



FICIL
RAISE THE BAR!



Position Paper No. 2

Foreign Investors' Council in Latvia Position Paper on Green Economy Development

16 September 2021



Executive Summary

The Foreign Investors' Council in Latvia (hereinafter – FICIL) has closely followed the green economy developments both locally and globally. In combination with the worldwide pandemic, circular economy and the European Union (EU) Green Deal have especially spotlighted two critical aspects, which for a long time have not attracted the necessary attention in Latvia. These are the two-speed nature of business and society.

For years, a relatively small number of large (a lot of them foreign) companies have pulled through the economy of Latvia and contributed a large portion of the country's tax revenue. Most of them already invest a large amount of time, human and financial resources into transforming themselves towards sustainability and circularity, whilst a relatively large number of medium and small size businesses have not yet even realised the importance of transformation in order to stay on the market.

There is also a sharp divide between the part of society which is financially well-off and the part which may struggle financially. The middle-class layer is

too thin to expediently implement wide reforms and transformations in the household sector (housing, transport, energy consumption, waste management, recycling etc.).

Unfortunately, the EU Green Deal goals expected from Latvia are too high and ambitious to expect the small number of large companies and financially well-situated part of society alone to deliver all the results. The timely and prudent transformation on a large scale of the overall mindset of business and society is urgently required.

In this Position Paper, FICIL highlights multiple areas that must be addressed for Latvia to successfully undergo the green transformation and reach its targets. The two most immediate action areas concern clear rules and stable legislation surrounding the green topics, as well as the availability of high-quality data. In addition, growth in sustainable financing, sound energy policy, and solutions to boost alternative and refuse-derived fuels are among the many topics requiring state attention.



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All parties involved – state and municipal institutions, industries, households, and consumers – should be made fully aware of their obligation to engage in the attainment of the Green Deal goals set for Latvia by the European Union (EU). This requires clear and timely communication, education and raising of awareness. Up until now, Latvia's path towards meeting these obligations has not displayed interdependence on the effort and personal commitment of each party involved.

Availability of high-quality data

FICIL strongly believes that the time has come to switch to data-based legislation, which is followed by data-driven execution of policies. State and municipal institutions continue to gather a vast amount of data, which substantially overlap and are often missed or not used by analysis and research tools due to the lack of interconnection between different government held databases.

Precise and up-to-date, high-quality data should be among the top priorities for the national digitalisation policy. Availability of such data should be used immediately to improve the quality of legislative and executive power. FICIL believes that the lack of trustworthy data significantly hinders the competitiveness of Latvia due to the policy-makers' inability to make proactive and well-informed decisions. With regard to the green transition, high-quality data are needed to understand the status quo, measure the progress and effectiveness of policies, as well as to ascertain that the targets have been met.

Sustainable Financing

The time has come for Latvia to shift away from the wide use of direct subsidies and grants. FICIL believes that a more mature strategy would be to boost the availability of sustainable financing instruments. This would help businesses and consumers to switch to the green and circular economy by analysing in more detail and taking responsibility for the money borrowed or attracted, for the activities performed and results achieved.

Sound Energy Policy

FICIL calls for a clear long-term energy policy that investors could rely upon and base their investments on. In particular, FICIL highlights the uncertainty surrounding the feed-in tariff (OIK) system. FICIL urges the policy-makers to take decisive action to end the uncertainty and unpredictability. Whichever decision is made regarding the future of OIK, it should be implemented in a lawful manner. This also includes ensuring a fair balance between the responsibility of the companies and the State. FICIL draws attention to the detrimental effect that is caused to the investment environment by resolutions with a retroactive claw-back approach.

Furthermore, FICIL stresses that future policies in the energy sector should be market oriented and technology neutral.

Alternative fuels and refuse-derived fuels

The alternative fuel market in Latvia should be developed and planned in full coherence with the plans of the surrounding countries and vehicle producers. Transport and logistics are among the top industries in Latvia. To stay on the supply chains and transport and logistic chains, it is important to astutely develop those types of alternative fuel, which coincide with those of the vehicle producers. Any waste collection and recycling policies, including packaging, should be based on the principles of the single market and fair competition.

Rationale for recommendations

Clear rules for the green economy

Considering the level of ambition of the overall EU targets, a joint full-speed effort of the national government, businesses and society should already be taking place in various directions. Unfortunately, a considerable part of the businesses and society are not yet aware either of the targets or of their obligation to engage into their achievement with their own contribution. Furthermore, it seems that not all state and municipal institutions are aware of their obligation to engage either. Currently, the level of ambition of the national green economy plans considerably lags behind those of the EU.

