RENEWABLE ENERGIES IN THE BALTIC STATES

Like many European countries, Estonia, Latvia and Lithuania import large quantities of natural gas for heating and the production of electricity. It has therefore been a longtime goal to transition to renewable energy sources in order to decrease **emissions** and increase energy **independence**. Due to the EU aim to be climate-neutral by 2050 and the war in Ukraine, these goals have become even more important.

As we will explain in this brochure, prospects for investors are very good at the moment. **Grants** and changes in **regulations** regarding renewable projects make the Baltic States an attractive location.

1. Climatic conditions in the Baltic States

When looking for a suitable location, investors in renewable projects probably do not first think of the Baltic States. However, they have excellent conditions, especially for energy production from wind power.

1.1 Wind

All three Baltic countries have a coastline and thus the necessary location for so-called offshore wind farms.

Latvia is even the Baltic Sea country with the greatest potential for **offshore wind** energy after Sweden and Denmark.

According to estimates by a study for the European Commission, turbines with a total capacity of up to 14.5 gigawatts could be installed in the Latvian Baltic Sea.

Estonia, with wind speeds of six to seven m/s at 80 meters inland, offers the greatest potential for **onshore wind**. In Germany for comparison, four to six m/s is the norm.

Although Lithuania has the least potential for the use of wind power, especially the northwest of the country still offers good conditions with wind speeds of over six m/s at only 50 meters and a potential of 4,5 gigawatts regarding offshore wind.

1.2 Others

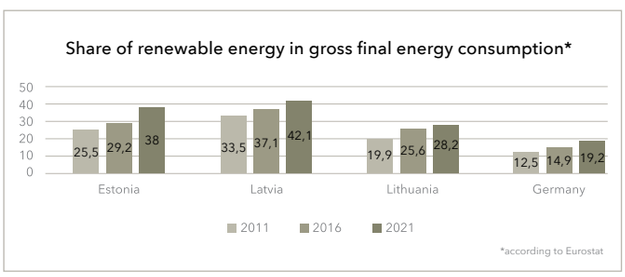
Thanks to the latest **solar** technology, even with the comparatively low number of hours of sunshine, there is high potential in the Baltic States.

This is especially true for the west of Lithuania, but conditions in Latvia and Estonia are suitable for new solar projects as well. A good example is the heating plant in Salaspils, Latvia, that opened in September 2019. It has 1,720 solar panels that are able to provide most of the cities´ energy for heating water during the warm months.

All three countries also have a great potential for **bioenergy**. The large forest resources – in Estonia and Latvia more than 50% of the land area is forested – are a huge advantage here.

The use of hydropower is particularly pronounced in Latvia, but Lithuania generates a relevant part of its energy from **hydropower** plants, too.

Another growing sector, is the hydrogen industry. Due to the natural conditions, Latvia could even serve as a European **hydrogen** storage facility.



2. Regulatory framework

The Baltic states have enacted significant legislative changes with regard to renewable energy in the past years. In the following, general climate goals and important new regulations will be explained.

2.1 Estonia

In October 2022, Estonia's parliament adopted a new renewable electricity target of 100 per cent by 2030. The previous goal was 42 percent.

To reach this goal, Estonia organizes renew¬able energy tenders under the Electricity Market Act. The aim of the tenders is to promote cost effective renewable electricity development in Estonia.

The government has also decided on implementing a joint permit in order to **reduce bureaucratic hurdles** and thereby shorten the duration of permitting procedures. It was agreed that the audit of planning, environmental impact assessment and permit process will be carried out under the leadership of the government green policy coordinator to speed up the procedures.

2.2 Latvia

Latvia's national Energy and Climate Plan for 2030 determines the reduction of greenhouse gas emissions by 65 % compared to 1990.

Last year, the Parliament of Latvia, Saeima, has introduced facilitations for all areas of renewable energies.

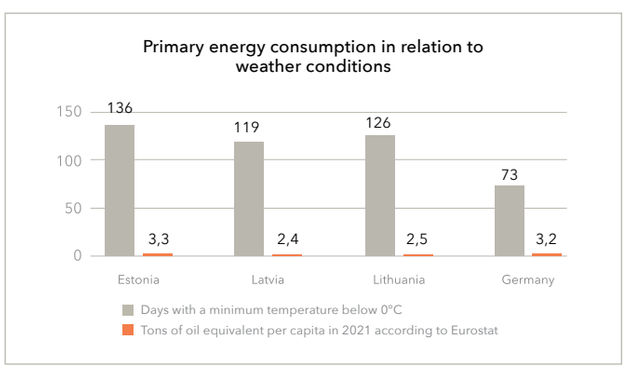
These laws aim to **simplify the procedure** for the construction of energy supply structures. The construction of wind power plants for example is now allowed in more areas and procedures regarding the necessary structures for solar plants have been simplified. The Law also includes important accelerations in regard to the Environmental Impact Assessment.

In addition, the Latvian government has started the so-called "Green Channel" initiative in 2021. Its aim is to relieve administrative burdens for high value-added investments in green sectors. It shortens the time for administrative procedures by half for territorial planning, residence permits and foreign workforce attraction.

