



Position Paper No. 8

**FOREIGN INVESTORS'
COUNCIL IN LATVIA
POSITION PAPER
ON ACHIEVING
THE EU'S GREEN DEAL
AND LATVIA'S GREEN
STRATEGY**

08.09.2022



Executive summary

The European Union (hereinafter – the EU) has outlined the Green Deal plan aimed at tackling the climate crisis and transforming the behaviour of both business and society. The Foreign Investors' Council in Latvia (hereinafter – FICIL) has closely followed the green economy developments. Overarching, Latvia lacks coordination among the public sector institutions, and concrete plans to achieve specific objectives and key performance indicators (hereinafter – KPIs). Despite adoption of some long-term plans, numerous public institutions still lack a clear understanding of the most important priorities, and this obscurity impacts upon the private sector and households. No regular review mechanisms are in place to ensure a short to mid-term evaluation of the KPIs, to see if Latvia is progressing in the right direction, and for deciding on what changes are necessary, including the possibility to review the set KPIs and action plan. More than ever before, clear goals, priorities, measurable activities, and defined milestones must be put in place to ensure accountability.

Currently, there is no single entity responsible for achieving the EU's Green Deal goals. Due to the vast coverage of the EU's Green Deal, efforts in Latvia are very fragmented spread across several ministries. Unfortunately, we see more issues than solutions when it comes to cooperation among the public sector entities. Strong horizontal cooperation, including vertical respect for it, centralisation and pro-active, accountable decision-making is of paramount importance. Ultimately, all segments of the public sector will have to adapt and have a clear understanding and strategy for achieving Latvia's green goals to fulfil the vision set in the EU's Green Deal.

The outbreak of climate change effects and the war in Ukraine have affected the supply chains, caused energy prices to soar and rendered the availability of energy unclear. The green agenda at EU level is being questioned in the wake of the energy crisis. With those uncertainties present, the challenges of the green agenda, energy availability and green transport seem to be of even greater significance. Therefore, in this position paper, FICIL highlights recommendations in two key sectors: greening of transport and energy efficiency of buildings, as these are major areas for improving the overall sustainability and competitiveness of Latvia¹.

FICIL hereby urges the policy-makers to develop and implement an effective national environmental, social, and corporate governance (hereinafter - ESG) policy. These tools will gradually become mandatory for businesses, for example, the Corporate Sustainability Reporting Directive. It is essential that the Government prudently informs businesses of the upcoming requirements and changes to profoundly improve the environment and foster the green transition. While working on these relatively new and investment demanding policy areas, the public sector must initiate and maintain good and trustworthy cooperation between the public and private sector. As a result, the green agenda should not be seen as a burden to circumvent, but an opportunity to devise new products, services, and workplaces to achieve maximum benefits out of the green agenda.

¹ FICIL highlights the importance of other areas in achieving green goals, such as implementing the circular economy policy and developing renewable energy, in separate position papers.



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Recommendations

1. Ensure an efficient and comprehensive policy to green the transport sector.

- The government should aim to work towards greening of the transport sector and infrastructure. Clear goals, priorities, measurable activities, and regularly updated milestones are crucial for this purpose.
- The Ministry of Environmental Protection and Regional Development and the Ministry of Transport should continue supporting local authorities in developing the green transport infrastructure, including the charging facilities.

2. Enhance energy efficiency of buildings.

- Policymakers should ensure that energy performance certificate (hereinafter - EPC) data are widely available, easy to understand, and user-friendly in combination with other related data.
- The lack of data should be overcome to allow for crucial national definitions and benchmarks to be set urgently to ensure that investment into real estate flows into Latvia. Compliance with the EU taxonomy has become an important precondition for receiving better financing for real estate.
- The government should substantially improve and simplify policies, including green taxation, to motivate the private sector and households to rapidly renovate energy inefficient buildings, as well as decrease energy consumption and raise awareness of energy efficiency.

3. Develop and implement an effective national environmental, social, and corporate governance (ESG) policy.

- The government should proactively review national sustainability targets and stimulating mechanisms and adjust them according to the EU taxonomy and other current issues. It should be the ambition of the government to give clear and timely signals to businesses on the expected changes, favoured developments and encouraged actions (for instance, tax incentives or changes, procurements, support programs etc.).
- The government should implement an effective policy and facilitate access to tools to improve the EU required mandatory sustainability reporting for the business sector.
- Society and businesses should have access to public information on Latvia's current progress with the pursuance of EU goals at governmental and municipal level. Mutual transparency between the data on the results of public and private sector activities is a mandatory prerequisite to the focused green transition. Public access should be granted to the ESG data held by public institutions (for instance, energy efficiency, energy consumption, CO₂ emissions).



Rationale for recommendations

Ensure an efficient and comprehensive policy to green the transport sector.

