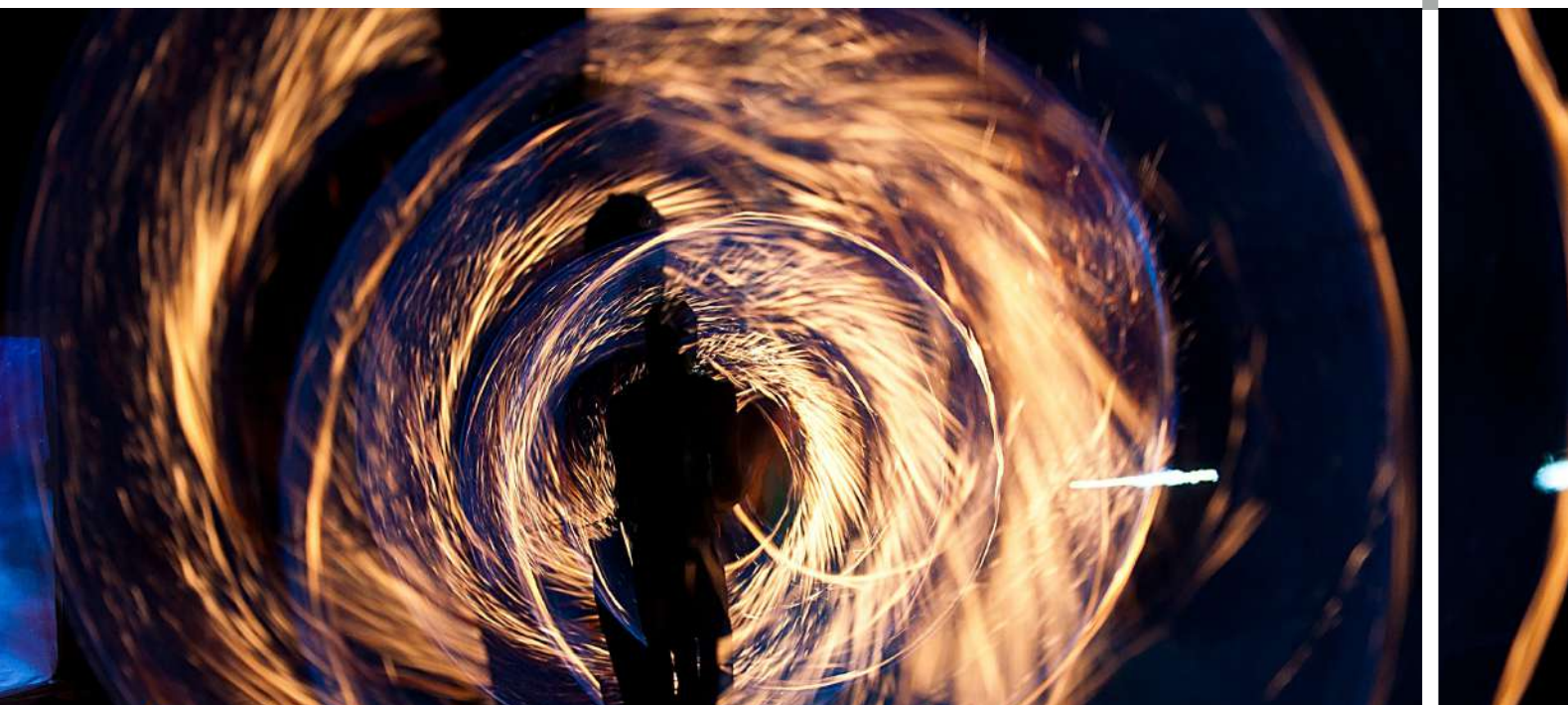


FICIL Position Paper No. 11

Foreign Investors' Council in Latvia on the Energy Sector and Waste Management Policy

10 September 2020

Executive Summary



Across all industries, the policies, laws and regulations of a state need to be consistent, predictable, and oriented towards the development and prosperity of a state. The presence of the above described values and principles in Latvia was one of the core concerns of the Foreign Investors Council in Latvia (FICIL), when preparing the position paper regarding energy and waste management sector of the previous year.

Unfortunately, these concerns have not diminished, for instance, with respect to the process for amending laws and regulations to reform the mandatory procurement of electric power (MP) or expeditious substantial rise (even by 100%) of the natural resource tax (NRT) at the end of 2019. To avoid any further repetition, FICIL calls for the timely, well organised, and subject matter oriented public debate on the packaging taxation.

FICIL appreciates the adoption of the National Energy and Climate Plan in February 2020. Its predictable and timely implementation should also be ensured. Allocation of adequate financing for its implementation shall go in parallel with the timely elaboration of its updated wording via meaningful engagement of the industry.

