

Executive summary

Latvia has come a long way in improving environmental management and outcomes

Latvia's environmental performance and the well-being of the population have improved considerably since the mid-2000s, in a context of sustained economic growth and declining population. Implementation of the European Union (EU) environmental acquis and major investment have been key drivers of progress. However, more needs to be done to ensure environmental convergence with more advanced OECD economies. Poverty, inequality and regional disparity remain high. The post-2020 development planning cycle provides an opportunity to better align environmental and economic development objectives.

But it needs to maintain efforts to meet long-term climate goals...

Emissions of greenhouse gases (GHGs) have decreased slightly since the mid-2000s, thanks to improved energy efficiency and increased use of renewables. Renewables now cover 40% of the country's energy needs, among the highest shares in the OECD. Wood-based biomass is the main domestic energy source, reflecting the abundance of forest resources. However, GHG emissions from agriculture grew to about a quarter of the total, and are expected to continue rising with growing agricultural production and nitrogen fertiliser use. Forests' GHG removal capacity has been declining with increased logging and forest ageing. Latvia will likely meet its 2020 GHG mitigation target. But meeting long-term climate goals consistent with the Paris Agreement will require full and timely implementation of planned measures in the energy, building, transport and industry sectors, as well as additional efforts in the agriculture and forestry sectors. Synergies and trade-offs between biomass use and policy objectives related to climate, air pollution, water, land use and biodiversity need to be assessed.

...and to consolidate its achievements in water and air management

Most people have access to good water and wastewater management services, although less so in rural areas. Water infrastructure is ageing and deteriorating, however. Wastewater discharges and diffuse pollution from agriculture exert increasing pressures on water bodies. Air pollution has declined considerably, but implementation of air pollution control measures should be strengthened, as close to 90% of the population is still exposed to levels of fine particulate matter (PM_{2.5}) higher than the World Health Organization guideline value.

Waste management and recovery have improved...

Latvia has fairly complete policy and legal frameworks for waste management. It has expanded infrastructure for recycling and for production of biogas and compost from waste, but prevention has received less attention. Improved separate collection, extended producer responsibility and a natural resource tax on recyclable materials and products helped raise the municipal waste recovery rate from virtually zero in 2000 to 30% in 2016 (or more if

accounting for biogas recovery from biodegradable waste). Low-value recovery and recycling remain common for some waste streams, however. There is room to improve waste collection and sorting, as well as effectiveness and transparency of extended producer responsibility systems. Integrating municipal separate collection systems and those managed by extended producer responsibility companies would yield significant efficiency gains.

...but more needs to be done to move towards a circular economy

To lay the foundation for a circular economy, Latvia needs to improve waste management, increase waste prevention and recycling, and strengthen economic instruments. In particular, there is room to further raise the landfill tax and municipal waste fees, and to implement pay-as-you-throw systems in major cities. Innovation policy and support to businesses should take circular economy objectives fully into account. Recycling markets could be strengthened through synergies with neighbouring countries. Enhanced co-operation across ministries and with stakeholders will be instrumental in improving performance, as will mechanisms to cascade national targets to the local level.

The extensive network of protected areas requires better management

The country enjoys abundant biodiversity. Its diverse ecosystems include forests (which cover about half the territory), grasslands, coastal areas and peatlands. Latvia exceeds the 2020 Aichi targets for protected areas, with more than 16% of marine waters and 18% of land area under some form of protection. However, most protected areas lack management plans and are chronically short of human and financial resources. A majority of habitats and species are in unfavourable condition due to land-use change, poor connectivity, agricultural expansion, intensive resource use and pollution. Latvia needs to complete its ecosystem mapping and develop a national biodiversity strategy to set a coherent policy framework, increase awareness and mobilise resources to meet its biodiversity policy objectives.

Biodiversity mainstreaming should be a priority, especially in forestry and agriculture

The forestry and agricultural sectors play a key role in Latvia's economy and exert increasing pressures on biodiversity. Around half of forests have sustainable management certification, near the OECD average but well below other forest-rich countries. The next forestry strategy should fully integrate biodiversity-related objectives and provide for sufficient resources. Organic farming reached 13.5% of total agricultural land in 2017, not far from the 2030 national target of 15%. But support to farmers is partly based on production volume; this can encourage overproduction, with a potentially negative environmental impact. Expanding use of economic and voluntary instruments would help improve sustainable use of forest resources and agricultural land outside protected areas.

The transition towards green growth calls for more effective compliance monitoring and enforcement,...

The regulatory framework has substantially improved, in line with EU environmental requirements. The public can easily take part in decisions affecting the environment and has wide access to environmental information. Latvia follows good international practice

in using standard environmental requirements (general binding rules) to license activities with low environmental impact. However, inspection planning, administrative enforcement and the liability regime could be improved. The number of environmental inspections has been declining since 2009, primarily due to resource shortages. Despite the introduction of risk-based inspection planning, detection of non-compliance has not improved. There are no clear criteria for determining a proportionate response to non-compliance cases, and average administrative fines are low.

...stronger price signals,...

A wide range of environmentally related taxes and charges generates revenue equal to 3.8% of GDP, among the highest levels in the OECD. Since 2015, the government has raised the rates of several such taxes and reformed vehicle taxation to take account of fuel economy. These are welcome steps. Yet rates remain generally too low to effectively encourage low-carbon investment and more efficient use of energy, materials and natural resources. Three-quarters of carbon dioxide emissions from fuel combustion face a low price signal or are not priced at all. Support to fossil fuel use remains high, which runs counter to energy saving objectives. Latvia should continue reducing tax exemptions and raising the energy and carbon tax rates; close the petrol/diesel tax gap; and improve vehicle taxation and road charging. This approach would also help raise revenue to finance Latvia's high spending needs while reducing the tax burden on low-income households. Targeted social benefits can help address any adverse impact of higher taxes and prices on vulnerable groups.

...major investment in sustainable transport and clean energy,...

Latvia has used EU funds effectively to improve buildings' thermal efficiency and transport, water and waste infrastructure. Nevertheless, investment needs remain high, especially to provide good quality services in sparsely populated areas. Latvia needs to upgrade its transport infrastructure and public transport services linking Riga to its sprawling surroundings. Despite progress, improving energy performance in the predominantly old housing stock and in manufacturing should be a priority. An overly generous support system fostered the use of biomass for electricity and heat generation, putting Latvia on track to reach its 2020 renewables target. However, the country would benefit from diversifying its renewables mix. To this end, it should adopt more efficient and transparent support measures, such as competitive tenders and procurement auctions. Overall, Latvia should enhance cost-effectiveness in public spending, reduce dependence on EU funds and streamline financial support for business environmental investment.

...and more eco-innovation

Investment in environment-related research and development (R&D) has grown in recent years, as has the market for environmental technology, goods and services. However, Latvia's R&D spending and innovation capacity are generally modest, and business environmental investment has declined. More needs to be done to stimulate demand for eco-friendly products and services, including through green public procurement, market incentives and awareness raising. Further investment in education and innovation would help diversify the economy towards goods and activities with higher technological content while reducing reliance on natural resource-intensive exports, such as wood and food products.



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