

Assessment of the Estonian operational programme

Introduction

Overall, the Estonian government is using EU funds for accelerating the transition to climate neutrality and a 100 per cent renewable energy system. Estonia is on its way to reaching the national emissions reduction target and the renewable energy target by 2030, in line with Fit for 55, and the operational programme will further contribute to reaching these targets. According to our calculations, 35 per cent of Estonia's allocation from the European Regional Development Fund and 60 per cent of its allocation from the Cohesion Fund is invested in policies that contribute to climate change mitigation, thereby exceeding their respective requirements of 30 per cent and 37 per cent. The operational programme includes important investments in improving energy efficiency via the reconstruction of buildings and district heating systems and procuring biomethane buses for public transport, thereby supplementing the investments and reforms already outlined in the Estonian recovery and resilience plan.

However, the operational programme still includes harmful investments while some important policies for energy transformation and ecosystem restoration are missing. Emissions reductions could be hampered by harmful investments in road infrastructure that undermine the modal shift from road to rail transport and contradict Estonia's National Transport and Mobility Masterplan. Reaching the renewable energy target will likely prove to be most difficult in the transport sector, which is why we strongly advise against the construction of new four-lane roads.

In addition, investments in biodiversity account for less than one per cent of all available Multiannual Financial Framework and Recovery and Resilience Facility funds, meaning that Estonia is not on track to fulfil the investment level targets set by the EU Biodiversity Strategy for 2030. The restoration of ecosystems is necessary not only for biodiversity, but also for reversing the steadily decreasing capacity of the land use, land-use change and forestry (LULUCF) sector to capture carbon.

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In the following briefing, we offer our analysis and recommendations regarding the potential for increasing the climate contribution of the Estonian operational programme.

Process

Public participation

The consultation on the operational programme was done at an early stage, but because the reform and investment areas were already defined, the consultation focused only on the technical details. There was a week of public engagement workshops on selected investments, but since they covered both the recovery plan and operational programme, the time for substantial discussion was limited.

The consultation process on the operational programme's strategic environmental assessment (SEA) has not been transparent enough: we received no formal invitation to send feedback on the SEA. Information about the feedback period was 'hidden' in a general press release that we found when the feedback period was over.

The government has created a joint monitoring committee for both the operational programme and the recovery plan, in which environmental organisations have been included, but its work has not started yet. The advantage of this option is that the monitoring committee will have a more holistic overview of all the investments and reforms. The disadvantage is that if there is only one monitoring committee, it might lack the time and resources for effective monitoring.

Application of the 'do no significant harm' principle

An SEA has been conducted and its general assessment of the operational programme is rather positive. However, a separate 'do no significant harm' analysis will be published later on because the current SEA does not explicitly include one. We are concerned that the 'do no significant harm' analysis might not be strict enough and might greenlight the harmful policy goal '2.1.3.1. Developing a climate resilient, intelligent, safe, sustainable and multimodal Trans-European Transport Network (TEN-T)'.

Synergies with the recovery plan

The operational programme includes only two significant investments in energy transformation: improving energy efficiency in buildings and procuring biomethane buses for public transport. This is because most of the necessary investments and reforms are already included in the recovery plan (for renewables, or hydrogen). We identified no contradictions between the investments and reforms in the operational programme and recovery plan and we can conclude that they make up a rather consistent and coherent policy mix.

However, during the recovery plan negotiations, the Estonian authorities justified the lack of measures for nature conservation and restoration by promising to include them in the operational programme. However, upon assessing the programme, it is clear that this is not the case. Therefore, the authorities have failed to meet their pledges and to allocate almost any funding for biodiversity protection, despite the financial means accessible to them.

Infringement proceedings: measures to resolve ongoing infringements

Estonia has one active EU infringement proceeding, concerning the non-conformity of Estonian legislation with the Environmental Impact Assessment (EIA) Directive amendment (INFR(2019)2109). Given that proper EIAs are fundamental for ensuring that EU funds do not cause harm to the environment, this infringement must urgently be resolved. The failure to address this undermines the credibility of EIAs that will need to be conducted for operations under the current period.

