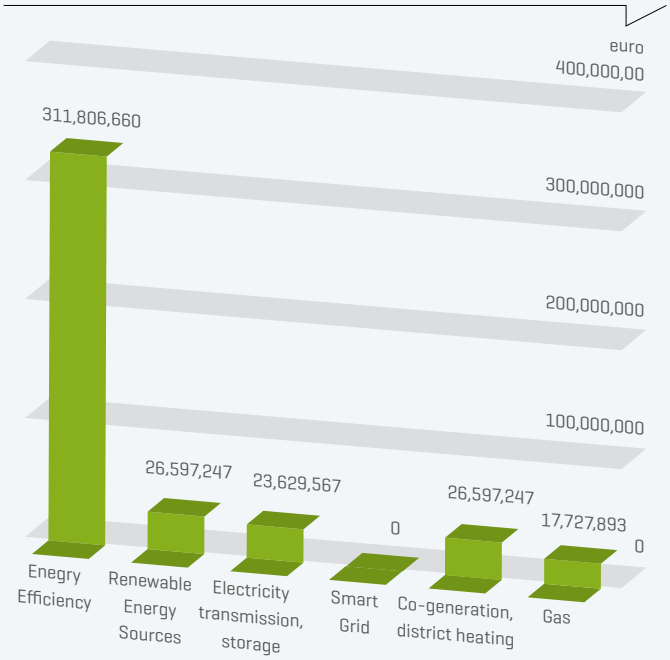
RENEWABLE ENERGY SOURCES: THE SINGLE CHOICE

Although 52% of Latvia's territory is covered by forest (as of 2014) and the intensity of afforestation is, so far, greater

GRAPH 38: Split of renewable energy sources by technology. Source: our own calculations based on approved Operational Programmes according to categories of intervention



GRAPH 39: Different types of energy infrastructure investments. Source: our own calculations based on approved Operational Programmes according to categories of intervention

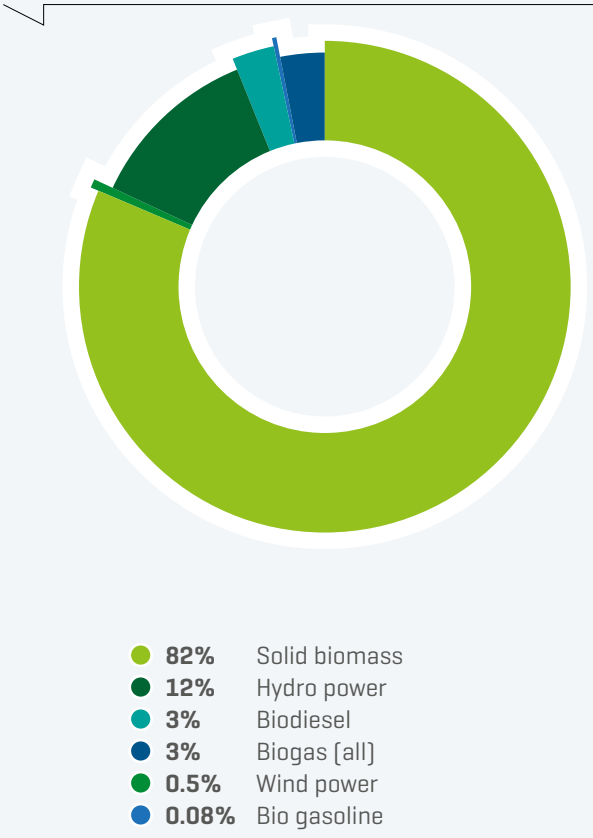


111 https://www.em.gov.lv/files/energetika/EM_21102014_Pamatnost.docx

than that of deforestation, some experts raise concerns regarding the negative impact of biomass on biodiversity in the forests. Yet, neither the impact of agro-forestry on biodiversity nor the long-term carbon footprint of increased wood use is taken into account in EU funds. In addition, the continuous focus on fuel-wood as widely available biomass has left neglected the potential for diversification of RES and development of wind power and solar power infrastructure. In 2013, the share of biomass (98% of which is wood) in RES production was 82%[112] and it is slowly increasing year by year. The advantage of this, as well as a drop in consumption of natural gas (by 7.4% since 2010), is that energy import dependence decreased from 43% in 2010 to 37% in 2014.[113]