The development planning system existing under the Development Planning System Law anticipates several hierarchy levels of the planning documents, which does not allow for responsive and swift changes in the lower-level planning, unless the higher-level planning documents are revisited first. Since Latvia is a small and open economy, this inflexibility hinders effective planning and decision-making, especially at lower or mid-level.

The work of the National Climate Council's sub-councils was set out with commendable goals, whilst in reality, they seem to fail to provide the expected value added to the policy designation and planning. The topics delegated to each of the councils are very broad, meetings are rare, and discussions are mostly substituted with presentations. In general, it is crucial to set quantifiable targets so that real progress can be tracked, as opposed to purely administrative progress.

Following lengthy requests from the private sector, in the field of greening transport, a public support mechanism for the acquisition of electric vehicles (hereinafter - EV) has been put in place. FICIL urges to supplement it with additional mechanisms (either motivational or punitive) to broaden the effect of the provided support. Other tools, like tax incentives, should also be deployed to facilitate the greening of transport.

All steps towards green transport should be aligned with the well-considered reform of the public sector. It is of pivotal importance that all decisions are comprehensive, and data supported. The selected tactics and activities should support the broader strategy (and not the other way around). Moreover, no means of transport or technology should be neglected or underestimated without conducting prior research.

Respect for the technological neutrality, flexibility, and fair competition is a must to green the transport, which in any case is a multi-sectoral effort of the

Prime Minister's Office, the Ministry of Transport, and several other ministries, their agencies, public companies, and municipalities.

As part of the greening of transport, The Ministry of Environmental Protection and Regional Development and Ministry of Transport should continue supporting local authorities in developing a green transport infrastructure, including the charging facilities. In this respect, FICIL urges to support:

- **municipalities in facilitating the development of EV charging facilities** to enable transition to a zero-pollution car fleet in Latvia. For this purpose, charging facilities (especially high-speed ones) must be reliable and public, since their shortage does not motivate the private sector and households to switch to EVs. At the same time, the small-scale economy of Latvia is not sufficient to provide for a sound and attractive business case for commercial charging points.
- **private business models for installing and operating charging facilities.** Such facilities are urgently required in close vicinity of block-apartment complexes and industrial zones, as opposed to privately owned households. There is a clear need for the alignment, strategy, and action plan at ministry level as this issue cannot be left for municipalities alone. For instance, destination charging hubs could be made available at municipality owned car parks or on the streets, especially close to office and business areas. Also, the public sector should assess the possibility of granting a public tender for the private sector to rollout EV charging facilities in the destination areas.
- **availability of sufficient grid capacity to deploy an ultra-fast charging infrastructure on the roads** (also for charging heavy duty vehicles). Fast and ultra-fast charging is the preferred option for charging on the go or destination charging. However, availability of free grid capacity has become a problem in Latvia.
- **modernisation of EV charging facilities.** The infrastructure use, benefits and conditions should be made equal for all EU registered zero CO₂ emission vehicles (free parking and public

transport lane usage). To increase sustainable mobility and travelling abroad, public charging facilities should be digitalised for international authentication for all EU members from mobile terminals (smartphones). Charging should be accessible for at least two EU approved and standardised (Type2 or CCS) charging points at one location simultaneously.

Enhance the energy efficiency of buildings.

More than ever before the energy efficiency of buildings should be rapidly increased. This would help achieve the EU Green Deal goals (cutting CO₂ emissions) and reduce energy consumption for heating. It is important to note that sustainability of buildings include both the construction and its related energy consumption and emissions, and the energy consumption in existing buildings, and thus reducing associated emissions.

- **Policymakers should ensure that energy performance certificate (hereinafter - EPC) data is widely available, easy to understand, and user-friendly in combination with other related data.**

Already back in 2013, the Law on the Energy Performance of Buildings set forth that there must be a valid EPC for any property that is listed for sale or rent. EPCs allows buyers and tenants to compare buildings and consider energy efficiency as an integral part of their business decisions, therefore EPCs should be qualitative and trustworthy. However, in 2022, the practical performance and enforcement of this requirement is lacking. Pressure should be applied for low energy efficiency buildings to be renovated or substituted. It is crucial that the public


sector obtains and makes data public on the energy efficiency and EPCs for policymakers, businesses, and households to analyse their needs, and make informed decisions. Since the real estate sector is responsible for 40%² of energy consumption, it is essential to substantially improve the energy efficiency.

