

## COMMUNIQUE

### THE LATVIAN GOVERNMENT'S AND THE FOREIGN INVESTOR'S COUNCIL IN LATVIA'S TWENTY FIRST HIGH COUNCIL MEETING

26<sup>th</sup> May 2017

#### **Preamble**

1. We, the Government of Latvia and the Foreign Investors' Council in Latvia (FICIL), met for mutual consultation and dialogue to discuss Latvia's economic development and the progress achieved since our last meeting.
2. Today's High Council Meeting was held in the Cabinet of Ministers and was jointly chaired by the Prime Minister of the Republic of Latvia, Māris Kučinskis, Honorary Co-Chairman of this meeting, and Stephen Oldfield, Partner at PricewaterhouseCoopers UK and the Honorary Chairman of the Foreign Investors' Council in Latvia.

#### **Progress**

3. We recognise the joint efforts of the Government of Latvia in commencing reforms in several important sectors of national economy and encourage a decisive action in order to support long-term economic development of the country, improve competitiveness and move towards convergence with other EU and OECD countries.
4. We note that the economic growth rate in Latvia had a slower pace in 2016 than a year before and the investment level remained low. We are pleased that due to a more favourable global conjuncture and an increasing inflow of EU funds, the economic growth is projected to accelerate. Growing economy will improve investment and export opportunities and will create relevant conditions for implementation of the much-needed reforms.
5. We believe that a tax policy that is well thought out and administered effectively is vital to the economy as it can support the competitiveness of the business and improve the attraction of foreign investments to Latvia.
6. We are pleased that the size of the shadow economy has been reduced. Regardless the positive trends and achievements, the proportion of the shadow economy is among the highest in the Baltic countries.
7. We appreciate the effort that has been made in further developing the regulatory framework of the insolvency process and its supervision in Latvia. However, we strongly recommend to concentrate the main effort on the consistent and efficient application of the existing legislation, strengthening the capacity and tools of the supervisory body.
8. Given the global geopolitical environment, we understand the importance for every country to counter and prevent actual and potential threats to national security. We are aware that the so-called investor screening laws are currently in force in several EU member states. However, such rules should be proportional, transparent regarding the specific procedures and should provide companies and investors with legal certainty.
9. Recognising that the quality and the competitiveness of the education system is the corner stone of the potential of the economy of each country and society, we appreciate the reforms commenced by the Government in the education sector, in particular, completion of the salary model reform and attempts towards consolidation of the education institutions. However, taking into account the existing challenges, the pace of reforms and further progress is of crucial importance.
10. We have seen positive developments in both waste and energy sector regulation and policy. Efficient, sustainable and reliable energy is essential for development of the country and these principles should be taken into account when drafting any new policy documents.
11. We appreciate initiatives aimed at development of a transport strategy, in particular, the increase of logistic sector competitiveness, attraction of new cargo from new markets for Latvia logistic sector and the continuous development of air transportation, network density and frequency of connections. We note that despite of transshipping largest volumes of transit cargo at Latvian ports, the global logistic index for Latvia has deteriorated during the last five years and ranks behind our Baltic neighbours.
12. We repeatedly express our concerns about demographics in Latvia, including decrease in the number of population and ageing that may become a serious impediment of growth in the nearest future. In this regard, we acknowledge the recent changes in the Immigration law. However, in the context of limited labour forces, it is of utmost importance to fully engage all the existing potential and consider smart migration policies to mitigate the situation.

#### **Goals**

13. We see Latvia in 2025 as Smart Nation and as the most attractive place for business and investment in the Baltic sea region. The ability of the Government to achieve real results in implementing the reforms will be crucial to ensure growth of the economy and convergence with the EU standards of quality of life. It will lead to improvement of the general mood of society and reduce the potential attractiveness of populism and emigration.
14. Openness of Latvia's economy is a prerequisite for a further increase of country's competitiveness and growth, including attraction of investment. Openness to talent, innovation and expertise should be given a proper value considering large scale infrastructure projects, business opportunities or leaders of centres of excellence of local and regional importance.

