



ENSURING THAT POLLUTERS PAY

Latvia

Latvia's revenue from environmentally relevant taxes was above the EU average. Environmental taxes stood at 2.96 % of GDP in 2019 (EU-27 average: 2.37 %). The largest portion of the environmental taxes were the energy taxes at 2.47% of GDP, also above the EU average of 1.84 %. Transport taxes represented 0.38% of GDP (EU average being 0.45%), and taxes on pollution and resources represented only 0.1% (slightly higher than the EU average at 0.08%). In the same year, the environmental tax came to 9.44% of total revenues from taxes and social security contributions (well above the EU average of 5.76 %)¹.

Further options

Pay-as-you-throw scheme to encourage waste minimisation and recycling

Latvia could consider a pay-as-you-throw scheme (PAYT) in order to increase the proportion of waste that is reused or recycled. Latvia already has a landfill tax, has low levels of incineration and is in the process of introducing a deposit-refund scheme (as described below). Although the Law on Waste Management specifies that municipalities should ensure separate collection, the implementation varies across location. For instance, although almost half the country's population lives in Riga, very little separate collection is provided. A PAYT would aim to increase recycling rates and improve the separate collection system. A PAYT weight-based system is being

trialled in Jurmala, which indicates some level of existing political willingness. A system using prepaid bags or containers (to be purchased directly from the municipality and appropriately identified/labelled) could help local authorities to overcome financial barriers in upgrading their waste fleet.

The scenario results show that a PAYT would have small negative effects on GDP and employment in a scenario without revenue recycling. However, when the tax revenues are recycled back into the economy, the negative effect could be mitigated and GDP could even increase by 0.05% and employment by 0.1% in 2030.

Tx or charge on **forest felling** to protect biodiversity and nature

According to reports to the European Commission on implementation of nature directives, forest management is the single largest pressure on habitats. To counter this impact and improve management, Latvia could consider introducing a tax on forest felling, which could be included in the natural resource extraction charges. Revenues could be used to finance projects aiming at protecting and restoring public and private forested protected areas. The revenue could also be used to purchase stumpage rights from owners of forest areas with high biodiversity value, like for example mature forests (e.g. as in the Selvans initiative in the factsheet for Spain)

The Latvian Forest Law regulates the management of forest areas in Latvia. It requires forest owners to prepare forest management plans for each forest

property. Cutting allowances are established based on these plans. A mechanism needs to be developed to allocate the revenues of the tree felling/clearance charge to the areas that need to be maintained and restored in protected areas (including Natura 2000) and in high biodiversity value forested areas. The establishment of an efficient system of monitoring and enforcement that can make sure the charge is actually paid. As this is a tax on the forestry sector, without revenue recycling, there will be additional costs to the Latvian timber industry which lead to a loss of competitiveness. Although households are not paying for the forest felling charge directly, they may be worse off due to higher prices for fuel wood or wood used in construction. If the revenues are used to increase public spending, these negative impacts can be mitigated, and positive impacts may even be possible.

Examples of economic instruments

PACKAGING TAX AND PRODUCER RESPONSIBILITY SCHEMES

The packaging tax in Latvia is part of the all-inclusive natural resource tax. However, the packaging tax is only applied in limited circumstances. It is used as an incentive to join producer responsibility organisations which require producers and retailers to pay a fee to ensure their packaging obligations are discharged by these organisations. Organisations that choose to do so receive a packaging tax break. Therefore revenues from the packaging tax are relatively small and declining as the implied rates are effectively punitive.

To stimulate a decrease in the consumption and increase in the recovery of packaging materials, for the last 20 years, environmental NGOs in Latvia have been advocating changes in this system: a) to make producers pay packaging tax for non-recyclable packaging (except from Producer responsibility schemes) and b) to introduce the deposit refund system (DRS) for beverage containers.

