



Incentivising Renewables: The Baltics and Belarus

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C L I F F O R D
C H A N C E



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Incentivising Renewables: The Baltics and Belarus

Limited energy resources and dependency on imported energy provide a strong inducement for the Baltic States and Belarus to increase renewable energy generation capacity. Under 2009 Renewables Directive¹, Estonia, Latvia, and Lithuania have committed to increase the share of energy produced from renewable sources. Belarus has also indicated that this goal is one of the main objectives of its energy policy. Although these countries have different natural conditions and approaches to incentivising deployment of renewables, common trends can be seen. This guide analyses the commonalities between the four countries and provides a brief overview of the specific mechanisms employed in Estonia, Latvia, Lithuania, and Belarus.

A Targeted Approach to Renewables

Under the 2009 Renewables Directive, EU Member States collectively agreed to generate 20% of EU energy through renewable resources by 2020. Out of the Baltic countries, Latvia has the highest target of 40%. Belarus aims to increase the share of energy produced by renewable energy sources to 25% by 2020.

Financial Incentives

Renewable energy capacity is significantly more expensive to develop than conventional (thermal) forms of electricity generation due to the high upfront capital costs and the ongoing operation / maintenance costs of renewables. To encourage the deployment of renewables, a variety of incentives have been developed which are described below.

Feed-in Tariffs

Feed-in tariffs are the main financial incentive, encouraging the deployment of renewables in the region. They have been employed in Latvia, Lithuania, and Belarus. They generally work by:



- imposing a requirement on electricity suppliers to purchase electricity from renewable generators; and
- requiring suppliers to pay a guaranteed amount or tariff for energy generated or “fed into” the grid. Tariffs tend to be indexed and available for the life of the scheme.

Different tariff levels may be established in order to encourage the growth of particular technologies. For example, in Lithuania the tariffs for photovoltaics are currently considerably higher than for other technologies. Belarus will also start differentiating feed-in tariffs depending upon the type of renewable energy source from July 2011.

¹ Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC

Feed-in tariffs have proved to be successful in facilitating energy production from renewable energy sources. They provide additional certainty for investors and funders and the sole risk associated with feed-in tariffs is climatic.

However, the success of feed-in tariffs has resulted in some of the countries cutting back the schemes or changing the tariffs. For example, in Estonia feed-in tariffs were revoked in February 2010 and financial premiums became the main support measure for renewable energy. In Latvia electricity purchase prices have been subject to frequent change, with some prices changing several times during the course of the year.

Other incentives:

A range of other incentives are in place in the Baltics and Belarus to encourage the growth in renewables, including:

- Tax exemptions, in particular: 0% natural resources tax in certain cases in Lithuania, exemption from VAT for equipment used in construction of renewable energy plants in Belarus, and some other exemptions;
- Financial premiums (for example, in Estonia premiums are paid by the transmission network operator to the renewable energy generators);
- Priority access to the grid or guaranteed connection to the grid for electricity generated from renewable sources (employed in Belarus and Lithuania); and
- Discounts for connection to the grid (in Lithuania).

Challenges to Renewables Development

Aside from the financial challenges, there are still a number of difficulties to overcome. Lack of or instability of natural

resources is clearly a barrier to renewables development in certain countries. For example, Estonia has relatively low hydropower potential and no opportunities for establishing large hydroelectric plants. Due to the low solar radiation levels of the country (2.7 kWh/m² average), solar energy potential in Estonia is not high. Similarly low solar energy potential is common to all countries of the region. Other considerations include:

Grid Capacity

If all renewable energy projects planned in the region are realised, grids may be not able to cope with the new capacity, and therefore, e.g. the Belarusian Government aims to increase the grid capacity.