The Ministry of Agriculture claims that in terms of carbon stock and GHG balance, Latvia is one of the few countries in the world where the forest absorbs more CO_2 than is emitted. According to figures provided by the Ministry of Agriculture, it is estimated that the carbon stock (mostly forest) absorbed twice as much carbon as was emitted in Latvia in 2009.[114] The GHG balance is, so far, still positive year by year. However, experts in the Silava Latvian State Forest Research Institute explain that there are other issues to consider behind these declaratory claims about a positive GHG emissions balance and fuel-wood as sustainable energy. There is a risk that development of any infrastructure is at the expense of the forest. Emissions from deforestation can be compensated for only by afforestation. At the moment, deforestation emits 50 times more CO_2 than absorption by planting new trees. The forest area in Latvia is not shrinking and forest resources continue to expand, although the growth rate is decreasing and, at some point in the future, it may result in a negative carbon stock balance. But experts emphasise that a steep decrease in deforestation will result in the collapse of the timber industry and energy industry in Latvia.[115] This year's Strategic Environmental Impact Assessment of the Energy Development Strategy 2014-2020 also points out that an increase in the consumption of renewable energy may intensify logging and have a negative impact on sustainable development of the forest sector and bio-diversity[116].

GRAPH 40: Renewable energy share in primary production, 2013 (source – Eurostat)



Focusing on easily available fuel-wood has sidelined development of other RES infrastructure such as wind, solar and bio-gas. This is reflected in the allocations for the sector, with biomass being the only area receiving EU funds, ignoring other opportunities: The Latvian Renewable Energy Federation estimates that wind power potential is 1,000 MW on the Kurzeme coastline – more than a third of the existing national electrical power plant capacity. At the moment, capacity of wind power plants is 62 MW – only a small proportion of the potential. This is even more striking as other Baltic states are ahead in using their wind power potential – Lithuania had 279 MW at the end of 2014 while Estonia had 302 MW.[117] It is estimated that investments to promote the use of local RES will result in increasing the renewable energy share in district heating systems from 18.8% (2012) to 20.7% in 2023 and such investments will provide a crucial contribution to the achievement of 40% share of RES in 2020. The background given above shows two major sustainability risks in the EU Cohesion Policy investments in RES in Latvia – negative impact on the development of a sustainable forestry sector and on biodiversity and one-sided support for biomass and lack of strategic development of other RES like wind and solar.

One of the 2020 goals set in the new Energy Development Strategy 2014-2020 (not yet adopted by the Government at the time of writing), is elimination of energy dependency by decreasing imports of energy and energy sources (natural gas, oil, coal and coke, electricity) from non-EU suppliers by 44.1% compared to 2011. The strategy emphasises the importance of importing natural gas from a variety of suppliers. From the perspective of the strategic goal to meet 40% RES by 2020, the strategy sees an important role

112 http://www.csb.gov.lv/en/notikumi/consumption-renewable-energy-sources-increases-12-over-last-ten-years-41875.html
113 http://www.csb.gov.lv/en/notikumi/share-fuelwood-gross-consumption-energy-resources-increased-73-41873.html
114 https://www.zm.gov.lv/public/ck/files/ZM/mezhi/buklets/Latvian_Forest_Sector_in_Facts_and_Figures2014.pdf
115 http://www.lvportals.lv/visi/likumi-prakse/269387-emisiju-tirdznieciba-cik-gaisa-radas-nakotne/
116 http://www.l4.lv/upload_file/vide/Pamatnostadnes/Pamatnostadnes_vides_parskats.pdf
117 http://www.ewea.org/fileadmin/files/library/publications/statistics/EWEA-Annual-Statistics-2014.pdf

for RES in the reduction of energy import dependency by increasing the RES share of energy production, and therefore by decreasing the share of imported natural gas. However, since the strategy does not develop a sustainable approach to utilise the unused potential of other RES like wind and solar energy, apart from biomass, natural gas will still have the lion's share of heat and electricity production in 2020. According to the OP, strategic objective No.4.3.1. 'to promote energy efficiency and use of local RES in district heat supply' has a direct positive impact on the horizontal principle, Sustainable Development. Implementation of the horizontal principle is to be ensured by applying quality or compliance criteria and by including activities in the regulations of the Cabinet of Ministers on the implementation of the specific objective. The Ministry of Economics has not yet presented the project selection criteria and regulations on implementation of strategic objective 4.3.1. Adoption of the project selection criteria has been scheduled for December 2015, but had not taken place at the time of writing.

