



Weekly Briefing

Lithuania social briefing:

Lithuania's green economy plan gets the highest mark from Brussels

Linus Eriksonas


China-CEE Institute

Kiadó: Kína-KKE Intézet Nonprofit Kft.

Szerkesztésért felelős személy: Chen Xin

Kiadásért felelős személy: Huang Ping

 1052 Budapest Petőfi Sándor utca 11.

 +36 1 5858 690

 office@china-cee.eu

 china-cee.eu

Lithuania's green economy plan gets the highest mark from Brussels

On 2 July, the President of the European Commission, Ursula von der Leyen, announced at a joint press conference with Lithuania's President Gitanas Nausėda and the Prime Minister Ingrida Šimonytė symbolically held at the Vilnius Transformer Substation, a vital component in the Lithuanian Energy Transmission System, the EC's approval of Lithuania's national recovery and resilience plan. According to this plan, the EU will disburse 2,225 billion euros for the projects to transform the country's economy in the post-COVID period by focusing on the public investments in the development of green and digital policy objectives. As von der Leyen emphasized in her statement in Vilnius, 38 per cent of Lithuania's national plan will support the European Green Deal. "That means a massive investment in clean energy, wind power, solar power, made and stored, as we have seen here, in Lithuania", - stated the head of the EC. In particular, she praised Lithuania's decision to couple the green transition with the investments in digitalization of public service and transport infrastructure, including a significant investment in the roll-out of 5G and high-speed networks.

Below is an overview of the green and digital transformation policy measures as part the approved national recovery and resilience plan, outlining the overall policy framework and the main drivers that defined it. Further, it considers the relevance of the approved green and digital transition plan for the reaching national targets under the Paris Agreement and targeting the specific impact areas.

Until the Paris Agreement on climate change came into effect in November 2016, the environmental policies at the EU and the national level have been primarily formulated and pursued relatively independently of the industrial and societal policies. The economic policies were essentially the prerogative of the EU Member States and were pursued on a sector-by-sector basis, while the environmental policies remained fragmented, reflecting different functions of the national and EU regulatory bodies in charge of environment protection.

The Paris Agreement made a prerequisite for each signatory country to go through an economic and social transformation based on the best available scientific evidence to implement ambitious actions to reduce Greenhouse Gas (GHG) emissions. The aim is to limit global warming below 2, preferably 1,5 degrees Celsius, compared to pre-industrial levels. Effectively, the Paris Agreement created the impetus for bringing together cross-sectorial policies covering many socio-economic aspects related to climate-impacted societies and

economies. The smaller EU Member States such as Lithuania quickly opened up individual policy areas for a coordination process closely followed by the EC and thus prepared ambitious, systemic and integrative plans.

Thus, when assessing the individual national plans, the EC gave the highest mark to the plans put forward by those EU Member States that showed prepared to be more flexible and more open to a higher integrative approach proposed by the EC. The Commission defined seven flagship areas for investment and reforms and invited the Member States to submit their national plans with the specific measures planned according to the Recovery and Resilience Facility policy framework. The proposed areas included clean technologies and renewable energy sources, the energy efficiency of buildings, sustainable transport and charging stations, the roll-out of rapid broadband services, digitalization of public administration, data cloud capacities and sustainable computing resources, education and training to support digital skills.

The EC scored each submitted national plan against eleven criteria where the A mark indicated the highest score and B and C the lowest ones. Lithuania's recovery and resilience plan, though submitted rather late in the process (17 May), was one of the few national plans that received the A mark on each criterium. Such a high assessment of the national plan contrasts with the assessment of Lithuania's environmental policy at the outset of the process.

In April 2021, the OECD released a report assessing Lithuania's environment and environmental policy in view of reaching the international commitments and the national green policy targets, according to the Paris Agreement and the related EU and national legislation. The OECD assessment of the state of play indicated that though Lithuania's overall performance has improved over the last decade and greenhouse gas emissions declined and decoupled from economic growth, per capita emissions increased. A similar trend was observed for the emissions from the combustion of fossil fuels and biomass, which accounts for the bulk of total GHG emissions. Lithuania's GHG emissions per-capita remain amongst the lowest among OECD countries, yet the emissions have been on the increase since 2010, and especially since 2013.

The transport sector is the most significant source of the national GHG emissions, accounting for around 28 per cent of the total emissions in 2017, followed by the energy sector with 27 per cent, agriculture with 22 per cent and the manufacturing industry with 18 per cent. The emissions in the agricultural sector stands out, as it is nearly twice that of the OECD average, due to the high share of agricultural production in Lithuania's economy.

More worrying is that Lithuania has the highest mortality rate from exposure to air pollution among the OECD countries. Energy efficiency is also a concern, particularly in the housing sector. OECD noted that Lithuania does not levy a CO₂ tax and boasts some of the highest subsidies to fossil fuel in the OECD. According to OECD, a CO₂ tax could be designed to efficiently harmonise the payment by each sector in line with their contribution to environmental degradation and climate change. Lithuania sets no CO₂ tax, has one of the lowest excise duties on motor fuel, petrol and diesel among the OECD countries. Only last year, the country introduced a purchase tax for passenger vehicles which takes into account emissions.

