FOREIGN INVESTORS' COUNCIL IN LATVIA

POSITION PAPER on INVESTMENT PROTECTION

Position Paper No. 4

FICIL

30.10.2025

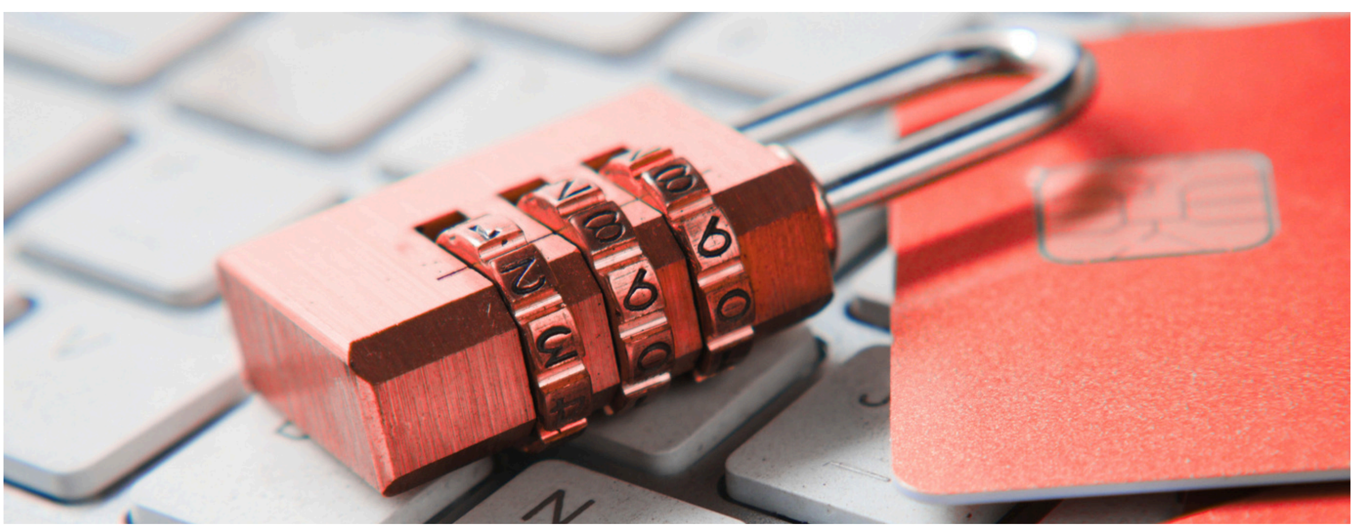
EXECUTIVE SUMMARY

Predictable, transparent, and efficient institutions are the foundation of investment protection. In recent years, Latvia has advanced reforms in the judiciary and dispute resolution, including steps to improve the digitalisation of court processes, reform arbitration and court state fees regulations, and draft amendments to strengthen the Economic Court's mandate. Yet progress remains uneven and requires sustained effort to continue the reforms and development.

Persistent delays in court proceedings limit timely access to justice, while the lack of systematic development of arbitration institutions undermines alternative dispute resolution. At the same time, modest and often unpredictable rules on litigation costs expose investors to financial risks that distort the balance of fairness in proceedings. Taken together, these gaps continue to undermine confidence and create uncertainty for investors considering long-term commitments in Latvia.

At the same time, investment protection is weakened by the large number of state- and municipality-owned enterprises that continue to operate with administrative or budget-dependent functions rather than clear commercial mandates. This blurs the line between public and private roles, creates artificial competition, and adds fiscal pressure — all of which undermine the level playing field and predictability that investors depend on.

FICIL therefore puts forward priority recommendations to strengthen judicial efficiency and transparency, clarify the commercial role of state-owned enterprises, and ensure fair, efficient dispute resolution. Taken together, these measures would reduce uncertainty, reinforce trust in Latvia's institutions, and provide the stable environment needed for long-term investment and growth.