ENERGY EFFICIENCY IN BUILDINGS

Another potential way to increase Latvia's energy independence is energy savings through energy efficiency measures in all sectors. The highest energy losses are caused by poor energy performance in residential buildings with nearly twice as much energy consumed compared to the average household elsewhere in Europe.[118] Government efforts to improve energy performance in the housing stock of Latvia are insufficient and Latvia fails to ensure adequate progress in renovation and insulation of residential buildings as there is weak support for self-financing schemes for increasing energy performance in buildings.

Housing stock accounts for almost half of all energy losses in Latvia.[119] More than 60% of the housing stock across the country was built in the Soviet era and has very low energy efficiency performance. The Buildings Performance Institute Europe estimated that 43% of homes in Latvia are dwellings with leakages and damp walls and that 35% of households cannot afford adequate heating.[120] Until 2009, renovation and insulation projects were piloted. Most of them were financed by residents with support from other governments (mostly Germany) and resulted in renovation of 1-2% of the housing stock.

Since 2009, the ERDF programme 'Heating Efficiency Measures in Multi-Residential Buildings' has provided EUR 89 million and the 'Heating Efficiency Measures at Social Residential Buildings' has allocated EUR 6.9 million. The ERDF provided co-financing of 50-60% of all project costs. The remaining 40-50% had to be provided by owners of residential buildings (mostly through bank loans). Since then, there have been significant increases in funding for these activities, along with improvements in the conditions of the programme. As figures provided by the Ministry of Economics show, more than 900 projects have been implemented accounting for 2.5% of the building stock of Latvia.[121]

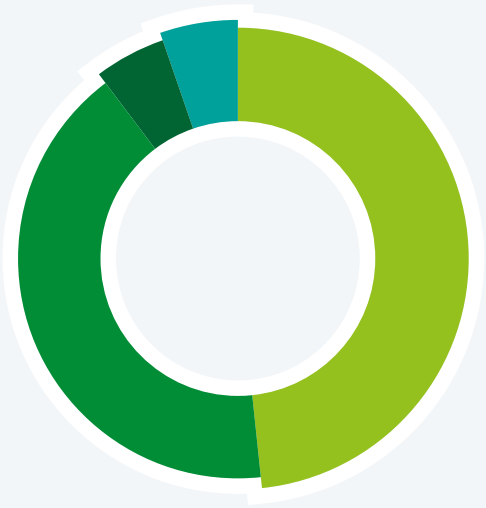
In the new EU Cohesion Policy programming period 2014-2020, the Ministry of Economics plans to invest EUR 150 million in promotion of energy efficiency in residential buildings. According to the OP, the strategic objective has a direct positive impact on the sustainable development horizontal principle. Implementation of the horizontal principle will be ensured by applying quality or compliance criteria and by including activities in the Regulations of Cabinet of Ministers on the implementation of specific objectives.

The Ministry of Economics estimates that 1,800 residential buildings will be renovated and insulated as a result of the EU CP investments, which makes up just 4.7% of the entire residential buildings stock (38,000). EU Cohesion Policy co-financing for renovation and insulation projects in residential buildings is considered by ESCOs as insufficient compared to the poor situation with energy efficiency in residential buildings. Many ESCOs are calling for a more comprehensive and strategic energy efficiency policy focusing on attracting private investments and development of a self-sufficient competitive market for ESCOs and other self-financing schemes to finance renovation of residential buildings.

Another problem is that the current energy efficiency policy does not address the accessibility of such measures for those who are considered energy poor and cannot afford proper heating. Ongoing efforts to increase energy efficiency in residential buildings have so far brought little to no benefit for Latvia's energy poor. Neither does the Energy Union strategy in its current form promise to address energy

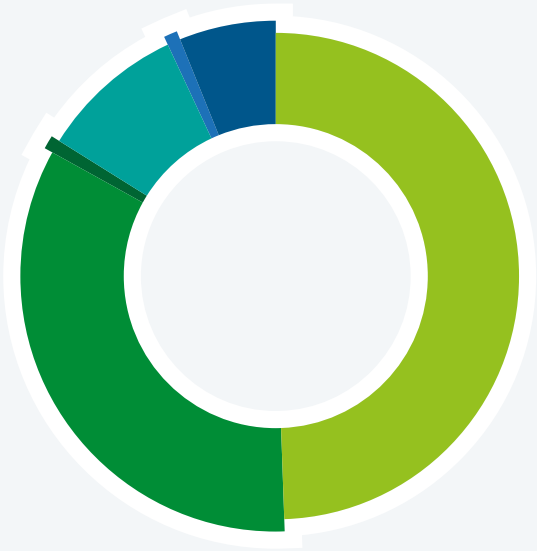
118 http://zalie.lv/wp-content/uploads/2014/12/dzivojamo-eku-ee-atbalsta-pasakumi.pdf
119 https://www.em.gov.lv/files/energetika/les_2013.pdf
120 http://bpie.eu/uploads/lib/document/attachment/60/BPIE_Fuel_Poverty_May2014.pdf

