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## The FICIL's Position Paper on Waste Management and Energy Sector Policy

### 1. Executive Summary

It will take time to adjust the energy system currently in transition and to enforce circular economy principals. Therefore, FICIL must stress the urgency to set up national targets and framework in order for investments to start making their way in corporate decision pipelines. This year the FICIL Energy and Waste management work group has benefited from open discussions with ministry representatives, increasing mutual understanding and collaboration.

An area of general concern is statistics. Although various industry stakeholders do possess reliable historical and future forecasts data, especially in the energy sector, such data is rarely used by the policy makers to conduct proper analysis and decision making, furthermore critical industry data (both historical and forecasts) is not consolidated as policy makers view on future markets development and is not made available to investors.

FICIL represents stakeholders from different businesses, consisting of both producers, retailers and consumers, thus giving a broad analysis of different angles. On the topic of waste management this year, FICIL recommends the following actions:

- 1) Clarify the terms for potential implementation of the deposit system in Latvia**
- 2) Turning waste into resource by promoting material and energy recovery**

Energy is in transition. FICIL acknowledges the progress made by government in the gas sector liberalisation and unbundling, and encourages government to continue the work on Baltic gas market integration that will lead to more dynamic energy markets and increase the security of supply of the energy sector in Latvia. Furthermore, within the capital intense energy business, national targets and clear framework for sustainable development will be of importance when competing for the international investments. FICIL accentuates the following recommendations:

- 1) Timely involvement of stakeholders in the engineering of the National Energy and Climate plan**
- 2) Demand de-carbonization also from non-ETS sectors**
- 3) Consistency and predictability in governmental decisions when considering Mandatory Procurement Component reforms**

## 2. Recommendations on waste management policy

The concept of sustainability has become much more than an ideological quest. Sustainability is in demand and with reliable sustainability index ratings, sustainable businesses are attracting investors and funds. **Circular Economy driven transitions will therefore attract investments and foster innovation: two very important growth components for Latvia.**

Under the umbrella of circular economy there are multiple streams. In this position paper FICIL would like to address the beverage package deposit system and the link between material recovery and energy recovery.

### 2.1 Clarifying the terms for implementation of the deposit system in Latvia

FICIL supports waste management policies that enhance recycling through well-designed and well-managed initiatives.

Introduction of a deposit system is not an aim in itself and beverage packaging deposit system is one way to reach the collection and recycling objectives for specific types of packaging.

Understanding of the economical and operational complexity of deposit system should be provided through the strong legislative framework that defines shared responsibilities and is designed to run efficiently and transparently. Therefore, before making a decision and changes in existing legislation, it is important to be aware of goals that are being pursued, areas of responsibility that will be for each of the involved parties and amounts of investment that each participant in the process will have to bear.

At this point, several considerations should be taken into account:

- The deposit operator should be established and owned in cooperation of producers and retailers and should include the management of deposit flow, collection of registered packaging, ownership of the collected material, as well as managing its sorting and recycling in the non-profit based governance.
- The process of planning and implementation should be done in open, prudent and transparent way considering all affected parties and a realistic timeframe.
- The industry of beverage producers, distributors and retailers have not yet been sufficiently involved in the preparation of legal basis for the implementation of system.
- The deposit system should fit within state's overall waste management strategy (before changes in legislation, thorough research should be conducted to create clear vision and potential scenarios).
- Clear project time plan with main milestones and responsible parties should be put in place in cooperation with main stakeholders, such as producers, distributors and retailers, in order to track progress and plan necessary steps and potential investments in advance.
- Clear roles responsibilities of all involved parties should be determined (state and ministries, municipalities, producers and retailers).
- It is necessary to calculate the impact of introduction of the deposit system on the Latvian economy and inflation.

Having reviewed the bill "Amendments to the Natural Resources Tax Act" and the bill "Amendments to the Packaging Law", FICIL concludes that there are many uncertainties. The impact assessment done by Ministry of Environmental Protection and Regional Development is incomplete, not addressing the points above needed for implementation decision of a deposit system.

## **2.2 Turning waste into resource by promoting material and energy recovery**

EU and individual member states have ambitious recycling goals to promote the development of circular economy. In industrial recovery facilities, there will always be a fraction that cannot be sustainably recovered in the material flow and needs to be responsibly disposed of. Different recycling techniques may have different recovery ratios, but if the residual flow can be used in energy recovery, the utilization rate can come close to 100%. Thus using residual waste flows as fuel is in the long term a facilitator to recovery, enabling efficiency and better recycling economy.

FICIL recommends the following focus areas for promotion of material and energy recovery:

- Decisively and actively close the possibility to landfill materials that can be recycled or re-used in energy recovery.
- Promote efficient and responsible production and use of RDF/SRF (Refuse-derived Fuel/Solid Recovered Fuel).
- Refuse-derived fuels are in larger part renewable, thus their use to be considered in de-carbonization plans
- Support circular economy as business opportunity platform
- Encourage competition and transparency within the waste and recycling business. Enhanced competition will result in enhanced solutions.

