Your excellencies, ladies and gentlemen, good morning

I am pleased to be here in Tallinn to launch the In Depth Review of Energy Policy of Estonia. But before going into the substance of my presentation, I would like to thank the Minister of Economic Affairs and Communication, Mr. Parts, his staff at the Ministry, and Estonia’s Permanent Representation to the OECD for their cooperation throughout the entire review process; and for hosting this event in your magnificent Great Guild Hall [which represents more than 600 years of Estonian history [built in 1410].].

As you may know, subsequent to Estonia’s accession to the OECD in 2010 the government applied for membership of the International Energy Agency. This In-Depth Energy Review of Energy Policy forms an important part of the Estonia’s accession process to the IEA.
What is an In-Depth Review of Energy Policy?

- IEA conducts regular policy reviews in all our member countries every 5-6 years
- It is also an official requirement for a candidate country to undergo the energy policy review as part of the accession process
- The IDR is based on the IEA’s Shared Goals and three pillars:
  - Energy security
  - Economic growth
  - Environmental sustainability
- It is a general energy review - a far-reaching appraisal of policy formulation and application
- The IDR is an evidence-based peer review carried out by a team of experts from IEA member countries, the Nuclear Energy Agency, European Commission and the IEA secretariat
- The analysis is based on a detailed policy questionnaire and data submission, followed by a review team visit to Tallinn to meet all stakeholders

The Estonia review visit took place in December 2012 and our team included experts from Germany, Poland, Finland, Switzerland, European Union and the IEA.
Let’s turn to Estonian energy policy and the key findings and recommendations identified by our review:

- Estonia is one of the fastest-growing economies in the OECD;
- It is largely self-sufficient in energy terms. Your overall import dependency is only 13%. But a large share of that is natural gas, for which you are fully dependant on a single source – Russia.
- Estonia ranks among the highest in the OECD regarding the share of renewables in its primary energy supply
- You are working alongside other governments in the Baltic region to end historic isolation from European Union energy markets.

We commend Estonia for developing an unregulated and fully competitive liquid fuel market, and for putting robust stockpiling policy and infrastructure in place. Estonia exceeds the IEA requirements for oil stock piling obligations by a large margin. (At the end of 2012 the Estonian Oil Stockpiling Agency (OSPA) held 189 days stocks of net oil import.) Your energy sector, however, is remains heavily dependant on one energy source - oil shale.
The role of oil shale is the most striking feature of your domestic energy sector, and Estonia is one of the largest producers of oil shale worldwide. This source of energy has fuelled Estonia for more than a century and provided you with a high level of energy security.

Today, almost 70% of your total primary energy supply still derives from this indigenous source of energy. It does not come without disadvantage - almost 80% of the country’s greenhouse gas (GHG) emissions come from this source and it produces almost 30% more waste than coal.

Accordingly, we commend the Government for limiting its exploitation to 20 million tonnes per year and for setting the long-term goal to reduce the combustion of oil shale for electricity and heat production and to instead increase production of liquid shale oil.

Estonia has also made a commitment to phase out aging pulverised combustion boilers by 2015 and to introduce higher-efficiency fluidised-bed combustion boilers. These measures, if successfully implemented, will bring tangible economic benefits and diversify energy supply.

We also commend developments related to new low-carbon technologies such as Eesti Energia’s recently opened Enefit280 oil plant. I am also pleased to note that this leading technology has been developed entirely in Estonia.

While there is no crude oil production or oil refineries in Estonia at present, we understand that there are plans to develop two refineries to further refine shale oil and produce transportation fuels by 2016. So we see a systematic approach for the sustainable development of oil shale industry.
Limiting CO2 emissions in the energy sector is a policy priority of the Estonian government. This, however, has to be weighed against energy security concerns. Diversification can be helped by replacing carbon-intensive oil shale-fired power plants with more efficient gas-fired capacity; and the expansion of renewable energy by introducing greater flexibility to the electricity system. These are steps in the right direction and we commend the government for exploring all possibilities for diversifying natural gas supply.

On the other hand, renewable energy (RE) production in Estonia ranks tenth among IEA member countries in terms its share in total primary energy supply. This is largely the result of the high share of biomass in heat supply. This positive trend is likely to continue and the forecast growth of renewables in total final consumption on average is 2.3 % in the coming years.

Regarding energy consumption, Estonia’s National Energy Efficiency Action Plan has determined an energy savings target of 2.1 TWh by 2016 – mainly by more efficient use of fuels. However, the transport sector is excluded from this plan. We also observed that energy efficiency policy is spread across a number of ministries and institutions, which makes policy implementation and monitoring more challenging. There is a need for greater continuity in support schemes and to move away from the present stop-start approach to funding programmes. Accordingly, we recommend concentrating these efforts into a single entity to greatly assist Estonia to meet its goals.

The situation is more complex in the district heating sector. Almost 60% of Estonia’s population relies on district heating and most of the district heating networks are outdated and inefficient. The government has set a target to reduce losses from 22% at present to 15% in 2017. Greater effort is required: rehabilitating aging infrastructure will make the system more attractive for investors and deliver better value for consumers.