GRAPH 41: Energy efficiency allocations by type of beneficiary. Source: our own calculations based on approved Operational Programmes according to categories of intervention



		euro
48%	EE housing	150,000,000
41%	EE public buildings	129,251,630
5%	EE SMEs	16,277,515
5%	EE large entreprises	16,277,515

GRAPH 42: Share of transport modes in total transport funding in Lithuania. Source: our own calculations based on approved Operational Programmes according to categories of intervention



		euro
50%	Roads	654,511,223
34%	Railways	453,927,366
9%	Clean urban	115,609,367
6%	water ways, ports	74,112,625
1%	airports	11,484,765
1%	multimodal	7,093,340

poverty as a structural issue in a way that could shield vulnerable citizens through social policies.

INVESTMENTS IN THE TRANSPORT SECTOR

Total direct EU Cohesion Policy investments in the transport sector make up EUR 1.3 billion, which accounts for 30% of all funds. More than half of transport investments will be invested in reconstruction and building roads (intervention fields TEN-T Reconstructed or improved road and Other reconstructed or improved road) – EUR 654.5 million. Investments in these two intervention fields do not support climate change mitigation.

The second biggest investment support is allocated to railways - EUR 453 million (see Graph 42).

The existing infrastructure will be upgraded (electrified) and new infrastructure will be created, including traffic management systems and optimisation of control equipment, depending on the level of European Train Control System (ETCS) implementation. The passenger infrastructure will be upgraded, and the alarm system will be upgraded. Electrification of main railway lines is aimed at reducing total costs of railway corridors, increasing competitiveness, attracting additional cargo, decreasing external costs and environmental load, and ensuring compatibility with EU transportation policy and long term objectives. The action is to have a direct positive influence on climate change mitigation objectives: The halving of CO_2 emissions in railway transportation is indicated as one of the specific result indicators – from 164,821 t of CO_2 in 2012 to 82,141 t in 2023,[122] which seems very ambitious.

On 25.09.2015, the EU Funds' Monitoring Subcommittee for priority 6 'Sustainable transportation system' approved project selection criteria for strategic objective 6.2.1. 'To ensure a competitive and environmentally friendly TEN-T network promoting its safety, quality and capacity'. Criterion 2.4. refers to reduction of GHG emissions – implementation of activities contributing to the reduction of GHG emissions. Neither the project selection criteria, nor the methodology of implementation of selection criteria approved by the Subcommittee explain what activities would reduce GHG

121 www.ekubirojs.lv/download.php?f=2_zgalinska_em.pdf
122 http://www.esfondi.lv/upload/Planosana/FMProg_270115_OP_ENG_2.pdf

emissions. On the other hand, selection criterion 4.1. Project impact on horizontal principle sustainable development which promotes Green Public Procurement, would be a good practice to implement also in other project selection, although it is not done so far (see section Sustainable Development Horizontal Principle). If we look at EU Cohesion Policy investments in the transport sector as a whole, then the impact on climate change would appear different due to huge investments in one mode, namely roads. Road quality in Latvia has been given strategic priority. The indicative actions under these specific objectives reveal that investment may increase traffic intensity and flow on the roads:

- Development of new trunk roads.
- Development of routes ensuring effective interlinking of separate parts of cities and interlinking with elements of the European communications network (alternative cargo road construction, reconstruction or modernisation).
- Reconstruction of main national motor roads within the TEN-T network, reinforcement of the carrying capacity of the surface, at the same time improving road traffic safety.

The description of sustainable development as a horizontal principle in the Partnership Agreement and the Operational Programme explicitly explains the investments' impact on water quality and improving waste management, but it does not show whether investments in the transport sector, particularly in the development of roads, will support climate change objectives or not, and the GHG impact remains neglected. The proposed activities in the Operational Programme do not provide evidence that the EU Cohesion Policy investments in the transport sector will reduce the GHG emissions from the sector.