## **3. Recommendations on energy policy**

### **3.1 Timely involvement of stakeholders in the engineering of the National Energy and Climate plan**

Even though the United Nations Framework Convention on Climate Change was ratified by Latvia on the 09.02.2017, there has been a lack of urgency in declaring national targets and long term actions in line with the objectives to decrease global warming beneath the 2 degrees increase.

The Baltic countries do not reach their Effort Sharing Sector (ESS) targets in the 4 Degree Scenario (4DS). Especially Latvia will need additional reductions or flexibility measures. (ref: from Nordic Council of Ministers report)

Clear vision and targets for the forthcoming period 2021 to 2030 are still pending. The sooner they are in place, the sooner energy transition related investments can start to take form. As in any capital intense industry, and the energy business in particular, project set ups take considerable effort and time. The current lack of understanding of the coming framework is keeping development on hold with direct impact on the implementation timeline.

FICIL believes that important components for the comprehensive plan are:

- ‘Polluters pay’ principle, CO2 emissions to carry costs. Fossil fuels to be taxed in order to promote renewables.
- Market mechanisms over subsidies to avoid market distorting effects.
- The best projects are born in competition, therefore the selection process should be through auctions, allowing the project with the lowest subsidy needs to be selected.
- Promote prosumers and infrastructure load-relieving solutions with producers close to consumers.
- Electrification of the transport sector.
- Enhance the legislative environment and reduce barriers for development of large scale wind parks.

### **3.2 Demand de-carbonization also from non-ETS sectors**

All sectors are required to reduce greenhouse gas emissions with the same high priority. ESS (Effort Sharing Sector, called also non ETS sector), and LULUCF (Land Use, Land-Use Change and Forestry) sectors are having high CO<sub>2</sub> emissions also with increasing tendency during the last decade. Latvia shall ensure that accounted CO<sub>2</sub> emissions from land use are entirely compensated by an equivalent removal of CO<sub>2</sub> from the atmosphere through action in the same sector. This commitment is referred to as the "no debit rule".

FICIL would like to bring specific attention also to the heating sector, where natural gas consumption is still high even though heating is an area where biofuels, in modern boilers, are an environmentally and economically suitable energy source. Latvia's strong position in both regional and international biofuel market constitutes a good pull position to further develop and promote the use of biofuels and other local fuels.

### **3.3 Consistency and predictability in governmental decisions when considering Mandatory Procurement Component reforms**

The MPC system has two distinct sides: the supported electricity producing side and the financing side from consumers. They are not very tightly connected and in essence the support could be differently financed. FICIL supports the initiative of the Ministry of Economics in setting up a comprehensive expert working group to analyse alternatives.

From a sustainability point of view it is important that the support is used to promote the development of renewables in order to reach national and European targets. At present the MPC is not a support mechanism for renewable electricity production, a common misconception in media, as the objectives include other interests as national security of supply, etc. The fact that the MPC subsidy format has been approved by the European Commission is also a point of general public disinformation. FICIL urges the government officials to meet up in joint effort to counteract the spreading of misleading information, as it is damaging for Latvian reputation.

For investors in the energy sector, it is of utmost importance that support systems are long term and predictable. Granted support should be honoured as foreign investors have signed bilateral agreements on investment protection with the government. Effort should now be focused on how to efficiently set up coming support period for best result.

With our common goal in mind, to strengthen Latvia's international competitiveness, FICIL will continue to advocate for the best possible business development platform in Latvia. The consistency of government's decisions is a very strong factor that affects decision making for any foreign investor.

Energy-intensive industries in Latvia have suffered un-proportionately in comparison with other European countries in regards to electricity costs due to the MPC. The government's decision on the differentiation of the mandatory procurement component (MPC), which came into effect as of 1<sup>st</sup> of January 2018, publicly announced as early as in 2016, has improved the situation. Contrary to the original intent, the introduction of the differentiation was postponed from 2017 to 2018, but nevertheless the reform has already produced tangible results in terms of penetrating new export markets. It was and still is taken as a ground for several significant investment related decisions from the sector of large enterprises.

FICIL would like to emphasize that when evaluating Latvia's competitiveness for industrial investments, experts must take a holistic view, taking into consideration all components of the energy

cost, including electricity price, MPC and transmission and distribution costs. Only by conducting predictive impact assessment of the entire energy cost on Latvian economy, can we analyse the effect it has on the development of the country's competitiveness.

FICIL also supports the recent amendments introducing proper instruments of control on MPC receivers. As pointed out many times before, good business grows in fair and transparent environment.