



FOREIGN INVESTORS' COUNCIL IN LATVIA

POSITION PAPER
on
SUSTAINABLE FOR
THE FUTURE

Position Paper No. 4



IFICIL

26.09.2024



EXECUTIVE SUMMARY

In today's rapidly evolving landscape, sustainability has become more than just a buzzword—it is imperative for businesses worldwide. Embracing sustainable practices is essential, not only for the health of our planet and society, but also for the longevity and success of businesses themselves. Companies that prioritise sustainability are better positioned to innovate, adapt to changing regulations, and meet the growing consumer demand for environmentally responsible products and services.

Viewing the shift towards greener practices as an opportunity rather than a hurdle opens doors to numerous benefits. Sustainable businesses can achieve cost savings through increased energy efficiency and waste reduction, enhance their brand reputation, and access new markets that value eco-friendly operations. By integrating sustainability into their core strategies, businesses not only contribute to a healthier environment but also build resilience against future challenges. Ultimately, sustainability is not just about preserving resources for future generations—it's about seizing the opportunity to create a thriving, forward-thinking economy today.

In this context, FICIL argues for focusing on four key areas:

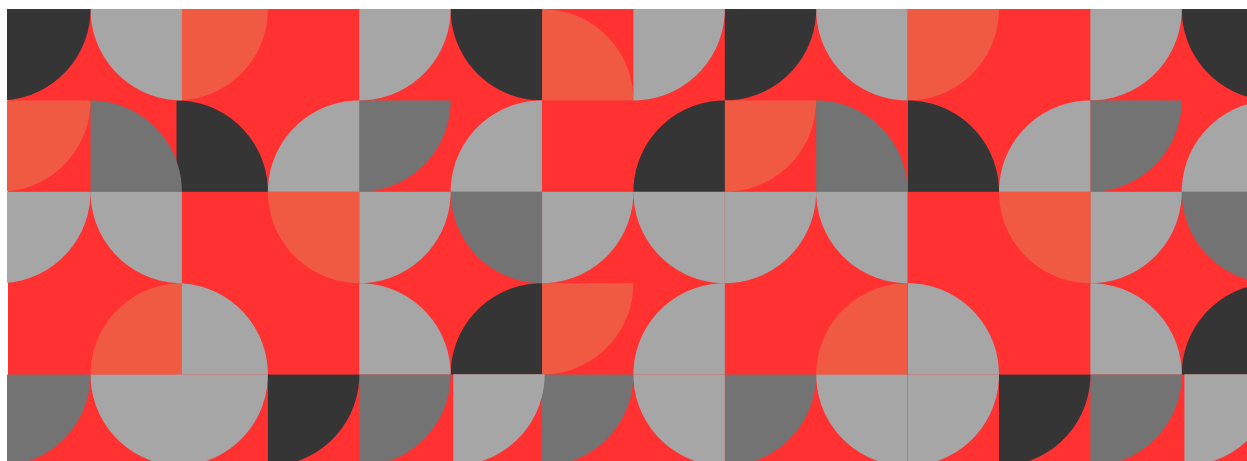
- ◆ **1. Improving the overall management of natural resources.**
- ◆ **2. Evaluating and adjusting the natural resource tax and related policies.**
- ◆ **3. Fostering stronger climate resilience in Latvia by improving policies related to heating, cooling, ventilation, and water supply.**
- ◆ **4. Developing territorial planning and environmental impact assessment procedures by including environmental and climate-related issues.**

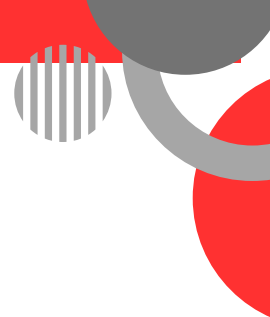
Lastly, in the context of mandatory sustainability reporting, FICIL urges policymakers to pay more attention to small and medium-sized businesses. Action should be taken to inform them, in order to avoid scenarios where their failure to provide data to their business partners leads to their exclusion from supply and value chains.



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RECOMMENDATIONS

MANAGEMENT OF NATURAL RESOURCES

- | Create a catalogue of natural resources and construction materials, indicating their CO2 emissions and availability status (*plentiful, sufficient, depleting, scarce and similar*). A sectoral approach should be used to gradually develop such catalogue.
- | Aim to foster the transition of several industries (*for instance, construction, waste management, excavation and processing of natural resources, production of raw materials and products, etc.*) to embody the principles of circular economy.
- | Negotiate industry-specific agreements to facilitate practical shifts toward decarbonisation and sustainability, considering technical, economic, environmental, and social factors. Incorporate these into the National Energy and Climate Plan and other policy documents.
- | Introduce regulatory requirements in financing, public procurement, and natural resource taxation to motivate the private sector's transition to sustainable practices and the "new normal".
- | Ensure transparency and public accountability in addressing shortcomings in natural resource management as identified by the State Audit Office.