The OECD experts concluded that significant declines in emissions are needed to meet 2030 climate mitigation targets. However, it cannot be achieved by the introduction of gradual measures. Hence, the radical transformation of the economy and the society has to take place if Lithuania is to meet those targets.

One of the barriers precluding the green transformation of the economy is a low level of circularity of the national economy. The analysts estimated that only 2,4 per cent of the materials and resources used to produce goods and services are recovered and put to further use in Lithuania's economy. In the Netherlands, the most advanced country in pursuing the circular economy in the EU, this figure stands at 24,5 per cent, and the plan is to increase it to 54 per cent by 2030. Lithuania's low performance in this respect is caused by the dominance of the high-energy intensive secondary sector in the economy and the reliance on the imports of primary materials and energy sources. The sectors with the highest material footprint in Lithuania's economy are housing and construction, the manufacturing of goods and consumables, services and mobility.

To increase the circularity of the economy and contribute to the decrease of emissions in consumption-based and production-based processes, Lithuania's government chose to use the national resilience and recovery plan for investing in the technologies and infrastructures, which would decrease the need for energy imports and improve the material footprint through the digitalization of assets and processes.

The investment in alternative renewable energy sources and the support infrastructure for energy storage and transmission is crucial in greening Lithuania's economy. Under the national recovery and resilience plan, 823 million euros are to be allocated for the development of offshore wind infrastructure, support for the construction of onshore renewable energy plants (including the solar and wind power energy plans), individual energy storage facilities and the

establishment of renewable energy communities, and the installation of other electricity storage infrastructure.

Regarding the mobility sector, the main foreseen measures include the support for replacing polluting road transport vehicles used by the public sector and businesses with zero-emission and low emission vehicles. They aim to improve the quality and attractiveness of public transport services by upgrading public transport vehicles with zero or low emission vehicles, establishing charging and refilling infrastructure for the cars using alternative fuels, developing the alternative fuels sector such as biomethane, second-generation liquid biofuels and hydrogen.

Greater energy efficiency is planned to be achieved by the additional investments in building renovation packages and the increased renovation standards, municipal development plans, sustainable urban development methodologies, district renovation projects to ensure a more energy-efficient housing sector.

Altogether, 448 million euros are earmarked for investments in the digitalisation of the public sector. The digitalisation of the public sector includes measures to consolidate state information resources fully, IT infrastructure and services, to ensure the availability of reliable public sector data and the possibility to share it across sectors; and to fully digitalise government processes and expand digital public services while ensuring that all digital public services are accessible for citizens with disabilities. Further measures include developing the extensive Gigabit speed broadband to be deployed nation-wide, complimenting the 5G rollout to be completed by 2025 in the land transport corridors, across the national road and railway systems.

A preliminary comparison of the national recovery and resilience plans of the individual EU Member States have shown that the EU Member States that receive relatively smaller amounts from the Recovery and Resilience Facility as a share of their GDP prepared the national plans that concentrate spending more on green and digital transformation. In comparison, countries with more significant amounts have more diverse plans with a higher share of the spending on the areas not directly related to the green and digital policies. Lithuania's plan is one of the most focused on the radical transformation of the economy and society by embarking on a large-scale infrastructure transformation that could impact production, consumption, and the everyday life of every member of society. It requires a leap of faith, which the government has shown.

References:

1. European Commission, “Statement by President von der Leyen on Lithuania's recovery and resilience plan”, 2 June, 2021; https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_21_3435
2. Ministry of Finance of the Republic of Lithuania, “Ekonomikos gaivinimo ir atsparumo didinimo priemonė „Naujos kartos Lietuva“ (Recovery and resilience-building measure "Next Generation Lithuania)", May 2021; https://finmin.lrv.lt/uploads/finmin/documents/files/Naujos%20kartos%20Lietuva_2021_05_14.pdf
3. European Commission, Proposal for a Council Implementing Decision on the approval of the assessment of the recovery and resilience plan of Lithuania, 2021/0196 (NLE); https://ec.europa.eu/info/sites/default/files/com-2021-386_en.pdf
4. European Commission, Commission Staff Working Document, “Analysis of the recovery and resilience plan of Lithuania”, 2 June, 2021, SWD(2021) 187 final; https://ec.europa.eu/info/files/commission-staff-working-document-analysis-recovery-and-resilience-plan-lithuania_en
5. Bruegel Foundation, “European Union countries’ recovery and resilience plans”, 29 June, 2021; <https://www.bruegel.org/publications/datasets/european-union-countries-recovery-and-resilience-plans/>
6. OECD, Hansjörg Blöchliger and Sigita Strumskyte, “Greening Lithuania’s growth”, Economics Department Working Papers no. 1667, ECO/WKP(2021)18; [https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP\(2021\)18&docLanguage=En](https://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=ECO/WKP(2021)18&docLanguage=En)