2.3 Lithuania

Plans of the Lithuanian government are equally ambitious. By 2030 the state is supposed to be an energy exporting country, with its electricity needs met by local generation, all of it green. Also, one in three households is supposed to generate their own electricity by then.

The Government has prepared various law amendments in 2022, called the "Break¬through" package. It is supposed to reduce former bureaucratic hurdles and the **duration of proceedings** significantly. It is also oriented to more efficient regulation of construction, installation and administration of onshore and offshore wind as well as solar power plants.



3. Current support programs

In order to attract investors, all Baltic States introduced several financial support mechanisms, mostly in cooperation with the EU. Hereinafter we briefly present some important programs.

3.1 Estonia

Estonia has several state grants for green projects. Funding of the Just Transition Fund for investments in the Ida-Viru region alone amounts to 153 million euros. Although applicants must be registered in the Estonian commercial register, foreign companies who are willing to open a branch in Estonia have good chances.

Under the Electricity Market Act, renewable energy producers are also guaranteed **priority access** to the grid and a minimum price for their electricity. In addition, the Center for Environmental Investments (KIK) manages several support measures related to renewable energy.

3.2 Latvia

Latvia will invest 839 million euros under the European Regional and Development Fund and the Cohesion Fund in renewable energy sources.

Like Estonia and Lithuania, the costs in Latvia are rather lower than in Western Europe. In particular, the lower **cost of labor** makes the construction of plants in Latvia very attractive.

3.3 Lithuania

Lithuania, on the other hand, has established a Renewable Energy Sources Promotion.

The fund was established in 2022 and it aims to support the development of new renewable energy projects, as well as the expansion of existing ones. The fund provides grants for research and development of renewable energy technologies, as well as for the development of energy-efficient products.

The government has also introduced a number of **tax incentives** for businesses looking to invest in renewable energy. For example, businesses can claim accelerated depreciation for the costs of acquiring and installing renewable energy equipment, such as solar panels or wind turbines. In addition, businesses can deduct up to 50% of the costs of acquiring and installing renewable energy equipment from their taxable income in the year of acquisition.

4. Current projects

The high potential and new laws result in a large number of new renewable projects in the Baltic States. In the Following we want to name just a few important projects.

4.1 Estonia

In the so-called **ELWIND** project, Estonia and Latvia are working together to build a new offshore wind park. A location west of the Sõrve peninsula in Estonian waters was selected in October last year. The states are planning an auction to find builders and operators for the wind parks in 2026.

Last year the company Utilitas began with the construction of a wind park in the northern municipality of Saarde in **Pärnu County**. Its estimated annual production will be 135 gigawatt-hours, which makes it the most powerful wind park in Estonia up to date.

4.2 Latvia

Renewable energy company Green Genius, operating in eight European markets, is building a 100 MW solar PV project in **Jekabpils**, in the Central-East of Latvia. The power plant shall be fully authorized and ready for construction by June 2023. It´s electricity is supposed to supply about 41,000 households.

PNE and the Swedish Eolus Group have established a joint venture for the development of the **Kurzéme** offshore wind farm in Latvia. The wind farm will have an installed capacity of around 1,000 MW and is expected to be commissioned before 2030.

Latvenergo AS, a state-owned enterprise and one of the largest energy service providers in the Baltics, will build several wind parks in Latvia by cooperating with national as well as international firms, such as RWE. Latvenergo AS is open to new cooperations with other wind farm project developers.

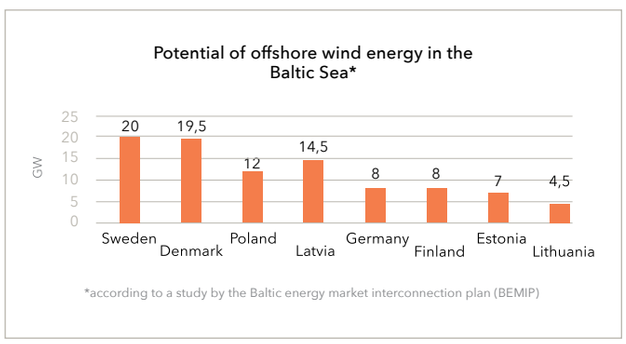
4.3 Lithuania

In early 2022, the Lithuanian parliament gave green light for the first offshore wind farm. In total, at least **four wind parks** are planned for Lithuania's coastline, expected as early as 2028.

Renewable energy company Green Genius and RGREEN INVEST will build **eight solar projects** in Lithuania. They are scheduled to be built by 2024 and to generate an estimated 82,400 megawatt-hours per year.

5. Prospects

The Baltic states have made significant progress in the implementation of renewable energy, with wind and solar energy leading the way.



The region has **vast natural resources** and **strong government support**, which are helping to drive the growth of renewable energy. With continued investment and support, prospects for investors are particularly good.

Please feel free to contact us for more information or a project-related analysis.

Disclaimer

Contact information

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