NATURAL RESOURCE TAX

- | Include tax forecasts and policy changes in the National Energy and Climate Plan to address European Commission concerns about current omissions.
- | Conduct a thorough review of Latvia's natural resource taxation policy. Use taxation, public procurement, and financing to discourage the use of depleted and scarce resources.
- | Enhance how the natural resource tax is applied, calculated, and paid, including better data management. The activities and scope of

competence of the State Environment Service and State Revenue Service should be divided more transparently and lead to specific results. Eradicate illegal activities in the use of natural resources and ensure proper tax payments.

HEATING AND WATER

- | Expand attention beyond renewable energy production, to include heating, cooling, ventilation, water, and sewage sectors needing sustainability improvements.
- | Electrification of the district heating should be explored with a clear technical, economic and financial rationale, while other improvements should not be overlooked.
- | Scale up successful pilot projects for the cooling and ventilation of buildings, using public funds aimed at enhancing energy efficiency.
- | Significantly improve water supply and sewage systems to ensure quality services and functionality during extreme conditions. Also, look to establish potable water solutions at governmental and municipal levels to handle droughts, floods, and other emergencies.





SUSTAINABILITY AND GREENWASHING

- | The government should increase efforts to prepare small and medium-sized businesses for upcoming changes. Help them remain in larger companies' supply chains by meeting ESG¹ and sustainability standards.
- | Implement laws to protect against misleading environmental claims. Hold accountable those who engage in or benefit from greenwashing, safeguarding consumers and the broader public.

ENVIRONMENTAL IMPACT ASSESSMENTS AND TERRITORIAL PLANNING

- | Make environmental impact assessments more efficient by limiting retroactive revisions and eliminating redundant activities.
- | Continuously improve local territorial planning to support stable development across society and all economic sectors. Make environmental and climate issues integral parts of territorial planning and impact assessments.
- | The Environment and Energy Agency should be formed based on the prerequisite that it is truly a client-, environment- and climate- oriented Agency.

¹ Environmental, Social, and Governance





RATIONALE FOR RECOMMENDATIONS

MANAGEMENT OF NATURAL RESOURCES

In 2023, the State Audit Office released a report on the management of natural resources in Latvia.² They concluded that the balanced and sustainable development of natural resource management was deprived by the lack of (i) precise data; (ii) planned and systemic research and accounting of natural resources; and (iii) an overall plan for the management of natural resources. It was also established that Latvia lacks a comprehensive forecast on the potential demand for raw and construction materials. The existing system fails to provide sufficient motivation to foster the repeated use of raw and construction materials.

In addition, the European Court of Auditors recognises that the existing circular designs of products and production processes, in combination with the existing waste reduction requirements and measures to reduce the environmental impact of economic activities, are among the main causes of the slow transition of Member States towards a circular economy.³

Natural resources constitute a legitimate and integral part of public resources. They must not be squandered or otherwise wasted. Instead, the public sector should create a comprehensive and realistic account of the available stock of natural resources. We suggest that the State Environment Service is granted the mandate and resources to implement such task.

Transparent, stable, and predictable policies and legal regulations should ensure the proper and sustainable management of natural resources. This not only includes the licensing, extraction and use of the natural resources, but also the conservation and recultivation of their sites following the extraction. Adequate handling of sites is of the essence, as is holding the private sector accountable for their acts and omissions. A sense of impunity leads to environmental offences and the prospering of the shadow economy.

FICIL supports the development of a construction material catalogue as suggested by the Ministry of Climate and Energy. This should be created gradually, using a sectoral approach, aiming to mark the CO2 intensity of these materials. FICIL suggests supplementing this catalogue with information on natural resources by specifying their prospects (*plentiful, sufficient, depleting, scarce etc.*), to help identify the actual needs and possibilities for substituting different raw materials, especially to avoid further use of depleting or scarce ones. It would also aid in revising the natural resource taxation policies in Latvia.

Furthermore, dematerialisation – the widespread adoption of circular economy principles to reasonably avoid or limit the use of new raw or construction materials – should gradually become an integral part of our agenda. The private sector should develop and implement different market approaches and solutions, while the public sector provides the overall vision and goals, including a realistic timeline for each transition milestone. Public procurement, natural resource taxation, and financing regulations should gradually push for the private sector's transition. In order to proceed, the private sector requires clarity and stability in the short-, mid- and long-term expectations and requirements from the public sector (at least in these three aspects).