Content: Does the operational programme align with the objectives of the European Green Deal?

Have the climate earmarking requirements been met?

Estonia’s total European Regional Development Fund budget is EUR 1 675 910 000, with 35 per cent of the investments supporting the fulfilment of the climate contribution requirement. The total Cohesion Fund budget is EUR 760 000 000, with 60 per cent of the investments supporting the fulfilment of the climate contribution requirement.

If the types of activities included in these plans are categorised according to the Rio marker methodology,¹ Estonia’s budgets from both the European Regional Development Fund and Cohesion Fund would exceed the required climate contribution threshold: the climate spending accounts for 35 per cent in the case of the European Regional Development Fund and 60 per cent in the case of the Cohesion Fund. However, this will have to be confirmed and fine-tuned, as this methodology does not take into account the quality of investments.

Name of the fund	Total amount (EUR)	Climate earmarking requirement	Planned climate investment
European Regional Development Fund	1.67 billion	30%	35%
Cohesion Fund	0.76 billion	37%	60%
European Social Fund +	0.53 billion	n/a	n/a
Just Transition Fund	0.35 billion	100%	n/a ¹
Total	3.31 billion		

¹ There are some bundled measures that make the assessment difficult, and more detailed elaboration of the investments is needed.

Moreover, the Cohesion Fund investments require extra attention, particularly policy goal ‘2.1.3.1. Developing a climate resilient, intelligent, safe, sustainable and multimodal Trans-European Transport Network (TEN-T)’, which aims to expand the construction of both the railway and four-lane roads (see more below under ‘Harmful projects’). This investment would fit the climate contribution criteria if the construction of four-lane roads was removed and the expansion of railroads was fully in line with the ‘do no significant harm’ principle.

A. Positive investments

General ambition

The Estonian National Energy and Climate Plan (NECP) was compiled on the basis of the National Energy Economy Development Plan, which was created in 2017, before the adoption of the Clean energy for all Europeans package. Thus, the NECP is now widely regarded as outdated. Currently, the NECP requires an 80 per cent greenhouse gas reduction rate by 2050 (compared to 1990 levels) but does not explicitly include the goal of climate neutrality by 2050, and still foresees large investments in the oil shale industry. As both the NECP and the Energy Economy Development Plan will be updated in the coming years, the operational programme will hopefully contribute to the push towards an agreement on climate neutrality and a 100 per cent renewable energy system by 2050 at the latest, and will provide an opportunity to immediately start with the much-needed investments for reaching these targets.

The national emissions reduction target is 70 per cent by 2030 (compared to 55 per cent at the EU level) and the national renewable energy target is 42 per cent by 2030 (compared to 40 per cent in Fit for 55). Estonia is on its way to reaching these targets, as emissions have already been reduced by 64 per cent in comparison to 1990 and the share of renewable energy in final consumption is currently 26 per cent. However, emissions reductions could be hampered by the steadily decreasing capacity of the LULUCF sector to capture carbon, **which is why we strongly advise Estonia to include investments in the restoration of ecosystems**. In addition, reaching the renewable energy target will likely prove to be most difficult in the transport sector, **which is why we strongly advise against the construction of new four-lane roads that will obstruct the modal shift from road to rail**.