On a more positive note, Estonia’s greenhouse gas emissions have roughly halved from 1990 and the country reached its Kyoto target [8% emissions reduction from 1990 during the period 2008-2012].
You have made good progress reforming the electricity market; we commend the government for implementing full retail market liberalisation, which took place in January this year. This was not without difficulty but over the longer term this should deliver lower prices and strengthen your energy security.

Further reform measures, such as the separation of the distribution activities from the retail and generation activities of Eesti Energia, could also help stimulate competition and force greater downward pressure on prices and encourage innovative new entrants.

At a regional level, you, along with other countries in the region have made remarkable progress in developing new interconnections. The Estonian electricity market forms part of Nord Pool Spot, the Nordic electricity exchange. New interconnections are also being developed (for example ESTLINK 2), further linking Estonia to Finland.

Together with the other Baltic countries, you are also making strong efforts to integrate the so-called “Baltic Island” into the European transmission grid. Nevertheless, synchronised system operation and membership of the Union for the Co-ordination of Transmission of Electricity (UCTE) membership is not envisaged before 2025, which will bring it technical challenges.
While we recognise that all EU obligations are fully transposed into domestic law the benefits of competition have yet to emerge in the natural gas market and a single entity, maintains a dominant position with 90% of the retail market. The lack of a functioning gas market poses a significant risk in terms of security of supply. Nonetheless, we recognise that Parliament recently adopted a law which requires ownership unbundling of transmission services from supply by 2015. This can only benefit Estonian consumers.

At regional level, you share the same challenges of a single source of supply, and Estonia works closely with its neighbours in the context of the Baltic Energy Market Interconnection Plan (BEMIP). Projects currently under consideration (such as the BalticConnector pipeline; the intra-Baltic connections and the future LNG terminal in the Gulf of Finland) can provide higher levels of energy security and economic benefits to all countries in the region.

Securing an alternative gas supply remains a priority for Estonia.
Over the past decade, Estonia has strengthened its RD&D and innovation system using market-oriented reforms. Commendably, research, development and innovation are among Estonia’s economic priorities. In recent years, you have enjoyed one of the highest growth rates in gross domestic expenditure on RD&D among the OECD member countries. Estonia is a rather small country and the government has wisely narrowed down your focus to just a few technology areas.

Estonia benefits from clear objectives and technological priorities for RD&D contained in “Knowledge based Estonia”, your technology strategy. Under the strategy, six national programmes are outlined, energy technology as one of them.

The Estonian Energy Technology Programme (ETP) is a co-operation programme involving research, business and the state to develop oil shale technologies and new energy resources, mainly renewable energy.

One area where a stronger focus could be considered, however, is efficiency related RD&D, for example in buildings where large potential for improvements remains. We commend Estonia on deploying the new-generation oil shale plant “Enefit-280”, which started producing shale oil, hydrogen-rich retort gas and electricity (since December last year) with much lower environmental impact. The potential to exploit this pioneering technology worldwide is great, as global reserves of this type of oil shale are vast.
So what are the key challenges?

A key feature of Estonia’s energy policy remains the reduction of carbon intensity/emissions, efficient use of oil shale and maximising energy efficiency gains.

You have the potential to maximise energy efficiency gains across all sectors of the economy, but district heating must remain a priority.

The region also strives to promote projects for diversifying gas supply sources to end 100% Russian dependence and Estonia, along with the other Baltic States has established an ambitious programme to end gas markets isolation in the Baltic Region by 2015. Furthermore, Estonia and its Baltic neighbours are committed to developing an open and transparent Baltic electricity market.

The Estonian electricity network is a legacy of the Soviet system. It operates in a frequency-harmonised mode with the Russian and Belorussian systems - something that will change over the next 12 years.

Key opportunities include

• Developing an Energy Strategy to 2030, including an outlook to 2050, is a possibility to shape policies with long-term perspective;
• Liberalising the electricity market and improving regional interconnections;
• Developing a regional LNG terminal and fully opening the natural gas market;
• and Decarbonising the oil shale industry and increasing shale oil production.
Key recommendations

- Prioritise policy actions enabling efficient investments
- Place a priority on securing long-term energy supply by reducing carbon intensity in the energy mix
- Continue promoting a cost-efficient regional natural gas and electricity infrastructure developments
- Consolidate existing energy efficiency activities into a single body with policy making authority
- Upgrade district heating systems and the existing buildings stock
- Continue support to regional interconnections and energy policy coordination
With this, I would like to thank you for your attention and pass the floor to Minister Parts
The IEA primary function is to act as energy policy advisor for the governments of its 28 member countries (and beyond) to promote reliable, affordable and clean energy for the consumers. It was founded during the oil crisis of 1973-74, with a mandate to coordinate measures in times of oil supply emergencies. This remains a core mission of the agency.

We are an autonomous organisation which works to ensure reliable, affordable and clean energy for its 28 member countries and beyond. The IEA’s four main areas of focus are: energy security, economic development, environmental awareness, and engagement worldwide.

With the evolution of the energy markets, the IEA mandate has broadened since. It’s focus has moved beyond oil crisis management. Energy efficiency, climate protection, energy technology collaboration and sharing its accumulated energy policy experience with the rest of the world have become core Agency objectives.

The IEA has continues to build good working relationships with countries beyond its membership, in particular major energy consuming, producing and transit countries. We also co-operate with the other international organisations and fora that work in the field of energy.