12.05.2020

To:
Ms Ursula von der Leyen, President of the European Commission
Mr Frans Timmermans, Executive Vice-President of the European Commission
Ms Kadri Simson, European Commissioner for Energy
Mr Virginijus Sinkevičius, European Commissioner for Environment, Oceans and Fisheries

Copy:
Ms Helena Braun, Ms Aleksandra Tomczak, Ms Damyana Stoynova, Mr Antoine Colombani, Ms Stefani Hiesinger, Mr Riccardo Maggi, Ms Laure Chapuis, Ms Helena Hinto and Mr Kurt Vandenberghe

INQUIRY ABOUT THE EU-RELATED CONTROVERSIES REGARDING ESTONIAN GOVERNMENT'S INVESTMENTS AND GOALS ON SHALE OIL

Dear President von der Leyen, Executive Vice-President Timmermans, and Commissioners Simson and Sinkevičius,

On behalf of the 24 signatories of this letter, we are writing to inquire about the EU-related risks and controversies concerning the recent decision by the Government of Estonia to allocate 125 million euros to establish a shale oil plant and the Government's on-going discussions on supporting the establishment of a 600 million euro shale oil pre-refinery plant.

Estonia is a signatory of the Paris Climate Agreement and has joined other EU member states in committing to achieving climate neutrality by 2050. However, being heavily reliant on oil shale and belonging to the top-ranking countries in the EU for CO2e per capita, the Government needs to put significant effort into ensuring an effective and just socio-economic transformation to a low-carbon economy. At the same time, the COVID-19 crisis has halted the economy, resulting in an urgent need for funds to mitigate the health crisis and support businesses to stay afloat and sustain livelihoods.

Despite these aspects, the Government of Estonia, during the lockdown on March 27, allocated 125 million euros in share capital to the state-owned energy company Eesti Energia for the establishment of ENEFIT282 shale oil plant[1] (total cost estimated at 286 million) and is currently discussing also co-investing in a 600 million euro pre-refinery factory to support the sector in processing the shale oil[2,3]. Both decisions permit Estonia to ensure the continued use of the country's oil shale reserves and transition from producing oil shale electricity to producing shale oil, which is estimated to result in an increasing level of global GHG emissions[4].

While problematic in many ways, the investment in the shale oil plant and plans to expand the sector via a pre-refinery imply to the significant risks taken and controversies faced by the Government of Estonia vis-à-vis the agreements and plans concerning the EU.

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[1] Government green lights new €286 million oil shale plant (Estonian Public Broadcasting ERR, March 27, 2020)
[2] XIV Riigikogu Verbatim record, III istungjärk (Parliament of Estonia, April 20, 2020)
[3] Riik võib hakata rafineerimistehase üheks omanikuks (ERR, September 30, 2019)
[4] Kas Martin Helmel on õigus, et põlevkivist õli tegemine on elektritootmisest kordades puhtam? (Eesti Päevaleht, April 4, 2020)

First, the investment and plans directly contradict the international climate and environmental agreements that the Government of Estonia has signed. As emphasized in the recent legal challenge against the shale oil plant, Government's actions and plans impede to meet the commitment under the Paris Climate Agreement and conflict with both the Sustainable Development Goals and the EU's objective of achieving climate neutrality by 2050[5,6]. The challenge also stresses the significant shortcomings in the Strategic Environmental Assessment of the shale oil plant, especially with regards to its impact on human health and climate. The plant and the planned pre-refinery support the country's lock-in to oil shale, thus considerably deteriorating the country's prospects to pursue a just transition to a low-carbon economy, and also significantly promote the export of CO2 emissions, which is not aligned with the objectives of the EU's climate goals and policies[6]. The Government's plan seems to be to do the bare minimum in terms of overall emissions reduction and bet heavily on very narrow counting of GHG emissions (e.g., excluding oil export from Estonian statistics[7]), indirect subsidies from the state (e.g. lowering of environmental fees[8] or oil shale resource tax[9]), and the overall failure of EU's climate policies (e.g., ETS CO2 prices staying marginal or Estonia bypassing the scheme[10]).