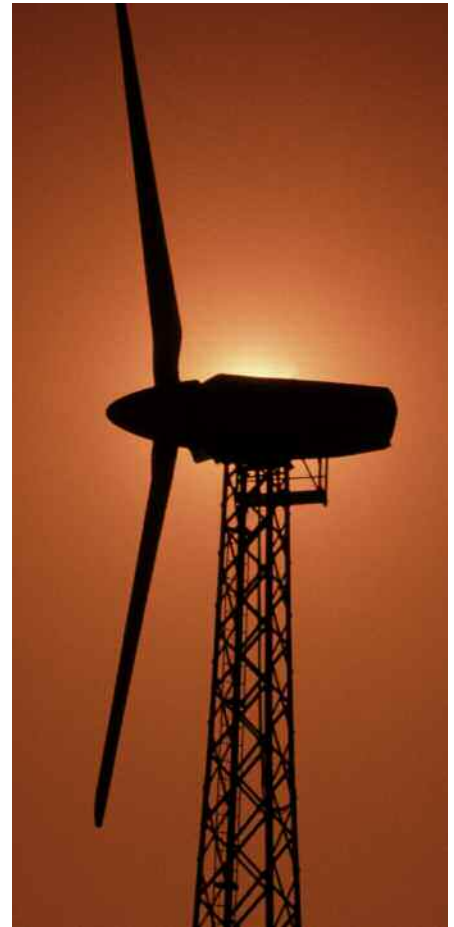
Permitting/Environmental Issues

The rapid installation of new renewable power capacity is hindered by planning and environmental controls. For example, in Estonia the construction of offshore wind parks always requires prior environmental impact assessment, which is time-consuming.

Complex Transaction Structures and Project Constraints

Renewable energy projects may rely upon different types of transaction structure. Usually they are carried through special purpose vehicles (SPVs). The share in such SPVs can later be sold to new investors. For example, the shares in the SPV that developed the largest wind farm of the Baltic region – Aulepa Wind Farm – were sold to Eesti Energia AS (a state-owned public limited company which currently provides around 95% of the electrical energy consumed in Estonia).

Often several parties come together and establish a joint venture to develop projects. In Belarus this factor is especially relevant for renewable energy projects implemented with the participation of foreign investors.



Final Comments

An uncertain political and regulatory environment, as well as other challenges to the development of renewable energy as described above may reduce readiness to invest in renewables projects. However, the Baltic States and Belarus continue to encourage the development of renewables capacity in order to meet or exceed the 2020 targets. Financial incentives need to be maintained to continue to make investment in renewables attractive. Additionally, action on all fronts is needed to ensure that other barriers do not choke the chain of new supply.

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Estonia

2005 Baseline	18%
2020 Target	25%
Main Renewable Sources	Wind, biomass and biogas
Green Certificates?	No
Feed-In Tariff?	No, feed-in tariffs were revoked in February 2010
Other Incentives	<p>The transmission network operator pays a premium in the following amounts:</p> <ul style="list-style-type: none"> ■ electricity produced from a renewable energy source (except from biomass) and electricity produced from biomass in an efficient cogeneration regime: EUR 0.0537 / kWh; ■ electricity produced from waste, peat or oil-shale processing retort gas in an efficient cogeneration regime and electricity produced in an efficient cogeneration regime with a cogeneration installation which has the electric capacity of up to 10 MW: EUR 0.032 / kWh; and ■ the availability of installed net power of a generating installation operating on oil shale, if the installation has started its operation between 1 January 2013 and 1 January 2016: EUR 0.014 - 0.016 / kWh. <p>There are limits on the maximum amount and duration of availability of premiums depending on the type of renewable technology. Payment of premium for wind energy will be terminated when in one calendar year the premium has been paid for more than 600 GWh, which is calculated for all wind energy producers cumulatively. For electricity produced from renewable resources with generating installations that started operating before 1 January 2002, premium may be paid until 31 December 2012.</p> <p>Under the Green Investment Scheme (GIS), Estonia supports investments in wind parks and cogeneration plants operating on renewable energy sources. Under the GIS, finances that come from the trading of Estonia's CO₂ quotas under the Kyoto Protocol are channelled to environmental projects and programmes that help to lower CO₂ emissions.</p>
Additional Comments	<p>The payment of the premium for energy produced from renewable sources is at the centre of heated political debate. The incentive regime has already been changed in 2007, 2009 and 2010.</p> <p>The number of wind park projects and the burden of the renewable energy premium in Estonia have increased significantly. As a result, Estonia is currently reviewing its system of paying premiums and is planning to cut premiums and make them dependent on the market price for power.</p> <p>According to the draft amendment to the Electricity Market Act, the premium would be calculated as a difference between the weighted average electricity market price of the previous calendar month and</p> <ul style="list-style-type: none"> ■ EUR 0.064 in the case of electricity produced from a renewable energy source (except from biomass) and electricity produced from biomass in an efficient cogeneration regime; and ■ EUR 0.042 in the case of electricity produced from waste, peat or oil-shale processing retort gas in an efficient cogeneration regime and electricity produced in an efficient cogeneration regime with a cogeneration installation which has the electric capacity of up to 10 MW.

