

## **Overview of the work of the BA Economic Affairs, Communications and Informatics Committee and the BA Environmental Protection and Energy Committee in 2011**

Under the Estonian presidency in the Baltic Assembly the BA Economic Affairs, Communications and Informatics Committee and the BA Environmental Protection and Energy Committee in 2011 focused on the following priority areas:

- sustainable transport and infrastructure development in the region;
- monitoring the implementation of *Via Baltica* and *Rail Baltica* projects;
- energy efficiency and green technologies;
- monitoring the implementation of Visaginas nuclear power plant project.

There are a lot of discussions about the importance of the internal market in Europe, but in the field of energy the internal market is not functioning for the basic reason that Europe lacks grid interconnections between its member states and remains an “energy island” in the northeast: the gas and electric grids of Estonia, Latvia and Lithuania are still almost completely isolated from the western European or Scandinavian electricity networks. These countries experience great dependency on external energy supply. Latvia has a 100% dependency on Russian natural gas supplies and the partial ownership of gas infrastructure by Russia’s *Gazprom*. Estonia has based its energy production on its own fossil energy source – oil shale, generating more than 90% of electricity from it. Until December 2009 Lithuania relied on the Ignalina nuclear power plant to produce most of the needed electricity. As of January 2010 the Ignalina nuclear power station had to be shut down according to the accession agreement to the EU in 2004. The gap in Lithuania and Latvia in electric supply will partly be compensated by electric production via oil shale in Estonia, partly by electricity imports from Russia and Belarus, partly by increased use of renewables and partly by increased use of gas-fired electric generation plants in the Baltics. Although the Baltic States remain isolated from the rest of the EU, they retain and regularly utilize the interconnections that they share with each other in both the gas and electricity sectors. All three Baltic States receive 100% of their natural gas supplies from Russia with only one route of supply, the only mitigating factor being the presence of an underground gas storage facility in Inčukalns in Latvia. This situation of the gas monopoly leaves no place for market mechanisms and competition. As large EU projects such as *Nordstream* – between Germany and Russia) unfold, the isolation and vulnerability of the Baltic gas supply will only increase.

Exception to Baltic energy isolation is the *Estlink* electrical connection between Tallinn and Helsinki. Also other large inter-connector projects are underway for electric grid connections between Lithuania and Sweden and Lithuania and Poland within the framework of the Baltic Sea Strategy. Liquefied natural gas (LNG) terminal is the most efficient solution for the Baltic States. There will be no regional gas market if the Baltic States do not implement the EU Third Energy Package, which counters with the Russian (*Gazprom*) monopoly. **It is of utmost importance to come to an agreement regarding building of the LNG terminal as soon as possible.** The Baltic States had not been able to find a compromise solution on the place of the terminal as it is clear that the EU will support construction on one LNG terminal in the region (discussions over the place in Riga near the Inčukalns storage facility, the

Klaipeda LNG terminal). In the present situation Baltic countries are pushing small national terminals without technical capacities to have a regional impact not taking the present state of gas infrastructure. The key question when considering the place for construction of the terminal is closely connected with infrastructure and connection systems to the major pipelines and energy infrastructure. Structural funds might be one of solutions of financial instruments.

As regards the issue of **Visaginas nuclear power plant, in the letter to the ministers of economic affairs/energy of the Baltic States the Committee requested to submit detailed report on the implemented activities and time schedule.** The answers received by the Latvian and Lithuanian ministers emphasize the topicality of the issue on the agenda of cooperation of the three Baltic States. The strategic partner of the project has been selected in the mid of the year – Hitachi Ltd together with Hitachi-GE Nuclear Energy Ltd. The Ministry of Energy of the Republic of Lithuania and Hitachi are targeting to sign the concession agreement by the end of 2011. According to the project timetable the project planning and preliminary safety analysis report is carried out within 2011-2013, following which the construction, testing of systems and preparation of final safety analysis report is carried out in the time span to 2020, when the plant is being commissioned.

Besides construction of the Visaginas nuclear power plant, the LNG terminal and building new gas grid interconnections between the Baltic States and the rest of the EU the other way to reduce the gas dependency on Russia is through the increased use of **renewable resources**, which is in line with the EU strategy for increasing the overall share of renewables in the EU to 20% by the year 2020 (also 20% less CO<sub>2</sub> and 20% reduced energy consumption by focusing on energy efficiency). The leader in renewables in the Baltic States is Latvia, which has an overall rate of 32% of renewable resources in its energy mix. Latvia is one of the greenest countries in the EU and in the world. In the electricity sector renewables account for 42% of consumption. This comes from utilizing the hydro and forest resources in the country. In Lithuania renewables account for 23% of its overall energy mix, with 13% renewables in the electricity sector measured against consumption. In Estonia the rate of renewable resources in the overall energy mix is about 17% and only 3% of production in the electricity sector measured against consumption.

Reaching consensus and agreement on the place of construction of LNG terminal in the Baltic region, positive progress of the construction of the Visaginas nuclear power plant based on high EU standards for security and development of renewable energy resources would mean the end of the Baltic energy isolation by 2020/2025. Energy security should be ensured on the basis of shared regional concerns rather than unilateral or bilateral solutions, and it should lead to genuine integration of energy systems rather than creation of energy islands or to the provision of instruments for using energy as a tool for political pressure, i.e. energy terrorism. Baltic States have to work together for a common Baltic solution to energy challenges.

The above mentioned: increasing the use of renewables, building a new nuclear power plant and becoming fully integrated into the EU electricity and gas grids are the prerequisites for a functioning internal energy market, being the guarantee of energy security not only in the Baltic States, but for all of Europe.

**Next year the BA Environmental Protection and Energy Committee** together with the BA Economic Affairs, Communication and Informatics Committee will continue to focus on the issue of green growth and sustainable transportation, and follow-up of transport and infrastructure cooperation projects in the Baltic States.

**The BA Economic Affairs, Communication and Informatics Committee** will concentrate on enhancing integrated and stable financial markets of the Baltic and Nordic countries in order to improve regulation and oversight of financial markets and rules for crisis management. Another priority is developing innovative and competitive economy of the Baltic States: joint measures that enhance economic growth and employment, and enhancing greater cooperation in tax policy and joint strategy towards investments.