- **The lack of data should be overcome to allow for crucial national definitions and benchmarks to be set urgently to ensure that investment into real estate flows into Latvia. Compliance with EU taxonomy has become an important precondition for receiving better financing for real estate.**

The EU taxonomy helps scale up sustainable investment and implementation of the EU Green Deal. It provides companies, investors, and policy-makers with appropriate definitions, according to which particular economic activities are considered environmentally sustainable. Thus, it helps protect investors from greenwashing, transforming companies to be more climate-friendly and shifting investment flows in the green direction. For instance, the sustainability criteria of the EU taxonomy set out specific requirements for the real estate segment with references to national data. Namely, reference is made to the buildings within the top 15% to 30% of the national or regional building stock based on the operational primary energy demand. However, with Latvia's incomplete and limited data, it is not possible to establish proper benchmarks. Also, the EU taxonomy refers to the local definition of nearly zero energy buildings, but our local definition does not even include specific benchmarks, for instance, buildings created for logistics. Latvia continues to fail to provide public, transparent data and benchmarks to allow assessment of buildings under

2 https://ec.europa.eu/commission/presscorner/detail/en/fs_19_6714





the EU taxonomy; the risk is high that investments will flow to the countries where data are available, and benchmarks are clearly set with no room for interpretation instead. All the Baltic States struggle with data availability; therefore, Latvia needs quick decisions, early actions, and fast execution to create a competitive advantage and attract greater foreign investment. For instance, the government should state specific criteria where buildings could qualify as the top 15%, i.e., buildings built after a specific year or with a specific primary energy demand per square metre.

- **The government should substantially improve and simplify policies, including green taxation, to motivate the private sector and households to rapidly renovate energy inefficient buildings, as well as decrease energy consumption and raise awareness of energy efficiency.**

The real estate tax in Latvia is not linked to the energy efficiency of buildings; therefore, taxes should be “greened” in this direction. Construction of extremely energy efficient buildings, as well as efficient renovations requires significant investment, so, there should be some motivational awards – a reduction of real estate tax, application of tax credits or setting up a *bonus-malus* system based on the energy performance label. Such awards should be aligned with national short, mid, and long-term energy efficiency goals. It is important to effectively communicate the harmonised roadmap that includes the mid- and long-term goals to the building owners.

Develop and implement an effective environmental, social, and corporate governance (ESG) policy.

- **The government should proactively inform businesses about the upcoming requirements and changes in the sphere of the ESG policy since these aspects are crucial for ensuring future sustainability and competitiveness. Moreover, access should be facilitated to the explanatory information on these aspects, and data demonstrating the impact of business activities on ESG, greenhouse gas (GHG) emission levels and other EU Green Deal criteria. Also, the government must implement an effective policy and tools to improve the EU required mandatory sustainability reporting for the business sector.**

According to the current policy developments in the EU, as of 2025 sustainability reporting will become an obligation for certain large companies, also in Latvia³ and for small and medium-sized companies (SMEs) listed in the stock exchange. This stems from the draft Corporate Sustainability Reporting Directive (CSRD), which aims to significantly expand the scope of companies covered by the obligation to report on their non-financial / ESG strategies, risks, opportunities, performance, and implications on their financial performance. It comes together with the draft Corporate Sustainability Due Diligence Directive (CSDDD) that aims to oblige companies to assess their value chain from the ESG perspective, and the European Sustainability Reporting Standards (ESRS) which will streamline the reporting. Also, the EU taxonomy sets forth specific requirements for the projects to be designated as “green” and defines additional requirements for how businesses need to report on those “green” projects and related financial indicators. The Sustainable Finance Disclosure Regulation (SFDR) requires the financial sector to report on their ESG approaches in client risk assessment and other related aspects. All these initiatives are aimed at increasing the transparency of company ESG commitments and their actual alignment with the Paris Agreement objectives, as well as creating reliable basis for data collection and elimination of only ‘declarative’ sustainability, that so far is practiced by numerous businesses. Among other things, the required disclosures, if correctly collected, represented and explained should enhance the decision-making of lenders and investors, thus fulfilling one of the key targets of the Green Deal - to turn investment flows towards more sustainable economic activities. However, most of the companies are still not aware of the new or upcoming requirements and it is an obligation for the government to inform businesses.

- **Businesses require publicly available guidance and data on emission factors (coefficients), energy efficiency and energy consumption data, and data on CO₂ emissions. Public access should be granted to the ESG data held by public institutions (for instance, energy efficiency, energy consumption, CO₂ emissions).**

Large enterprises possess more resources to adapt to the new requirements, with some of them already being on track with gathering and analysing relevant data and making calculations. At the same time, most of the SMEs are not even aware yet of

³ For companies that have 250+ employees, 40M+ EUR turnover and/or 20M+ EUR asset value.

the upcoming regulations. Based on the currently available drafts on the CSRD and the ESRS, it can take up to two years to prepare the first completed and published report for a company. Specific data should be collected for a certain period of time, and specific procedures should be introduced. With respect to the GHG calculations, companies in particular require public sector guidance and consistent emission factors (coefficients). In general, the private sector requires broader access to the energy efficiency, energy consumption data, and data on CO₂ emissions.

- The national sustainability targets and stimulating mechanisms should be reviewed, dynamically adjusted to the EU taxonomy and other relevant requirements. Clear signals should be given to the businesses on the expected changes, supported developments and encouraged actions (for example, tax incentives or changes, public procurement, support programs etc.).

In parallel, it is important to explain the opportunities and benefits from the expected sustainable transformation.





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