FICIL acknowledges the enormous effort of the Ministry of Environmental Protection and Regional Development in having the deposit system to be introduced in Latvia sooner rather than later. The forthcoming challenge remains to attract, transparently and fairly, the operator of the deposit system. The goal in this process shall be the long-term economic viability and sustainability.

However, carrying on from the issues raised by FICIL last year, statistics, as well as comprehensiveness, reliability and public availability of statistical data in a user-friendly format, are still an area of general concern in energy and waste management sectors, as well as in other areas of the economy.

The OECD and other international organisations have long emphasised the high proportion of the grey economy in Latvia as one of the main issues hindering economic development. This concern will only be exacerbated by a tax policy aimed at evolvment of the green economy. Therefore, when reviewing taxation policies aimed towards emphasising the principles of the green economy, supervisory mechanisms for tax collection across all sectors need to be strengthened. The honest companies that contribute large tax payments are the ones that continuously invest in research and innovation as well as in technological improvements to boost efficiency. Increasing the tax burden on these companies, while at the same time not improving the control mechanisms to reduce the grey economy, will only widen the gap between white and grey economy, distorting fair competition, and will hinder the state's ability to achieve economic and climate goals.

It is important to note that the introduction of various mechanisms for effectively moving towards green economy should consider the pace of scientific development and the technologies currently available. More emphasis should be placed on research and innovation in the field, promoting investment, which can serve as just as an important instrument as the changes in tax policy. When looking at technological developments, the Baltic States can benefit from increased cooperation, using geographical proximity to advance a common green economy infrastructure.



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Recommendations

Timely, transparent and predictable policy planning

Major improvements in the domestic culture are required for the development of policy planning and legislative documents regarding the energy and waste management sector. These processes shall become transparent, timely, and predictable. The use of these processes shall lead to the selection of the most balanced approach to reach pre-defined and publicly discussed targets and results.

Improvement of data processing

There is a need for improvement of data reporting and processing in the energy and waste management sector. Proper use of the big data and artificial intelligence solutions could help in identifying and analysing data gaps and overlaps, reduce administrative burden currently held by each state or municipal institution, as well as help avoiding overlapping in the information to be submitted by the private sector to state and municipal institutions. Effective use of statistics can also improve policy decision making, which in turn increases business sector trust.

Sustainable packaging and recycling solutions

As a part of the State Tax Policy Guidelines 2021-2025, the decisions on packaging taxation should be based on economic and environmental analysis. In addition, there shall be more focus on improvement of the recycling technologies and waste management on the national level. Industries and business shall be strongly encouraged to invest in the sustainable packaging solutions.

Circular economy

Continuously from the previous years, FICIL urges to turn waste into resource by promoting material and energy recovery, while also reducing the amount of waste.



Rationale for Recommendations



Timely, transparent and predictable policy planning

The National Energy and Climate Plan, just like the European Green Deal, has set very ambitious targets, but, in order to effectively implement economically sustainable policies regarding green economy, substantial long-term planning, transparency in decision making, dialogue with the relevant sector will increase business environment stability and investor trust in the state. FICIL sees ways for improvement regarding the domestic culture for the development of policy planning and legislation documents. It has become a widely spread practice that drafts of the policy planning or legislation documents are published on a very short notice before their discussion at the work group meetings with industries, government, or parliament, without giving each party enough time to fully review large quantities of relevant material.