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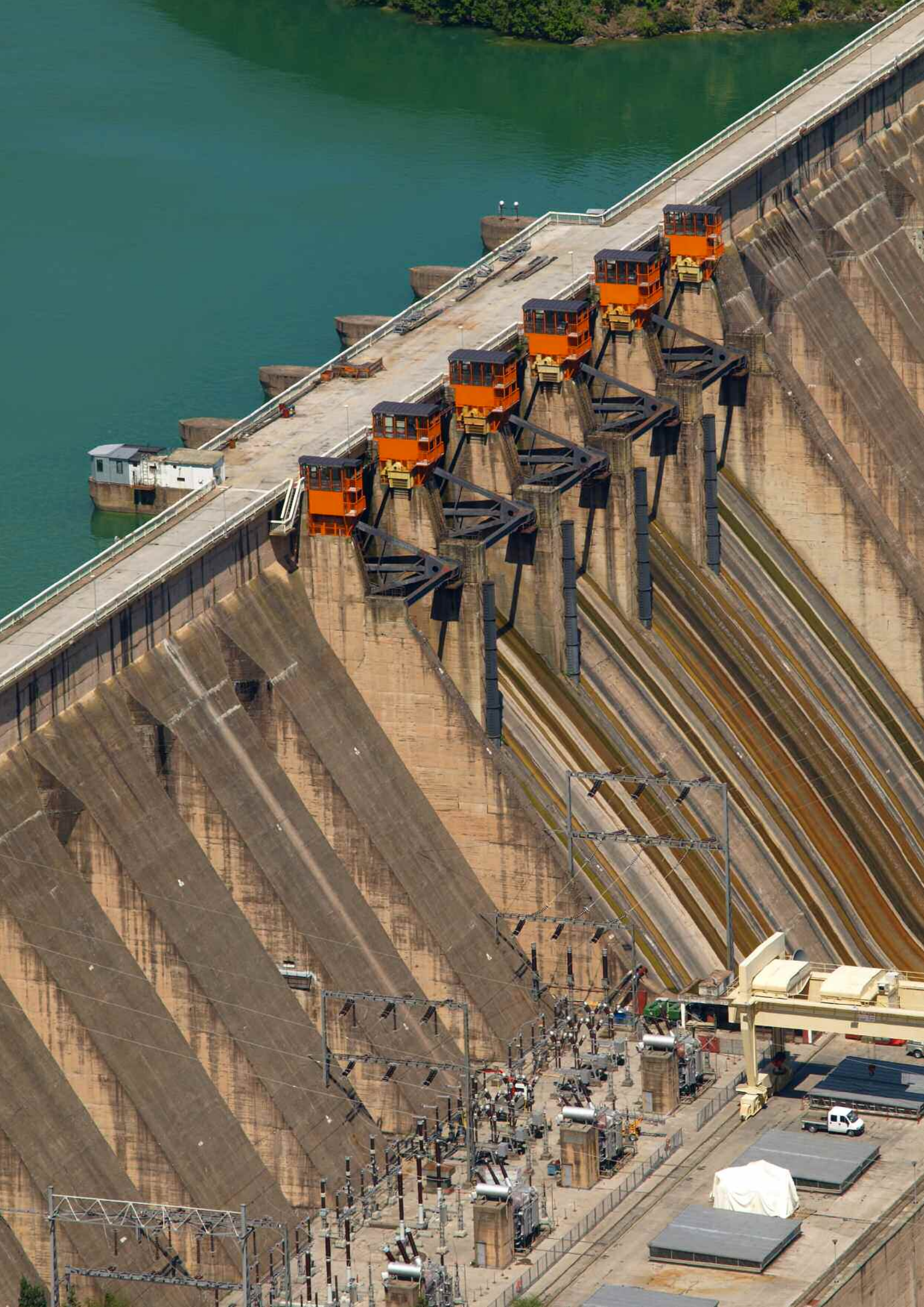