To assist with this transition, FICIL supports negotiating industry-specific memorandums. These would aim to reach agreements on dematerialisation, decarbonisation, and sustainability-related issues. Sectoral agreements should focus on the most reasonable and appropriate shifts for industries from technical, economic, environmental, and social perspectives. FICIL suggests incorporating each sectoral memorandum into the National Energy and Climate Plan and other policy and regulatory documents.

² State Audit Office (2023) "Management of mineral resources in Latvia" ([link](#))

³ The European Court of Auditors (2023) "Special report No 17 "Circular Economy: Slow Transition by Member States Despite EU Action"" ([link](#))



NATURAL RESOURCE TAX

Materials on the potential revision of the natural resource tax and climate taxes, circulated by the Ministry of Finance in May 2024, do not associate the natural resource tax with climate issues. Unfortunately, these materials failed to recognise the obvious links between natural resource management and tackling climate-related challenges. They also did not acknowledge the considerable presence of the shadow economy in natural resource taxation. Since neither of the two overall aspects of the natural resource tax were acknowledged, no analysis or action plans were proposed.⁴

FICIL insists that the natural resource tax is a powerful instrument to facilitate adjustment to climate changes, and is effectively a climate tax.

A superficial approach will not be sufficient to reform natural resource taxation. A substantive and in-depth revision of the natural resource taxation policy is required. Most pressingly, the use of depleted and scarce natural resources should be reasonably avoided or substituted through natural resource taxation, public procurement, and financing. This requires categorising natural resources based on their availability prospects and, subsequently, tax rates should be revised to motivate changes in practices and market solutions.

According to the European Court of Auditors, EU Member States tend to set natural resource tax rates at the minimum rate suggested by the EU directives. This is done without a realistic national assessment of the resource, its role in value chains or its potential in tackling climate challenges.

For instance, the National Energy and Climate Plans of several Member States maintain that taxes can be used to further promote energy efficiency. At the same time, the regulatory and financing sections of these plans lack information on the suggested changes (in the natural resource and/or other climate taxes) to achieve these goals.⁵

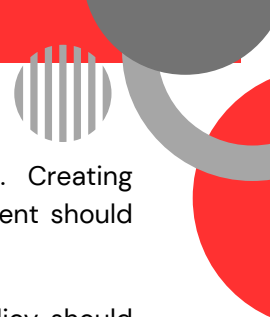
Revising the natural resource taxation policy should lead to transparency, stability, and predictability in Latvia's natural resource management. It should prevent the squandering of public resources and maintain public income from resource use. Additionally, tax reform should encourage industry to adopt circular practices for raw and construction materials.

Moreover, FICIL expects substantial improvements in how the natural resource tax is applied, calculated, and paid. This includes significantly better data collection, storage, processing, and analysis. The results should be made public regularly. The activities and competencies of the State Environment Service and the State Revenue Service should be more transparent. Natural resource tax calculations and payments should be linked to realistic data on resource stocks and extraction activities. Increased control and accountability should utilise data and artificial intelligence.

Simultaneously, reducing the shadow economy in this sector should be combined with meaningful investigations of environmental violations and offences. This requires consistent cooperation among the State Environment Service, State Revenue Service, and law enforcement agencies, whose functions should complement each other without overlap, aiming for common goals.

⁴ Ministry of Finance (2024) "Natural Resource Tax and Climate Taxes" ([link](#))

⁵ The European Court of Auditors. Review 01 (2022) "Energy taxation, carbon pricing and energy subsidies" ([link](#))



CLIMATE RESILIENCE

Despite public scepticism, the Green Deal must be seriously pursued. FICIL urges avoiding calls for either complete or partial abolition of the Green Deal. While some aspects might be revised, the overall direction should not be jeopardised by short-term interests.

For Latvia to prosper, ambitious goals, long-term action plans, and shared obligations among the public sector, private sector, and society are needed. No industry or economic sector should be excluded from engagement and responsibility. Neither society, nor the private sector can endlessly demand that the government takes care of everything and manages the entire financial burden. Sustainability and Green Deal related agreements should be reached as a matter of urgency, in transport and logistics, agriculture, and forestry sectors, with other sectors managed concurrently.