Second, the oil-related investment and plans severely contradict with the Government's aim to apply for the Just Transition Fund (JTF), which paradoxically intends to ensure a fair socio-economic transformation to a low-carbon economy[2]. Estonia is eligible to receive a maximum of 125 million euros or 95 euros per capita from the JTF, the highest in the EU[11]. However, the Government's actions and plans to pursue a long-term transition from one use of oil shale to another directly undermine the objective and anticipated impacts of the JTF. This raises doubt in the effectiveness of JTF and the appropriateness of the use of EU taxpayers' money. Knowing that the funds received from the JTF should be complemented by recipient countries' resources planned from other European structural funds, it is also ironic that the Government is currently trying to negotiate a smaller minimum co-funding requirement, arguing that they have already planned to invest in supporting a just transition[2].

Third, the fact that the investment decision was made during the on-going pandemic raises questions on the priorities of the Government to address the most urgent health- and economy-related impacts and risks, also regarding the 295 million euro support from the EU to tackle these issues[12]. Knowing that the investment is considered of high risks by both the largest private banks in Estonia[13] and independent international credit rating agencies[14,15], the Government's decision further conflicts with the economy's need to more prudently alleviate the long-term risks and impacts of the pandemic in a way that would be aligned with the EU's climate goals[16]. The public was also misled by the previous statements from the Government a few months prior to the final investment announcement, explicitly stating that the plant was being supported only "morally", not financially[3].

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5 Fridays for Future launches legal challenge against new oil shale plant (ERR, April 28, 2020)
6 Eesti kliimaambitsiooni tõstmise võimaluste analüüs (Stockholm Environment Institute Tallinn, September 2019).
7 Estonian government to greenlight shale oil pre-refinery (ERR, October 2, 2019)
8 Valitsus annab põlevkivisektori töökohtade säilitamiseks eriabi (ERR, May 7, 2020)
9 Naftahinna kõikumine pani valitsuse muutma põlevkivi tasusüsteemi (Postimees, March 26, 2020)
10 Finance minister formalizes call to leave EU CO2 scheme (ERR, April 8, 2020)
11 Eesti vaidlustas EL-i õiglase ülemineku fondist raha eraldamise arvutuskäigu (ERR, January 24, 2020)
12 Estonia to get €295 million from EU to combat coronavirus (Estonian Public Broadcasting ERR, March 16, 2020)
13 Pangad peavad põlevkiviõlisse investeerimist liiga riskantseks (Eesti Päevaleht, May 1, 2020)
14 Eesti Energia Downgraded to 'BBB-' as High Investment Weighs on Metrics (S&P Global Ratings, August 27, 2019)
15 Moody's affirms Eesti Energia's Baa3 ratings; Outlook stable (Moody's, January 28, 2020)
16 Estonian government to allocate 125 million to fossil fuel production despite coronavirus crisis and climate change (Kliimamuutused.ee, April 3, 2020)

Considering the previous, we kindly request answers to the following:

1. How does the European Commission assess the contradictions arising from the actions and plans of the Government of Estonia to expand the shale oil sector, in relation to the climate agreements, the aims of the Just Transition Fund and the need to more prudently cope with the impacts of COVID-19?
2. What specific measures does the European Commission propose to undertake to ensure that the decisions and actions of the Government of Estonia concerning the shale oil plant and planned pre-refinery are aligned with the agreements and priorities of the EU?
3. What measures has the European Commission planned to put in place to ensure that Estonia or other member states potentially receiving the Just Transition Fund will not use states’ own resources or mechanisms to support contradicting goals?
4. What additional steps the European Commission could and will take to more effectively ensure that Estonia or other member states potentially receiving the Just Transition Fund will not use states’ own resources or mechanisms to support contradicting goals?

Sincerely,

Tarmo Tüür
Director and Chairman of the Board
Estonian Fund for Nature

On behalf of

Baltic Environmental Forum Estonia
Bioscience Students´ Association
BlueLink Foundation (Bulgaria)
CEE Bankwatch Network (Europe)
Clean Air Action Group (Hungary)
Climate Action Network Europe
EKOenergy Network (Global)
Environmental Protection Students’ Association of Eesti Maaülikool
Estonian Environmental Law Center
Estonian Fund for Nature
Estonian Green Movement - Friends of the Earth Estonia
Estonian Ornithological Society
Estonian Roundtable for Development Cooperation
Estwatch
Fridays For Future Estonia
Legal-Informational Centre for NGOs (Slovenia)
MTÜ Mondo
MTÜ Niilusoo
MTÜ Ökomeedia
MTÜ Rakendusökoloogia Keskus,
Nõmme Tee Selts
Noored Rohelised MTÜ
SDY Estonia
Tartu Students' Nature Conservation Circle