FICIL strongly suggests setting a clear vision and goals for the country, sectors of the economy and industries, as well as for households and consumers by using gradual (step-by-step) planning. Climate and green economy goals in general should perhaps be divided across industries. The goals and required actions should be specified to reduce greenhouse gas (GHG) emissions in each of the specific industries, otherwise, it is hard for businesses and households to understand how exactly these goals and requirements apply to them individually, and what action and results are expected from them. However, planning alone will not be sufficient to achieve the results.

Planning must go hand in hand with constant monitoring, regular re-evaluation and adjustment of focus and activities. Monitoring should be focused on the identification of synergies among several activities performed in parallel or in a certain sequence. Synergy analysis and flexible integration into the plans should be among the top priorities for the monitoring and assessment teams, all of which should result in the constant adaptation and improvement of the legislative framework.

All engaged parties – government, industries, businesses, households, and consumers – should know in advance, what is expected from them and when, what is their responsibility, and what negative consequences they may face for ignoring their obligations or the failure to perform them. Any retroactive legislation should be avoided. Our common task is to strive to deliver the expected results and not to find someone to blame for the overall failure to deliver them. This can be avoided, provided there is timely and clear communication, education and raising awareness.

Consequently, the overall lack of a clear State vision, goals and priorities in the green economy sector causes considerable uncertainty to the investors. Therefore, changes in the public sector are awaited. The Green Deal and sustainability should quickly become the most important perspective for the short-, medium- and long-term internal prioritisation. Communication, education and raising awareness must also happen within public institutions in order for public officials to realise their individual role and ultimate goals in Latvia's path towards reaching the green targets.

As an option, FICIL recommends reviving the National Energy and Climate Council, which should be led by the Prime Minister and involve multiple ministries and NGOs. This would create strong co-operation with businesses for ongoing discussions on what Latvia should do, when and how, to meet its obligations. As a result, recommendations and guidance would be provided to the Ministry of Environment Protection and Regional Development (VARAM) and other stakeholders to implement the recommended activities.



Taken alone, VARAM is too overloaded with the administrative reform, digitalisation of the country, and implementation of the Green Deal objectives. This also raises the question whether the current set-up of the public sector is able to effectively tackle the challenges ahead for Latvia in the next 10 or 20 years. FICIL notes fragmentation, disbalance and overload of ministries, especially of VARAM, with several large-scale initiatives, which must be implemented in parallel and the subject matter of which substantially exceeds the typical competencies of the respective ministries. FICIL believes that strengthening the ministries with more high-profile specialists is needed to successfully deal with such large-scale projects. Furthermore, FICIL calls for well-coordinated, homogenous and result oriented cooperation among ministries and reiterates that society would not care which ministry or ministries did the work, but would rather care only about the outcome.

Availability of high-quality data

FICIL considers a strong data policy as a prerequisite to the efficient operation of the private and public sectors, as well as to well-informed decision making in legislation. Gathering of data by the State should be transformed into a meaningful task and a priority of the State digitalisation policy. Data collection should add value and serve a primary purpose, not just merely serve as statistics.

To adequately determine and assess the *status quo* prior to the development of any new policies, up to date and precise data are required. High-quality data must become a mandatory precondition for the elaboration of new policy documents or the taking of legislative or executive decisions. In essence, data-based legislation should be followed by data-driven execution.

High-quality data are also required for planning, monitoring, identification of synergies and their integration into the policies. Legislator, government, State and municipal institutions, industries, businesses, households, and consumers must have open access to trustworthy and easy-to-access data, as gathered by the State on different government initiatives, policies, industries, and sectors. This also includes generalised and individualised data on companies, households, and consumers.

Functional and well-developed data and algorithms for their use should be integrated into the public databases to allow for constant measuring of the activities and their results, as well as for identifying synergies and integrating them into the policies. Public databases of this variety, scale and functionality would speed up monitoring and control of different activities and simplify the verification of compliance.

Any data requested by the government to be uploaded to any public database, should not be missed, lost, or avoided by the search or other data processing tools. They should become an integral and valuable part of the database and should be used for further research and analysis in different combinations and from various perspectives: cross-sector, cross-industry, cross-function etc.

FICIL continues emphasising that requests to repeatedly submit the same data to various public institutions still cause an extensive administrative burden on companies. Improved functionality, wider coverage, and access to databases by all public institutions would help to substantially reduce this burden.

Sustainable financing

FICIL strongly encourages the government to move towards a more mature financing market. Direct subsidies and free of charge instruments should be avoided as much as possible and replaced with market-based and more market-oriented financing instruments. Sustainable, mostly non-government dependent financing should be boosted by providing an adequate legislative framework for the development of new financing instruments, measures and tools for development and promotion.

