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Latvia's Climate Policy

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At the end of January 2020, the Latvian government approved the country's climate neutrality strategy until 2050, and in March it supported even more ambitious EU targets for reducing emissions. These declarations are connected with the need for a thorough transformation of the economy. The Latvian authorities combine these changes with the outlook for economic growth, including the development of the newest technologies in the energy sector. Latvia's approach, subordinated to climate action, coincides with the policy of other countries in the region, but differs from the Polish vision of energy transformation.

Latvia's Energy Balance. Latvia is the third EU country (according to the latest available data, for 2018) in terms of the share of renewable energy (35.2%) in the energy mix. Wood is the main source of renewable energy in the country, as forests cover 54% of Latvia's territory. Using it helps to reduce greenhouse gas (GHG) emissions. At the same time, most (53%) electricity is produced from renewable energy sources (RES) in Latvia (placing it fourth in the EU in this particular category).

Total energy consumption is growing in the country. In 2018, it increased by 5.3% compared to 2017. Despite this, energy use structure changes as the use of fossil fuels decreases. This applies mainly to gas, of which share in the mix during the years 2009 to 2018 fell from 27.2% to 24.4%. However, it remains one of the main resources used in Latvia.

The transport industry is the largest energy consumer and contributes to increasing gas emissions. In 2018, it accounted for 30.1% of total consumption (3.7% more than in 2017). In addition, diesel oil is the main source of energy in transport (its share in 2018 was 64.3%).

Assumptions of the Climate Strategy. On January 28, the Latvian government adopted the 2021 to 2030 energy and climate plan (NECP) and the long-term climate neutrality strategy, to 2050. The road map, submitted to the European Commission (EC) on 3 February, sets out activities in key areas. It focuses on reducing GHG emissions and improving energy efficiency. NECP is also intended to help create around 10,000 jobs. However, it is a costly undertaking, as the government's plan provides for investments of around €8 billion. In addition, at the beginning of March, Latvia and seven other EU countries (including Sweden, Portugal and Spain), approached the EC Vice-President Frans Timmermans, responsible for the European Green Deal, with a request to raise the Union's climate ambitions to reduce emissions by 2030, from the planned 40 % to as high as 55%.

The Latvian NECP assumes that the share of renewable energy will amount to 40% of total final energy consumption in 2020, and by 2030 it is expected to increase to as high as 50%. In addition, in order to transition to a climate-neutral economy, the adopted scenario provides for the reduction of emissions in the energy and transport sectors. Latvia wants to reduce GHG emissions not covered by the ETS by 6% by 2030 (compared to 2005). The main sources of emissions are energy and heating (35.4%), transport (28.5%), and agriculture (24.6%). Meanwhile, in 2017, GHG emissions in agriculture increased by approx. 16% compared to 2005, and in transport by 6%. Therefore, the most important activities are focused on the

implementation of low-carbon and energy-saving technologies (for example, in energy production) or the use of biofuels (as in transport).

The Latvian authorities are also considering different variants of pro-ecological tax preferences. According to the assumptions, a key measure to reduce the consumption of fossil fuels is to change tax rates, including for instance a tax on natural resources or CO2 emissions. Increases are planned for fossil fuel power plants, excluding those equipped with new-generation boilers. An incentive to use innovative technologies would be exemption from excise duty for the simultaneous production of heat and electricity in CHP plants.

Latvia's plans are compatible with, among others, changes to the European Investment Bank (EIB). From 2020, EIB financing for projects using fossil fuels, including natural gas, has been limited. There is also aid to improve the energy efficiency of buildings. Overall, 75% of the investment is to increase efficiency to reduce overall energy consumption. The Latvian authorities therefore take into account the EU's climate goals in order to maintain options of EIB support. While the largest energy loans in Latvia have so far been used for the modernisation of TEC-1 and TEC-2 CHP units, the EIB currently wants to subsidise mainly renewable energy projects.

The Main Challenges. Although Latvia is among the EU leaders in the use of renewable energy sources, achieving long-term goals is a challenge, partly due to the specificity of its energy sector and need to adapt other sectors of the economy. First, in Latvia, the natural capacity for absorbing greenhouse gases is decreasing in view of deforestation and the aging of trees. Latvia is likely to meet its goal of reducing gas emissions for 2020, but achieving long-term goals will require complementary implementation of measures in individual sectors (for example, thermo-modernisation in construction or increasing electromobility in transport).

Second, the high gas emissions in agriculture present a serious obstacle to the implementation of the plan. In 2017, most (60.8%) of them came from self-cleaning of agricultural soils. Emissions from fermentation processes in animal husbandry were the second largest source (31.2%). Due to the importance of agriculture in the Latvian economy, the use of innovative but capital-intensive technologies will be important for reducing emissions. The problem will also be the energy-intensive wood industry (in 2018 it was 50.6% of final energy consumption in industry), which generates high gas emissions but is a socially sensitive sector that guarantees employment.

Third, effective implementation of the strategy will require a significant increase in energy efficiency. As part of the implementation of the EU directive, the Latvian authorities have committed to annual energy savings of 1.5% for domestic end users and renovation of 3% of public buildings. With the assumed increase in energy demand, the Latvian government will have to show great determination, especially in the field of modernisation of buildings, if it is to achieve these goals.

Finally, in order to ensure a larger share of renewable energy, Latvia would have to install at least 500 megawatts (MW) of new-generation capacity, which is about one-sixth of the total available capacity in the country. One solution would be to increase wind energy production. Latvenergo (a Latvian energy company with state capital) plans to invest in wind farms. However, due to the fact that wind is a highly unpredictable energy source, sufficient and flexible basic power is needed. This involves, among other things, the need to strengthen the entire national power grid.

Conclusions. In Latvia, achieving climate neutrality requires cross-sectoral cooperation. This applies to many areas, including increased energy efficiency, clean transport, agriculture and rural development. At the same time, the future common agricultural policy of the EU, and hence the amount of direct payments, will be increasingly dependent on meeting environmental requirements. Therefore, the Latvian authorities will strive to meet EU obligations. Latvia also wishes to be credible and to strengthen its position among the EU countries, so supports the more ambitious, long-term EU goals.

The harmonisation of Latvian climate policy with the Union's environmental requirements, as well as investments, are expected to realistically improve existing energy efficiency indicators. However, the goals set will be difficult to achieve, especially in view of the projected increase in energy consumption. In addition, according to NECP data, funds initially allocated to decarburisation may not be sufficient for Latvia to achieve zero GHG emissions in the next 30 years.

Latvia actively supports the EU climate assumptions. Despite this, the high costs of energy transformation will be a major challenge. Therefore, Latvia, just like Poland, will depend on adequate Union support in this respect. At the same time, Poland may cooperate with Latvia and the other Baltic States to increase the use of renewable energy in the region, and the wind farm industry will be particularly demanding.

The coronavirus pandemic will have an impact on Latvian climate policy plans and the related transformation of selected sectors of the economy. The scope of changes that the government will have to make in relation to the current programme assumptions in these areas will depend on the duration of the pandemic and the effects on the EU and Latvia's economy.