

# Reaching climate neutrality in Estonia



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## SEI brief

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## Context

Estonia, which has long relied on locally produced and highly polluting oil shale as its primary source of fuel for electricity, has committed to work towards climate neutrality by 2050. The Government Office of the Republic of Estonia commissioned SEI Tallinn to outline the steps the country must take over the next three decades. SEI Tallinn's report provides an analysis of sector-specific issues that Estonia must address, and offers an outline of the cost effectiveness of related measures. The report gives an overview of related challenges, opportunities, socio-economic impacts and enabling conditions for achieving climate neutrality. It underscores the significant policy and business opportunities inherent in the pursuit of a climate neutral scenario. These offer the prospect of "future proofing" Estonia's economic growth. This summary highlights key findings of the report.

## Climate neutrality: possible and likely profitable

The report concludes that the goal of reaching climate neutrality in Estonia by 2050 is feasible - and likely to be profitable when taking into account economic savings, which are complemented by health and environmental benefits. Making a successful transition will require the government to implement a range of key measures detailed in the report, and to undertake these changes at optimal times. The most important of these are:

- Estonia should make significant, near-term investments in broadscale energy efficiency initiatives to increase energy productivity and cost effectiveness. The report outlines an array of specific efficiency measures for the buildings, industry and transport sectors.
- Estonia must decarbonize its energy supply, and shift away from its reliance on oil shale. To ensure a just transition, new investments are needed to support and scale wind, solar and local bioresources. Meanwhile the country must explore and incubate innovation in hydrogen and carbon capture utilization and storage technologies. Decarbonization processes must take place in the transport sector, which lags behind the progress levels achieved in electricity and heat sectors.
- Estonia should leverage favourable natural assets for carbon sequestration in the land use, land-use change and forestry (LULUCF) sector. Peat soil restoration, afforestation and strategic forest management present such opportunities.
- The pace, scale and ambition of green investments must increase.

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The insights presented in this brief are based on SEI Tallinn's report published in 2019: [www.sei.org/publications/reaching-climate-neutrality-in-estonia](http://www.sei.org/publications/reaching-climate-neutrality-in-estonia) (in Estonian with a summary in English).

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IMAGE: Wind turbine.

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- Government must establish a clear action plan that focuses on creating favourable regulatory and financial frameworks to spur private investments that can underpin change. The government should put in place supportive economic, educational, social and business innovation policies to make sure that a just and positive transition takes place in all regions, including the oil-shale dependant North-East Estonia.

## Invest in the future

Investing in mature and scalable technologies today is an important first step. Such investments create the conditions to quickly adopt emerging technologies after 2030. These investments also put Estonia on the path to achieve the agreed target of a 70% emissions reduction by 2030, and to reach climate neutrality by 2050. Early action “future proofs” Estonia’s economy – by avoiding the likelihood of stranding public assets, and by enabling local industries to take steps needed to embrace new economic opportunities.

Implementation of the some 60 measures proposed in the report’s climate-neutral scenario will cost approximately EUR 17.3 billion for the 2021-2050 period, with the majority of investments (76%) coming from the private sector. For these investments to materialize, Estonia will need to provide solid, supportive regulatory frameworks and financial incentives. The report shows that investment levels required will decline over time; total anticipated investments represent approximately 4% of Estonia’s annual GDP over the period from 2020 to 2030, decreasing to 2% annually from 2031 to 2040, and to 1% from 2041 to 2050.

Estonia will not start from scratch. In most of policy areas, significant investment has already begun. Nevertheless, the pace – and the level of climate ambition inherent in these investments – must grow. The SEI analysis focused solely on Estonia, but cooperation and coordination with Nordic-Baltic neighbours is expected to reduce the cost of going climate neutral by, for example, leveraging more cost-efficient, regional energy markets.

## Act quickly

The longer Estonia delays making important decisions and implementing key measures, the more complex and costly the climate neutrality goal becomes. Overall economic savings will only outweigh the cost of investments if Estonia starts early and acts ambitiously.

## Key policy implications

For successful transition, Estonia must:

- Remove administrative barriers, such as those related to planning and permitting.
- Work with local stakeholders to achieve greater public backing for key investments
- Create supportive regulatory frameworks and financial incentives to increase the pace of change. This is crucial because the private sector – companies and households – must make needed investments and take needed actions.
- Provide training and education needed to give the Estonian workforce the skills and competencies that allow residents to benefit from economic growth and job creation linked to the new, climate-neutral economy.
- Manage regional risks to ensure a just transition. The geographic concentration of the fossil oil-shale industry in Estonia requires special attention. Policies are needed to support the just transition of the region. Steps should be taken to take advantage of opportunities for investments in this region via the EU Green Deal Just Transition Mechanism.
- Muster the political commitment needed. Estonia must implement initial measures, and then continue to assess and analyse further emission-reduction opportunities. It must remain current on these issues to make decisions for low-cost, low-carbon developments that are best for its people, and for the public and private sectors.



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