The main civil society engagement mechanism in the

field of environment in Latvia is the Environmental Consultative Council (ECC) – a consultative and coordinating institution that adopts advisory decisions in the fields of environmental protection and sustainable development. 20 members of the Environmental Consultative Council are elected annually by representatives from environmental civil society organizations. The Council regularly gives its opinion on legislative and policy proposals and is also represented in different ministerial working groups. ECC has given input on the proposals for the Packaging tax and DRS.

ECC has been also strongly involved in the advocacy for the DRS especially after the EU recycling targets for the beverage containers were introduced. As a response to this, Saeima (the national parliament) approved amendments to the Packaging Law in 2019, which deal with the introduction of a deposit-return system in Latvia and stipulate that the new system will commence on February 1, 2022. ECC has also been observing The State Environmental Service in choosing the DRS operator (there was competition from two competing organizations – one linked with beverage

producers, another with waste management and producer responsibility organizations). ECC has also been invited to participate in the Committee set up by The State Environmental Service to supervise the DRS operator.

A consultation also took place on the packaging tax, and by 2023, it will have to be paid for non-recyclable packaging. The packaging tax along with participation

in extended producer responsibility organisations or DRS will be the main economic instruments in the field of packaging. However, so far there is little evidence that the packaging tax has influenced producer and consumer choice of packaging materials and design. The recycling and recovery targets set have been a more important influencing factor.



Key stakeholders

Academic institutions have not played a major role, but several academic papers have been prepared on the topics addressed above:

- ▶ Jurušs, M., & Brizga, J. (2017). Assessment of the environmental tax system in Latvia. *NISPAcee Journal of Public Administration and Policy*, 10(2), 135-154.
- ▶ Brizga, J., Moora, H., & Balcers, O. (2019, April). Deposit Refund System for Beverage Containers in Latvia: Learnings within the Baltic States. In *SOCIETY. TECHNOLOGY. SOLUTIONS. Proceedings of the International Scientific Conference (Vol. 1, pp. 21-21)*.
- ▶ Cudecka-Purina, N., Abele, L., Atstaja, D., & Cudeckis, V. (2019). The Baltic countries towards the goals of waste framework directive. *Scientific journal of Latvia University of Life Sciences and Technologies*.

NGOs (environmental, consumer, green business networks, citizen science groups, etc)

The major role was played by the ECC.

Important players have also been:

- ▶ Latvian Packaging Association which has been advocating for business interests and has probably been the most visible in shaping the packaging tax. The Association has also actively promoted environmentally friendly solutions for packaging and organizes annual competitions where prizes are awarded to the most environmentally friendly packaging;
- ▶ Producer responsibility organisations are interested in extending their business and attracting as many businesses as possible while keeping the recycling and recovery target low. They have also been most vocal against the introduction of a deposit refund system in Latvia;
- ▶ Waste management associations (Waste Management Association of Latvia - www.lasa.lv and Latvian Association of Waste Management Companies - www.lasua.lv) which advocate the interests of waste management companies;
- ▶ Waste management companies and landfill management companies who are responsible for

waste collection, recycling and actively organize information campaigns on recycling;

- ▶ Latvia's retailer's association and Latvia's beverage producer associations are also involved in the discussion over the packaging tax.

Useful links

https://www.zalabriviba.lv/wp-content/uploads/LatvianDRS_research_FINAL.pdf

<https://www.tvnet.lv/7102697/kada-bus-depozita-sistema-latvija>

<https://skaties.lv/zinas/latvija/neka-personiga-depozita-sistemas-ieviesana-cina-par-to-kurs-iekartu-razotajs-tiks-pie-daudzmiljonu-darijuma/>

<https://www.lsm.lv/raksts/zinas/latvija/iepakojumudepozita-sistemu-uztic-veidotun-parvaldit-dzerienu-razotajiem.a387036/>

¹ https://ec.europa.eu/eurostat/databrowser/view/env_ac_tax/default/table?lang=en

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