15. Predictability and quality of the tax system is one of the foundations of a stable business and investment environment. When introducing a major reform, these aspects should be taken into account. Activities for fighting shadow economy will be vital for a successful implementation of the tax reform and require coordinated work of law enforcement institutions and more strict penalty system and application of it.
16. Among the issues that affect the business environment and the security of investment in Latvia, the rule of law is one of the most significant elements. It should be a priority to implement strict supervision of insolvency process and ensure efficient prosecution of economic crimes that result in large costs to the general public – as an economic cost and even more importantly, as it undermines the confidence in democratic institutions and affects both the willingness to invest and economic prosperity.
17. To ensure effective and timely prosecution of economic crimes, appropriate resources should be allocated, including physical infrastructure, equipment, sophisticated IT tools and investment in raising of expertise of relevant professionals. A true partnership between public and private sector should be considered for sharing information and expertise.
18. We see Latvia as a regional centre for transport and logistics. Increasing the transparency of transit matters, opening up to international experience for large scale projects, developing integrated e-customs would significantly improve Latvia's regional competitiveness
19. We discussed that more decisive and faster reorganisation of the education system should tackle the current mismatch between educational infrastructure and demand, emigration of talent, the atomization of resources and the lack of advancement in the overall quality of higher education and research. Improving the quality of education from good to excellent at all levels, introducing competency based education in all levels and ensuring equal opportunities in the context of optimizing the school network and concentration of resources should stand as the key long-term goals.
20. We analysed the importance of efficient, sustainable and reliable energy for development of Latvia. We see as an opportunity the work on integrated national energy and climate plan for putting down national objectives, targets, methodologies and policy measures. Promotion of competition and cost efficiency in the renewable energy and ensuring that support schemes balance development objectives with burden on consumers should be set as a priorities.
21. We see circular economy principles as key element for an efficient waste management policy that is enabled by recycling and energy recovery and where competition is fully respected.

## Conclusion

22. Taking into account that this is the twenty first meeting between the Latvian government and the Foreign Investors' Council in Latvia, we have agreed that over the coming year we will examine and implement to the extent possible the recommendations which have been expressed in Progress Reports about: (i) Tax policy and Tax Administration; (ii) Education System; (iii) Transport and Logistics; (iv) Waste Management and Energy Sector; (v) Combatting Economic Crime.
23. We remain committed to improving the business environment and investment climate in Latvia by discussing specific and broad strategic suggestions and by following up the progress of their implementation.
24. We recognize that further dialogue is necessary and will organise the next meeting between the Government of Latvia and FICIL in the spring of 2018.

## Notes

1. On behalf of the Latvian Government, the meeting was attended by the Prime Minister, Head of Latvian Investment and Development Agency, Minister for Economic Affairs, State Secretary, Minister for Education and Science, Minister for Welfare, Deputy State Secretary, Minister for Justice, Environmental Protection and Regional Development Minister, Ministry of Foreign Affairs Parliamentary Secretary, Deputy State Secretary of Minister for Foreign Affairs, and the General Attorney.
2. The Foreign Investors' Council in Latvia was represented at the meeting by senior management from the following companies: "CEMEX", "Circle K", "Citadele banka", "Coca-Cola Company", "Deloitte", "DNB banka", "E&Y", "Eversheds Sutherland", "Evolution Gaming", "Fortum", "GlaxoSmithKline Latvija", "Klasmann-Deilmann", "Knauf", "KPMG", "Linstow", "Mariner", "Maxima Latvija", "MTG", "Narvesen Baltija", "NCH Capital", "Neste", "Norvik Banka", "Powszechny Zaklad Ubezpieczen", "PricewaterhouseCoopers", "Riga Fertilizer Terminal", "Rimi Latvia", "SEB banka", "Swedbank AS", "TAV", "Telia Company", "Vastint", "Ventspils nafta terminals" un "Vitol", as well as the chairpersons of thirteen foreign chambers of commerce in Latvia, representing the United Kingdom, the USA, Belgium and Luxembourg, France, Ireland, Norway, Finland, Switzerland, Germany and Sweden.