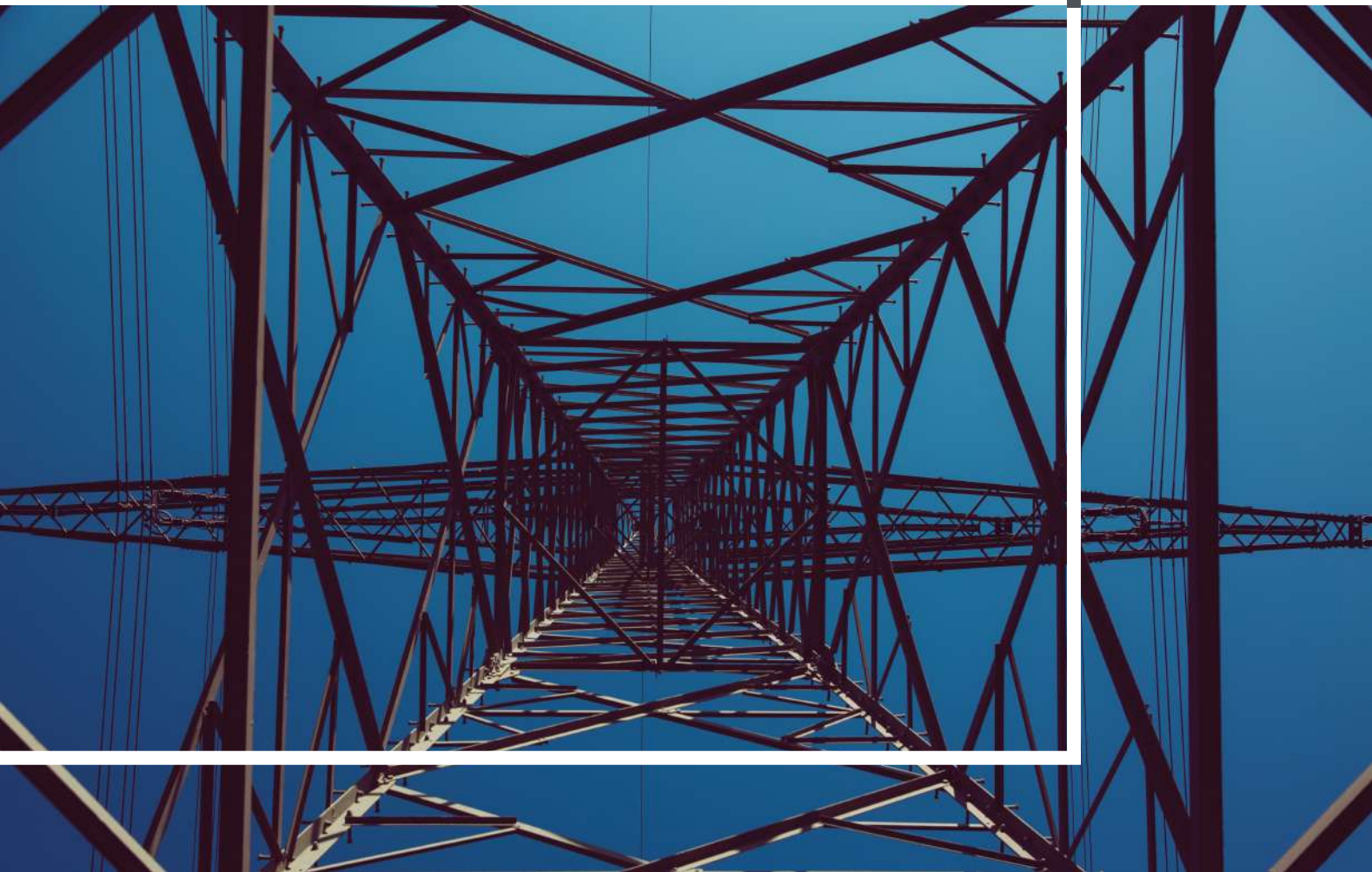
For instance, with respect to the MP reform, the wording of the draft Cabinet of Ministers regulations, which did not contain several important sections of the awaited draft regulations (for instance, on the IRR calculation reform), was available on a very short notice prior to the meeting. The missing parts of the draft were made public only after the first written comments and objections of the industries had to be submitted.

Similarly, at the end of 2019 a substantial rise (on some occasions even by 100%) in the natural resource tax was implemented without holding any public discussion with the industries to be affected by such changes. This type of attitude diminishes the trust into the investment environment of Latvia. This mode of lawmaking compromises the predictability and transparency of the legal and investment environment.

Rationale for Recommendations

Improvement of data processing

FICIL urges the government to make considerably wider use of big data and artificial intelligence solutions. This would help bringing policymaking closer to the real-life situation. State policy would become more consistent, predictable and qualitative. Statistical data on energy and waste management related issues, as well as in other areas which are at the disposal of the Central Statistical Bureau of Latvia, should be substantially improved. Firstly, all market participants should be urged to submit the required data in a timely and regular fashion. This is an essential form in which the private sector can provide a valuable input into the policymaking. Secondly, to the extent possible, the enormous amount of data which is at the disposal of the state and municipal institutions should be transferred to the Central Statistical Bureau of Latvia in a timely and regular fashion. This would help to increase the comprehensiveness of the data. Thirdly, the government should regularly use statistical data both to plan and structure new policies, and to update or revise the existing policies on a regular basis. This would bring policymaking closer to the real-life situation and contribute to the more consistent, predictable and qualitative policymaking.



Rationale for Recommendations

Sustainable packaging and recycling solutions

As a part of the State Tax Policy Guidelines 2021-2025, the Ministry of Environmental Protection and Regional Development has suggested several changes in the methodology regarding the calculation of the natural resource tax (NRT). The proposal also includes changes in the tax exemption calculation for the packaging, currently operating under the Producers Responsibility Scheme and delivering a 100% exemption. It is planned to reduce the exemption to 80% for the businesses under the Producers Responsibility Scheme with a fiscal effect on the budget estimated to be 30 million euros per year. The proposal should be based on economic assessment and the Ministry should collaborate with the industry to understand the best solution. Currently, the proposed rate of NRT is very high in order to stimulate producers to join the responsibility scheme, but if there is no exemption, then the new proposal would create an additional burden to producers and consumers. There should be an assessment detecting whether the change in the tax exemption would help to reach the waste collection goals for Latvia and how it would affect the local businesses.