Energy efficiency

Estonia’s target is to renovate 22 per cent of the total building stock by 2030, requiring a total investment of around EUR 5 billion. The National Audit Office has concluded that the building renovation rate needs to increase almost fivefold (from 100 to 466 apartment buildings a year) in order to reach the target for 2030 and that this target will not be met with the current policies.² Therefore, policy goal 2.1.2.1., ‘Improving energy efficiency and decreasing GHG emissions’, foresees an additional EUR 429 million for the renovation of apartment buildings, replacement of old heat boilers in the district heating system and in individual buildings, reconstruction of old district heating pipelines, and connecting new buildings to the district heating system. However, the amount included in the operational programme for the next seven years only amounts to the annual investment need. Experience shows that the demand for renovation support is very high and that the funds run out extremely quickly. It is unlikely that the government will raise taxes to increase revenue for

renovation support or that the remaining costs will be covered by private investments. **We therefore suggest that the government increases the amount of EU funds for renovation**, especially considering that a total investment of EUR 22 billion is needed in order to reach the extremely ambitious long-term national target of renovating the entire existing building stock (built prior to 2000) into near-zero-energy buildings by 2050.³

In regions outside larger cities, the step-by-step reconstruction of buildings will now be allowed to make it more affordable and attractive for the housing associations. **It is important to make sure that this exception does not discourage deep renovation** to the extent that it makes the fulfilment of the long-term national target impossible or even more costly. In addition, **administrative barriers to the energy renovation of buildings need to be addressed by training technical consultants, offering apartment associations and private households free energy audits, and advising them on the application process**. A serious effort should be made to actually reach out to the targeted apartment associations and households instead of merely raising awareness among the general public.

B. Harmful projects

The current version of the operational programme contains two set of measures that are questionable and likely to contradict the EU's climate ambition.

Prioritising road transport expansion over urban mobility

We are very concerned about policy goal '2.1.3.1. Developing a climate resilient, intelligent, safe, sustainable and multimodal Trans-European Transport Network (TEN-T)'. In order to meet the climate goals in the transport sector, it is crucial to shift both passenger and freight traffic from road to rail. However, the attractiveness of rail transport is relative to the attractiveness of road transport, which means that if the government invests in the construction of four-lane roads on the routes Tallinn-Tartu, Tallinn-Narva and Tallinn-Pärnu, this will inevitably increase the share of road transport instead of decreasing it. Investments in road infrastructure on these routes therefore directly undermine the investments in railroads and also contradict the new National Transport and Mobility Masterplan of Estonia that sets a modal shift from road to rail as one of its key goals.

In addition, it is unclear why the government plans to invest over EUR 500 million in TEN-T infrastructure and less than EUR 100 million in urban mobility. The amounts are disproportionate, because urban mobility has a significantly larger impact on the environment and human health. For instance, the Tallinn region contributes to over 50 per cent of all traffic in Estonia. **The government should stop constructing four-lane roads on the Tallinn-Tartu, Tallinn-Narva and Tallinn-Pärnu routes and instead use the funds for expanding rail infrastructure with full respect for the 'do no significant harm' principle, increasing safety on the existing two-lane roads and improving urban mobility. The modal shift from road to rail could be further induced by a car tax.** The remaining funds could also be used for biodiversity investments (see below).

Fossil to biomass district heating

Another difficult challenge is decoupling district heating from oil shale in the country's most carbon-intense region (Ida-Virumaa, Estonia's only just transition region). The current Territorial Just Transition Plan (TJTP) (listed as Appendix 1 in the operational programme) envisions decoupling by building co-generation plants fuelled by biomass. From a climate perspective, **biomass should not be framed as a climate neutral energy source, as electricity generation from biomass emits more greenhouse gases than electricity generation from fossil fuels does.** Also, in the light of the rapidly increasing logging pressure in Estonia, **forest biomass should be used only if it is in line with the sustainable biomass criteria** – yet it is highly doubtful whether this is the case right now. As we advise below, some alternative scenarios focusing on the electrification of district heating combined with the reduction of energy demand should be considered.

C. Missing projects and priorities

Biodiversity

Investments in biodiversity account for less than one per cent of all available Multiannual Financial Framework and Recovery and Resilience Facility funds for Estonia, despite the fact that biodiversity investments are essential for adapting to climate change in addition to contributing to the economy. Thus, Estonia is not on track to fulfil the investment level targets set by the EU Biodiversity Strategy for 2030, namely to dedicate 7.5 per cent of spending under the EU budget to biodiversity by 2024. The country should allocate more towards protecting and restoring biodiversity. The Prioritised Action Framework for Natura 2000 areas sets out many potential investments that require funding from the Multiannual Financial Framework. The operational programme only funds one activity (wetland restoration).