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RECOMMENDATIONS

COURT EFFICIENCY AND DIGITALISATION

- **Strengthen & Broaden Economic Court Capacity:** Broaden the Court's mandate in commercial and civil law matters, establish an appellate instance, and transfer arbitration support functions to ensure consistent, predictable, and high-quality rulings

- **Judicial Modernisation:** Ensure a complete transition to electronic case management, expand access to anonymised court rulings, and introduce AI-based tools, while also strengthening judicial competence through specialisation and training via the Judicial Academy.

- **Strengthen Arbitration Reform Oversight:** Monitor arbitration reform through regular statistical reviews of court rulings, publish anonymised data, and guarantee predictable court support for arbitration-related matters to increase trust in the system and motivate arbitral institutions to improve and modernise their practices

- **Ensure Fair Legal Costs:** Review reimbursement rules, introduce advance-on-costs deposits for excessive claims, and ensure compensation for third parties to reduce delays, promote discipline, and improve fairness across the litigation process

INVESTMENT PROTECTION

- **Strengthen Governance and Unlock the Potential of State-Owned Enterprises:** Urgently implement the amended Article 88 framework of the State Administration Structure Law, empower the Competition Council to safeguard neutrality, embed measurable goals in SOE strategies, and conduct a comprehensive review of both state- and municipality-owned enterprises to convert administrative entities into agencies or institutions, retaining company form only for commercially viable mandates, while pursuing capital market listings to boost transparency and fiscal returns

RATIONALE FOR RECOMMENDATIONS

COURT EFFICIENCY AND DIGITALISATION

Efficient, predictable, and transparent courts are essential for strengthening Latvia's investment climate and competitiveness. Important steps have already been taken, including the creation of the Court of Economic Affairs and initiatives by the Ministry of Justice to expand its mandate and modernise procedures. However, significant challenges remain. Businesses continue to face lengthy proceedings, uneven quality of rulings, and limited use of digital tools. That is why **FICIL recommends focusing on four priorities: 1) strengthening the competence of the Court of Economic Affairs, 2) accelerating digitalisation and specialisation, 3) ensuring effective follow-up of arbitration reform, and 4) improving fairness in litigation costs.**

Strengthen & Broaden Economic Court

FICIL recommends strengthening and expanding the competence of the Court of Economic Affairs. The Court has already shown the benefits of specialisation, but its jurisdiction is still narrow, there is no appellate instance, and arbitration support functions remain dispersed. This limits predictability and consistency in rulings and slows down proceedings.

Expanding the Court's mandate to include civil and commercial cases, creating an appellate instance, and transferring arbitration support functions would address these gaps. Implementation will require additional resources, including more judges and funding, to ensure the Court has the necessary capacity.

Judicial Modernisation

FICIL recommends modernising judicial processes by completing the transition to electronic case management and expanding the use of digital tools. While progress has been made, courts remain overly reliant on paper-based procedures, which slow proceedings and limit transparency. A fully digital system would improve access to case files, facilitate faster processing, and provide equal opportunities for all parties to follow proceedings.

At the same time, FICIL recommends strengthening competence by further specialising judges and court staff. The Court of Economic Affairs has already demonstrated that specialisation improves the quality and speed of its rulings. Building on this example, Latvia should continue developing specialised chambers and support continuous training through the Judicial Academy to ensure consistent handling of complex commercial cases.

Strengthen Arbitration Reform Oversight

FICIL recommends improving the follow-up to arbitration reform by introducing regular monitoring and publishing transparent information on outcomes. The reform of arbitration was an important step, and its effectiveness can only be ensured if implementation is continuously evaluated.

Regular statistical reviews of court rulings and the publication of anonymised data would make it easier for businesses to understand how arbitration functions in practice.

Clear and predictable court support for arbitration-related matters would further strengthen trust in arbitration as a reliable dispute-resolution mechanism. Together, these measures would increase transparency, improve consistency, and make arbitration a more attractive option for businesses operating in Latvia. A reliable arbitration environment and well-functioning arbitration institutions are valuable resources for relieving the general jurisdiction courts of complex, voluminous commercial disputes.