Latvia's prosperity is directly linked to its ability to adjust to, or cope with, the impacts of climate change. Calculations of the social and economic benefits of the National Climate and Energy Plan, including its upcoming revision, should realistically focus on Latvia's capacity to address various climate challenges. Experiences and solutions from other EU countries that have faced/are facing extreme weather conditions should be analysed and applied to Latvia. Regular public updates that foster transparency are required in order to follow progress and milestones. The residents of Latvia should be aware (and have available information) how to play their part in addressing the challenges.

Since the EU announced the Green Deal, it has been clear that EU funding will cover only a small part of the total required costs and that, where possible, the rest should come from private investment and national budgets. Despite this, FICIL has noted the government's tendency to rely mainly on national budgets and EU funds when planning Green Deal activities. FICIL insists that significantly more private investment should be proactively attracted to help transition all

economic sectors toward sustainability. Creating favourable conditions for climate investment should be a public sector priority.

Revising the natural resource taxation policy should lead to transparency, stability, and predictability in Latvia's natural resource management. It should prevent the squandering of public resources and maintain public income from resource use. Additionally, tax reform should encourage industry to adopt circular practices for raw and construction materials.


HEATING AND WATER

Even after its revision, the National Climate and Energy Plan mainly focuses on renewable energy production. This focus should be broadened to also include heating, cooling, ventilation, water, and sewage sectors that require substantial sustainability improvements.

The heating sector is actively debating the electrification of district heating. This vector of development should be explored and introduced with a clear technical, economic and financial rationale. Other potential improvements should not be overlooked, and efficiencies, synergies, and the avoidance of unnecessary or cumbersome solutions should be embraced. FICIL suggests exploring options like lowering heat carrier temperatures, preparing for further fuel diversification, and expanding the use of energy accumulation etc.

Due to climate change, Latvia is experiencing higher temperatures and more extreme weather. Residents and businesses should adjust buildings and technological processes accordingly. Effective pilot solutions for cooling and ventilation should be scaled up and promoted alongside public funding for energy efficiency improvements. Investments should adjust residential, public, and private buildings to meet climate challenges.

Potable water supply solutions should be established at government and municipal level, for potential droughts, floods, and emergencies. Institutions should be aware of water supplies, availability, delivery, and



distribution mechanisms before emergencies occur. It is equally important for residents and the private sector to be informed and know how to act. We suggest the timely and widespread publication of guidelines. Water supply and sewage systems should be significantly improved to ensure quality services and functionality during extreme situations.

SUSTAINABILITY AND GREENWASHING

Large companies will soon be required to prepare and publish sustainability reports, including information about their supply and value chains. Consequently, small and medium-sized enterprises (SMEs) can remain part of these chains only if they provide sufficient data demonstrating compliance with ESG (Environmental, Social, and Governance) and other sustainability factors. FICIL urges the government to act promptly to help SMEs prepare for these changes. Losing their market position could lead to their dissolution and other negative consequences.

Greenwashing must be prevented from becoming ingrained in business practices. Laws and regulations should safeguard consumers and the public and private sectors from its negative effects. Those who engage in or benefit from greenwashing should be held accountable. The government and parliament should implement the aims and purposes of EU directives fully, not just the minimum requirements. The business environment, consumer safety, state prestige, and other important aspects are at stake, and should not be compromised by greenwashing.



ENVIRONMENTAL IMPACT ASSESSMENT AND TERRITORIAL PLANNING

In practice, Latvia's current environmental impact assessment process appears smooth only on paper. This process should be made significantly more effective. Retroactive revisions of previous decisions should be limited or avoided. If a territorial plan permits certain activities, these should not be re-evaluated as soon as someone starts them. Trust in the stability and long-term vision of territorial planning should be restored. Eliminating overlapping and repetitive activities would increase early public engagement in the planning process.

Municipal-level territorial planning should be continuously improved to support predictable and stable development across society and all economic sectors. Aligned practices and a unified understanding of planning purposes, principles, and tools would facilitate growth and investment in municipalities.

Environmental and climate-related issues should be evaluated closely, despite any internal contradictions. FICIL urges that climate-related issues become an integral part of environmental impact assessments and territorial planning.

Almost a year ago, FICIL participated in working groups aimed at reducing bureaucracy in the real estate and construction sectors. We expect that the findings and proposals from these groups (related to environmental impact assessments, territorial planning, construction and real estate development) will remain on the government's agenda, and be implemented soon.

FICIL supports the Ministry of Climate and Energy's proposal to form an Environment and Energy Agency by merging the existing Environment Monitoring State Office and Energy Department of the State Construction Control Bureau. However, FICIL only supports this proposal if the new Agency is truly client-, environment- and climate-oriented. Specifically, climate-related issues should not be omitted from its scope of work.



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