We consider the following investments as missing from the operational programme, because they would align the programme with the objectives of the Biodiversity Strategy for 2030 and the Green Deal:

1. Terrestrial habitat inventories of Natura 2000 areas. Inventories have not been carried out in large parts and the existing inventories need to be updated.
2. Habitat inventories outside Natura 2000 network areas with the aim to expand the network. There are many areas with the same valuable habitat indicators as Natura 2000 areas. Expansion of the Natura 2000 network is also one of the aims of the EU Biodiversity Strategy for 2030.
3. Natura 2000 site-related maintenance and restoration measures for species and habitats in forests and woodlands. The status of most forest habitat types of the Habitats Directive in Estonia is either 'inadequate' or 'bad'.
4. Restoration of semi-natural grasslands of Natura 2000 areas. The status of high conservation value, semi-natural grasslands is currently assessed as 'unfavourable-inadequate'.

District heating

Policy goal 2.1.2.1, mentioned above, foresees a support scheme for the installation of new district heating and individual heating equipment. Investment in fossil fuels will not be supported, but no further selection criteria are given. The overall vision of the government regarding district heating is unclear. There is no mention of fourth generation district heating nor of any specific renewables-based heating or storage technology. The district heating system currently relies heavily on forest biomass, but this should not be treated as a climate neutral energy source. Further increase of the use of biomass will have a negative impact on LULUCF capacity for carbon sequestration. For example, it is of concern that the TJTP includes investments in biomass-based cogeneration in Ida-Virumaa. **We advise that the government instead consider investing in building and grid efficiency and the option of using large-scale heat pumps in combination with the utilisation of waste heat and seasonal storage.**

Energy communities

There is no mention of energy communities and no support has been foreseen for them. No regulatory authority has been appointed to oversee the registration of energy communities and compliance with the EU criteria. **The government could take the lead on supporting the establishment of energy cooperatives in municipalities via financial or non-financial means.** Financial support could be lent to preliminary project investigations and to the construction of projects through a guarantee fund. Non-financial support could mean raising awareness about energy co-operatives in municipalities and communities; consultation for preparing preliminary investigations, financial analysis, and participation in public tenders for renewable energy; or help with finding suitable areas and plots for renewable energy development. There is an option for the government to enter into a strategic partnership with the first national energy cooperative, Energiaühistu, which could help with carrying out these tasks.

Conclusion

In parallel to climate change mitigation, a greater focus is needed on biodiversity protection, as some projects aimed at mitigation might do serious harm to biodiversity. Therefore, the 'do no significant harm' principle must be respected throughout the whole operational programme, and we urge the ministries to be critical when conducting the 'do no significant harm' assessment.

Concrete recommendations include:

1. Allocate at least 7.5 per cent of spending under the EU budget towards habitat inventory, maintenance and restoration in Natura 2000 areas.
2. Allocate more funds to building renovation in order to reach the national target of renovating 22 per cent of the total building stock by 2030 (a total investment of around EUR 5 billion).

3. Invest in energy production decentralisation and energy communities. The government could support preliminary project investigations by energy communities and the construction of projects through a guarantee fund.
4. Refrain from investments in the construction of four-lane roads that hamper the crucial shift of both passenger and freight traffic from road to rail and contradict the new National Transport and Mobility Masterplan. To further endorse the shift away from car use, consider introducing a personal car tax and/or road tax on TEN-T routes (Tallinn-Tartu, Tallinn-Pärnu, Tallinn-Narva) that would reduce traffic and make the construction of four-lane roads unnecessary.
5. Avoid treating biomass as a sustainable alternative to oil shale in district heating and focus on the electrification of district heating via large scale heat pumps and downscaling the overall energy demand.



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