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Latvia

2005 Baseline	32.6%
2020 Target	40%
Main Renewable Sources	Hydro and biomass (mainly wood)
Green Certificates?	No
Feed-In Tariff?	<p>Mandatory procurement as a form of feed-in tariff is the main instrument aimed at facilitation of energy production from renewable energy sources. It provides for a guaranteed electricity purchase price for a particular procurement volume calculated by the state owned energy utility and public trader JSC "Latvenergo" in accordance with the respective annual share in the total electricity end consumption established by the Government.</p> <p>In order to obtain the right to sell electricity within the scope of mandatory procurement, electricity producers using renewable energy sources participate in annual tenders organised by the Ministry of Economics. Eligibility criteria for the tenders vary depending on the type of renewable energy source. According to the results of each tender, electricity produced from renewable energy sources is sold to JSC "Latvenergo" under an agreement it has concluded with the electricity producer. The remaining volume of electricity produced from renewable energy sources is sold by the electricity producer to other market participant(-s) for a mutually agreed price.</p> <p>The electricity purchase price under the mandatory procurement scheme is calculated in accordance with formulae provided in specific regulations adopted by the Government. According to these formulae the purchase price decreases every ten years from the day of the power plant being put into operation.</p>
Other Incentives	<p>Electricity producers using biomass (except biogas) in cogeneration power plants may obtain a right to receive a guaranteed price for their particular power plant capacity for a period of up to 15 years, provided that certain technical criteria are met. The guaranteed price is paid by JSC "Latvenergo" to the electricity producer on a monthly basis. This support mechanism constitutes an alternative to the mandatory procurement scheme for this particular type of electricity producer.</p> <p>Other support channels available include financial support from the Environment Investment Fund, Latvian Environmental Protection Fund, etc, as well as fiscal measures. Natural resources tax exemption applies to use of water in hydroelectric power stations as well as to carbon dioxide emissions for cogeneration power plants using biomass for energy production. 0% natural resources tax rate applies to coal, coke and lignite (brown coal) used for production of electricity, heat energy and electricity production in cogeneration process. Excise duty exemption applies to biogas used in electricity production, including cogeneration plants. Electricity produced from renewable energy sources is exempt from electricity tax.</p>
Additional Comments	<p>A Draft Law on Renewable Energy has been prepared by the Ministry of Economics. It is aimed at implementing the EU Directive 2009/28/EC by stimulating the use of renewable energy sources through various mechanisms, e.g., additional payments for production of energy from renewable energy sources, support in connecting power stations with the capacity under 5MW using renewable energy sources to the electricity transmission network, etc. The draft law is intended to cover electricity production using renewable energy sources in the territory of Latvia, its territorial waters, exclusive economic zone and continental shelf.</p> <p>Commercial considerations with regard to the energy infrastructure include the fact that the Latvian electricity transmission network is often unsuitable for connecting new electricity producers. Moreover, construction of the connection may be costly and, together with the time required for obtaining the technical regulations and construction permit, connection may take up to two years.</p>