Several EU Member States have introduced or are considering the introduction of taxation systems on certain packaging materials. Meanwhile, the European Council is discussing the introduction of an EU-wide levy on non-recycled plastic packaging waste. The industry fully supports the policy objectives regarding the Green Deal and a sustainable future, reaching the waste collection and recycling goals. However, it has been proven that fiscal measures do not drive the innovation, and there is no guarantee that the resources collected through the additional tax will be reinvested to improve the collection, sorting, and recycling infrastructure.

Several packaging organisations have prepared a joint statement on the packaging supply chain and on fiscal measures related to packaging materials and applications, stating that there should be other measures implemented to promote the circularity of the packaging. The position states that, if fiscal measures are considered, they should encourage and reward the uptake of sustainable materials, for instance through a digressive scale or exemptions for recycled materials to enable packaging users to close the loop of circularity. It is also essential that such measures are non-discriminatory and avoid distortions and fragmentation of the EU Single Market. The Ministry of Environmental Protection and Regional Development has suggested several changes in the methodology regarding the calculation of the NRT. The currently planned rates might negatively affect the competitiveness of the businesses and create additional financial burden. Fiscal measures are not the most efficient tool to drive such changes and to encourage businesses to invest in innovation to meet the sustainability goals.



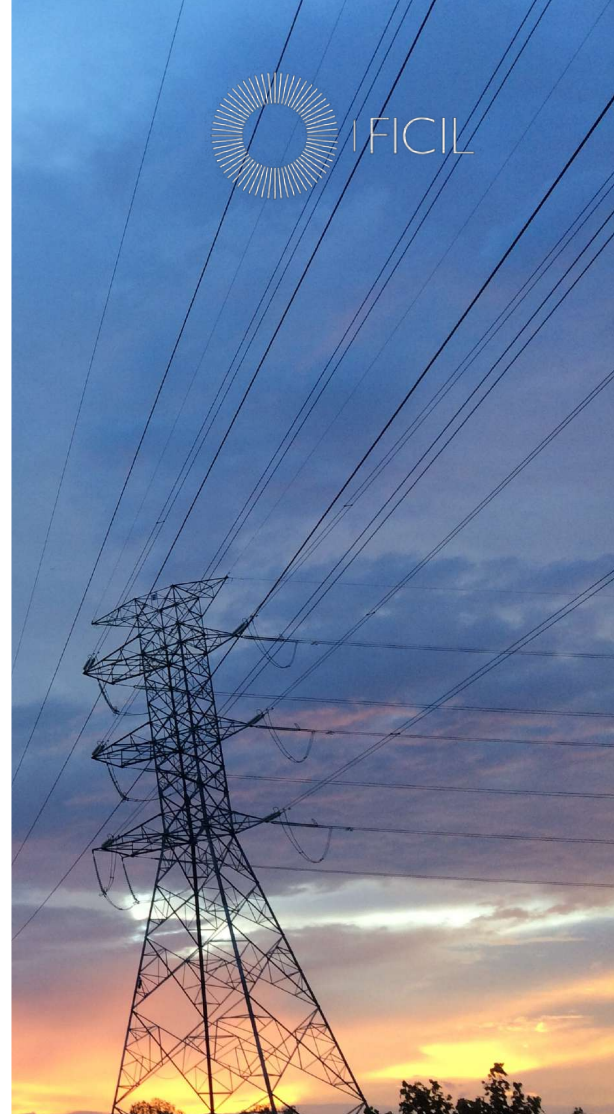
Rationale for Recommendations

Circular economy

Production, trade and use of RDF should be furthered through actions such as promoting the production of the refuse-derived fuel (RDF) and solid recovered fuel (SRF). As mentioned in the two previous position papers on the energy sector, FICIL continues recommending the following for the promotion of material and energy recovery:

- close the possibility to landfill materials that can be recycled or reused for the purposes of energy recovery, and sharply increase the gate fees in Latvia;
- implement sorting and RDF and SRF production in the largest waste producing areas in Latvia. At the same time, it is important to ensure that RDF and SRF production business is open and reasonable not only for the largest landfill and waste collection companies;
- the legal regulation requiring 70% of the imported waste and recycling material to be utilised in order to retain the permit for continued import and trade should be applied with a reasonable approach, where substance prevails over the form. Experimental use, trimming of new equipment, and recycling processes are required to install and implement the most optimal solutions for the RDF and SRF production.





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FICIL is a non-governmental organisation that unites 37 largest foreign capital companies from various industries, 10 foreign chambers of commerce in Latvia, French Foreign Trade Advisers and Stockholm School of Economics in Riga. The goal of FICIL is to improve Latvia's business environment and overall competitiveness in attracting foreign investment, using the experience and knowledge of its members to provide recommendations to Government and state institutions.