Ensure Fair Legal Costs

FICIL recommends ensuring fairness and discipline in legal costs by reviewing reimbursement rules, introducing advance deposits for excessive claims, and providing compensation for third parties. The current system can encourage unnecessary claims and delays, increasing costs and reducing efficiency for all parties involved.

By strengthening the rules on legal expenses, courts would be better equipped to discourage abusive practices and promote more disciplined behaviour in proceedings. This would help reduce delays, create a fairer balance between the parties, and improve the overall predictability of the judicial process — a key factor for investor confidence.

INVESTMENT PROTECTION

Strengthen Governance and Unlock the Potential of State-Owned Enterprises

During a period of fiscal constraints and rising defence needs, the government faces stark choices: cut essential functions or find additional income. FICIL has long stressed the untapped potential of publicly owned enterprises (SOEs), which – if enabled to operate more flexibly, expand into export markets, and innovate – could generate sustainable returns, increase dividend flows to the budget, and strengthen economic resilience without distorting competition.

FICIL therefore reiterates its call to review and extend Article 88 of the State Administration Structure Law (SASL) so that SOEs can innovate and compete internationally, while safeguarding competition neutrality. Unlocking this potential is both a governance reform and a strategic response to fiscal and security challenges.

Progress has been made: draft amendments to Article 88, under discussion since 2021 and moving forward in 2025, aim to address long-standing issues. Since 2016, the law has required Cabinet and municipal regulations that were rarely adopted, creating uncertainty and uneven implementation. The draft would broaden SOEs' mandate to pursue long-term economic goals, explicitly including exports and innovation, while requiring alignment with strategic objectives and competition neutrality under the oversight of the Competition Council.

Yet the draft still awaits adoption and implementation. For years, SOEs have been constrained by a rigid, ineffective framework, and investors now expect these reforms to be enacted swiftly and implemented in practice.

Unlocking the full potential of publicly owned enterprises requires more than adjustments to the legal framework. Latvia still maintains a large number of entities whose mandates do not justify the corporate form. Many municipal SOEs remain budget-dependent or perform essentially administrative functions, creating artificial competition, governance risks, and additional fiscal pressure. This undermines efficiency and fragments the system, while also constraining the very outcomes investors expect, such as growth, innovation, exports, and stronger dividend flows. International practice shows that such entities are more effectively managed as agencies or institutions, while the corporate form should be reserved for enterprises with a clear commercial mandate. A comprehensive review and rationalisation of the SOE portfolio would reduce duplication, ease administrative burdens, and allow genuinely commercial SOEs to compete transparently on equal terms with private companies. FICIL also encourages the development of a clear regulatory framework for Real Estate Investment Trusts (REITs) to enable broader investor participation in real estate and infrastructure projects, diversify financing sources, and strengthen Latvia's capital market ecosystem.

Therefore, to ensure efficient governance of publicly owned enterprises, safeguard competition neutrality, and align with international best practice, FICIL recommends:

- Urgently implement the amended Article 88 framework in practice, ensuring no delays in secondary legislation or guidance;

- Equip the Competition Council with sufficient capacity and expertise to enforce competition neutrality effectively under its expanded mandate;

- Embed ambition in SOE strategies, including measurable targets for exports, innovation, sustainability, and dividend growth, aligned with national priorities;

- Accelerate capital market development by moving forward with partial stock listings of suitable SOEs to improve governance, transparency, and access to financing;

- Maintain transparency and accountability in all SOE decisions, ensuring they are based on sound economic assessments and linked to strategic objectives;

- Conduct a comprehensive review of state-owned enterprises (including both state and municipality-owned entities), converting administrative entities into agencies or institutions and retaining company form only for those with a clear commercial and/or strategic mandate.

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