The fundamental difference here lies in the awareness of the financing recipient about why exactly it needs the financing, what purpose it will serve and what result it will deliver. From the perspective of the green and circular economy, this helps the financing recipient to clearly define what it should do and how to attain what it needs (not for everyone seemingly falling within the same industry or sector).

Consequently, a boost in sustainable financing along with the Green Deal and circular economy inevitably leads society and business to the need to redefine the meaning of living in a smart way. Any industry, business, household, or consumer should occupy the space and spend resources only as much as it is necessary for them to lead a sustainable life, bearing in mind our liabilities towards the future generations and nature. In addition, the concept of sustainable public procurement should be redefined to provide for its contemporary understanding and meaningful participation into the achievement of the overall Green Deal goals.

Financiers are facing the obligation to comply with the new taxonomy with respect to both themselves and their client portfolios. Calculation of the carbon footprint and other obligations should push the government towards providing the required legal framework, alignment and practical assistance with data and tools for calculation.



Public databases, which gather information required for the calculation, for instance, of the carbon footprint, should be made available to the financiers and recipients of financing to assist them with gathering the input data for the calculations. Aligned approaches would allow for a more realistic comparison among sectors, businesses and competitors. This would help put leveraged pressure on industries to take responsibility for what they have done so far, and plan to do in the future. Finally, the government should assist financiers by transliterating the financier obligations under the taxonomy into supporting obligations of the financed businesses, households, and consumers.

Sound energy policy

Irrespective of the economy model (linear or circular, for instance), the energy sector will always play a dominant role therein. Electricity and heat must be available to keep industries and businesses running, and households leading a decent life in today's world. However, the emphasis on the main sources of energy should keep shifting from fossils to renewables.

Before proceeding with any plans, the so called 'OIK saga' should be resolved with no further delay. It is up to the government's political choice: OIK shall either be cancelled or continued. However, irrespective of the route selected, it should be followed and implemented lawfully. Indecisiveness with this issue is worrying to investors of any industry and sector. Further delays neither benefit society, nor industry, nor the overall investment environment. FICIL especially points out that adopting

resolutions with retroactive adverse effects, while providing no compensation to the affected investors, is a serious signal to an investor to revise their implemented and planned investments in Latvia.

From the perspective of State aid measures granted or made available, the future energy policies (electricity and heat) of Latvia should be based on the principles of technical neutrality. There should be no hindrances to any technology, provided this technology is of interest to the market. In general, energy sector policies should be more market-based and oriented, and less supported by direct subsidies. Incentives to the industries, businesses, households, and consumers to shift towards renewables and sustainable energy solutions should be implemented mostly via indirect support measures. Energy producers and consumers also have their role, actions, and results to be achieved under the Green Deal goals and should also be held responsible for contributing their effort and activities towards reaching the common goals.

FICIL also encourages the government to prioritise CO₂ capture, storage, transport and sales in the overall Green Deal plans. Provided the existing legislative limitations will be lifted, development of this sector will speed up considerably. This would lead to the more rapid identification and implementation of synergies in such sectors and energy independence and security, transport and logistics, etc. The time has come for Latvia to grow out of small pilot projects and to be more ambitious in terms of content and scale so that projects and their implementation may be expanded quickly to ensure wider coverage.

Alternative fuels and refuse-derived fuels

FICIL urges for fair competition and balanced market development in the sector of alternative fuels and RDF. Global tendencies should be considered to plan the development of these sectors regionally and locally. Policies of Latvia should be based on the underlying principle that our circular economy developments, participation into the supply chain and other important aspects are not being planned for an isolated country. We should be well connected to the surrounding economies and industries to gain the most benefit for Latvia and not to get omitted or circumvented in the cross-border supply chains.

For instance, since vehicles are being produced outside Latvia, vehicle producers, not the government or businesses of Latvia, set the trend and demand for future fuels. Failure to listen to their long-term strategies and decisions means that we may have a country falling out of the smooth and speedy transport and logistics chain. Our local market choices with respect to the CNG, biomethane, hydrogen and electricity will depend solely

on the long-term strategies of vehicle producers. The government should provide a stable legal framework for the development of those fuels, which will be required by the market. The policies should be linked with the green economy goals, activities and results to be achieved. Mechanisms for monitoring and timely adjustment of the policies should also be in place.

Finally, FICIL urges that production, trade and use of RDF is furthered through actions such as promoting the production of the refuse-derived fuel (RDF) and solid recovered fuel (SRF). Waste management, recycling and recovery policies in regard to all types of waste (including packaging) should be based on the transparent rules giving full respect to the fundamental principles of the free market and fair competition. This includes striving for harmonised regulation with respect to the other Baltic countries in order to promote operational efficiency of companies that conduct business across the Baltics.



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FICIL is a non-governmental organisation that unites 38 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.

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