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Lithuania

2005 Baseline	15%
2020 Target	23%
Main Renewable Sources	Biomass and wind
Green Certificates?	No
Feed-In Tariff?	<p>In order to encourage investment in the renewable energy sector, the Government has committed itself to purchase all the electricity output produced from renewable energy sources at an approved rate. The holders of electricity supply licences are obliged to purchase electricity generated by wind, biomass, solar and hydroelectric power stations (with installed capacity not exceeding 10 MW) and sell it to consumers.</p> <p>Electricity produced from renewable energy sources is purchased at the higher tariffs established by the National Control Commission for Prices and Energy (NCCPE). Currently, the price level set for the purchase of electricity produced from renewable energy sources is the following:</p> <ul style="list-style-type: none"> ■ electricity produced by wind power plants (regardless of whether it is off shore or on shore): EUR 0.087 / kWh; ■ electricity produced by hydro power plants: EUR 0.075 / kWh; ■ electricity produced from biomass: EUR 0.087 / kWh; and ■ electricity produced from solar power stations: average of EUR 0.472 / kWh. <p>The period of time for which the support to the renewable energy sources sector is guaranteed is not currently specified. The NCCPE may re-calculate the price for mandatory purchase of electricity produced from renewable energy sources on a yearly basis and therefore the tariffs may fluctuate. The tariff system is likely to be abolished on 31 December 2020, as after this date the renewable energy sector should become liberalised and all the market players will compete under free market conditions. Nevertheless, it is expected that the renewable energy sector will maintain its priority status and hence at least partial support is likely to be continued.</p>
Other Incentives	<p>The system operator is obliged to provide a grid connection to power plants producing electricity from renewable energy sources. In addition, power plants using renewable energy sources are given a 40% connection fee discount.</p> <p>No excise tax is applicable to electricity generated from renewable energy sources.</p> <p>The production of biofuels is promoted by granting subsidies for planting and growing short rotation plants such as alders, willows and other plants which are used as a raw material in biofuel production. Short rotation plants are considered to be those plants that have a timeframe of less than 5 years between cuttings.</p> <p>Opportunities for investment in renewable energy sources are also enhanced due to investment subsidies and loans on favourable terms that are made available by the Lithuanian Environmental Investment Fund.</p>
Additional Comments	<p>The regulation of the renewable energy sources sector in Lithuania is currently undergoing a major review. Two cornerstone acts regulating the renewable energy sources sector have recently been presented to Parliament: the draft Energy Independence Strategy (the Draft Strategy) and the Draft Law on Renewable Energy Sources (the Draft Law). Both aim at ensuring that Lithuania reaches its target to generate 23% of its energy through renewable sources by 2020.</p> <p>The Draft Strategy outlines Lithuania's strategy to fulfil the obligations it has undertaken to reduce climate change, ensuring safe and non-detrimental energy supply and increased usage of renewable energy sources. It has already been endorsed by the Government and is now pending before Parliament.</p> <p>The Draft Law should consolidate the legal basis for exploration and use of all means of renewable energy. It should also regulate the functions and the responsibility of the public institutions in guaranteeing a more favourable regime for renewable energy start-ups. The main provisions of the Draft Law on renewable energy sources include a "lock in" tariff period, i.e. a renewable energy sources producer shall be guaranteed a tariff for a certain amount of years. It also foresees that the electricity produced from renewable energy sources could be sold at the power exchange whereas the producer would be "reimbursed" the difference between the tariff price and the market price. The establishment of a production capacity allocation auction is also provided for by the Draft Law.</p>

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Belarus

2005 Baseline	6.4%
2020 Target	25%
Main Renewable Sources	Biomass, wind, solar and hydro
Green Certificates?	No
Feed-In Tariff?	<p>Currently feed-in tariffs do not depend upon the type of renewable energy source. Renewable energy generators are able to sell electricity to the grid at the tariffs established for business consumers (with connected capacity up to 750 kiloVAr) with application of the following coefficients to the tariffs:</p> <ul style="list-style-type: none"> ■ within 10 years from the date of starting the operation – 1.3; and ■ over 10 years of operation – 0.85. <p>Soon the feed-in tariffs will be differentiated depending upon renewable energy source, as respective provisions are contained in the Law on Renewable Energy Sources, which comes into effect in July 2011.</p>
Other Incentives	<p>Equipment which is imported to Belarus for usage in production or receipt, transformation, accumulation and/or transmission of the energy produced from renewable sources is exempt from VAT.</p> <p>Previously, the above equipment was also exempt from customs duties. However, as Belarus is now a part of the Customs Union with Russia and Kazakhstan, the project in which the equipment is to be used must now be included in a list approved by the Commission of the Customs Union in order to be exempted from customs duties.</p> <p>Under the new Law on Renewable Energy Sources, renewable energy generators are granted the right of guaranteed connection to the grid and guaranteed sale of all energy to state energy supply organisations.</p> <p>Land plots occupied by objects and plants intended to be used for the production of renewable energy sources are not subject to land tax.</p>
Additional Comments	Investors may also enjoy profit tax, customs duties exemptions, deferment of payment of taxes if the project is realised in a small town or a free economic zone (if certain requirements are met). Additionally, the investor may form an investment agreement with the Republic of Belarus and receive additional benefits under the terms of such an agreement.

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Top Tier - Projects, Energy and Natural Sources - Power (including electricity, nuclear and renewables), Chambers UK 2011

“ ...the renewables sector is a key area for Clifford Chance; offshore wind farms and solar energy have been a particular area of focus. It has also been involved in several innovative hydropower projects and continues to work on a number of biomass transactions. Just one example of its impressive array of work was advising British Energy on an extensive auction process for the sale of the company and on the eventual GBP12.5 billion recommended takeover by EDF.”

Top Tier - Projects, Chambers Global 2011

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