



REPUBLIC OF ESTONIA
PRIME MINISTER



Prime Minister of the Republic of Latvia



President of the Republic of Lithuania

29 November 2019

Dear colleagues,

The latest scientific information and the IPCC special report on the impacts of global warming of 1.5°C above pre-industrial levels leaves no doubt that we need to act decisively and ambitiously. Fighting climate change is a shared responsibility that we are fully committed to.

The transition to climate neutral economy implies redesigning our economies. The next long-term EU budget remains the key instrument delivering climate neutrality, supporting the objectives of the Green Deal and the digital transformation and preserving the EU's competitiveness while ensuring a just and socially fair transition. Unfortunately, the proposed reductions of the next Multiannual Financial Framework (MFF) would jeopardise the implementations of these goals, especially in the areas that significantly contribute to the climate objectives, namely cohesion and agricultural policies.

According to our estimation, the required investment to achieve climate neutrality is more than 2/3 of an entire GDP of any country in our region. We need to invest particularly in the energy, transport, industry and housing sectors as well as in agriculture, rural development, forestry and accelerate the transition to a circular economy. In principle, it means a revolution in all of these sectors in a decade.

In order to get on the desired track, including implementing our integrated National Energy and Climate Plans and reaching targets for 2030, the bulk of such investment is necessary in the next ten years, hence over the duration of the 2021-2027 MFF. Therefore, decisions on the next MFF will be a "make it or break it" moment, especially for countries and regions whose GDP per capita still falls far below the EU average and who have more limited financial capacity. In order to tackle this issue on all fronts, various instruments of the EU budget will have their role to play.

Climate transition requires significant transformation across the European Union. It is clear that the future Just Transition Fund (JTF) would cover only a small part of the investment gap relating to transition. The JTF has to be financed from additional contributions, not at the expense of already established policies, which contribute to climate change mitigation. We therefore need to put in place an inclusive enabling framework encompassing adequate incentives and cooperation, taking into account national circumstances, to ensure a just and socially balanced transition to climate neutrality in all Member States.

In Member States whose development is below the EU average, cohesion policy and the common agriculture policy remain key EU policies for addressing climate change. In this context, the drastic cuts in cohesion policy allocation of the three Baltic states proposed by the Commission are deeply regrettable and counterproductive. In addition, the horizontal cuts proposed by the Commission in rural development make it more difficult to achieve green

transition in the agricultural sector, given that already more than a third of the rural development budget is allocated towards climate and environmental measures. Furthermore, direct payments will be geared more towards environment and climate with eco-schemes and added conditionality. Challenges ahead of Member States are the same and so is the investment required for the transition to climate neutrality. Therefore, it is impossible to justify significant differences in direct payments among the Member States. The functioning of the Single Market is continuously jeopardized as the level playing field for our farmers is far from being established.

The investments required in different sectors to reach climate neutrality:

- In the energy sector, transition out of fossil fuels towards clean, sustainable energy must be supported by safe technological solutions and third countries' adherence to the highest international environmental standards. We need to invest in storage capacity as well as in storage technologies and sources, reconfigure the transmission grid, build new transmission links, invest in more efficient heating solutions and green energy innovations in general.
- In this context, the synchronization of the Baltic electricity systems with continental Europe remains a strategic European priority, which needs continuous and adequate funding by the EU.
- Transport sector is one of the main sources of CO₂ emissions. In order to reduce the impact, we need to fully electrify the railway network, invest to improve access to public transport and encourage the modal shift from road to rail transport. In addition, it warrants a shift from fossil fuels to climate friendly alternatives in road transport and the corresponding development of a network of fuelling stations. Furthermore, the next MFF must ensure the necessary financing for completing the Rail Baltica, securing a transfer from the Cohesion Fund to CEF as proposed by the Commission and ensuring the highest degree of competitiveness. The construction of this new electrified railway link is a geopolitical as well as climate neutrality project, as the Baltic states are currently without a viable climate-friendly mobility alternative connecting them with Europe.
- In the housing sector and buildings in general, we must continue significant energy efficiency investments into the existing building stock and the integration of smart energy solutions. Housing renovation is a challenge of great magnitude for the Baltic states and sufficient funding is needed to achieve progress.
- In agriculture, a multitude of different investments are required, from the modernisation of farming practices to altering soil management, encouraging sustainable land management, reforestation and supporting sustainable food production.
- In various industries, there is scope for significant resource and energy efficiency to modernise our energy intensive industry and develop other measures avoiding risks of carbon leakage.

As the transition to climate neutral economy requires research, development and innovation in all the areas above, we support the increase of corresponding EU resources.

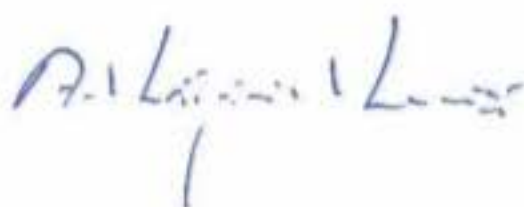
Given the intensity of investment necessary in this area over the next decade, the overall climate investment needs in the Baltic countries exceed the 25% target of EU expenditure contributing to climate objectives proposed by the European Commission for the multiannual EU budget. As significant EU investment under the Cohesion Policy and the Common Agricultural Policy is crucial for our countries to make the necessary headway in the next 10 years, the proposed cuts for the Baltic states must be reversed and full external convergence of agricultural direct payments must be achieved by the end of the next MFF.

For all the reasons above, we strongly believe that decreasing the overall level of the 2021-2027 MFF treaty based policies would be particularly unproportional and detrimental to meeting the general climate neutrality goal of the EU.

Yours Sincerely,



Jüri Ratas
Prime Minister
Republic of Estonia



Krišjānis Kariņš
Prime Minister
Republic of Latvia



Gitanas Nausėda
President
Republic of Lithuania