Assessment of climate change policies in the context of the European Semester

Country Report: Latvia

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The report provides an overview of current emission trends and progress towards targets as well as policy developments that took place over the period from February 2013 to November 2013.

Please feel free to provide any comments or suggestions to the authors through the contacts listed above.

Short summary

Background: In Latvia, energy security is a key concern, as the country remains isolated from EU energy networks and is highly dependent on Russian gas. Therefore, Latvia's Energy Strategy 2030, in force since March 2013, sets long-term actions to ensure energy supply, competitiveness, energy efficiency and the use of renewable energy. In addition, the Ministry of Economics plans to develop a long-term energy efficiency strategy in the first half of 2014. In addition, a National Waste Management Plan for 2013 to 2020 was approved in March 2013.

Non-ETS emission reduction target: The Latvian 2020 target is a limited increase of 17 % (compared to 2005) and emissions did increase by 4% from 2005 to 2011. According to the latest available projections, the target will be missed by only 1 percentage point as emissions are expected to increase by 18% from 2005 to 2020.

Key indicators 2011:

GHG emissions	LV	EU
ESD EU 2020 GHG target (comp. 2005)	+17%	
ESD GHG emissions in 2011 (comp.2005)	+4%	-9%
Total GHG emissions 2012 (comp.2005)	+1%	-12%
GHG emissions/capita (tCO_2eq)	5.5	9.0

→ **39% lower** per capita emissions than EU average

GHG emissions per sector	LV	EU
Energy/power industry sector	19%	33%
Transport	27%	20%
Industry (incl. industrial processes)	14%	20%
Agriculture (incl. forestry & fishery)	24%	12%
Residential & Commercial	11%	12%
Waste & others	5%	3%

→ **Transport** followed by Agriculture and Energy/power industry sector

Energy	LV	EU
EU 2020 RES target	+40%	
Primary energy consumption/capita (toe)	2.0	3.4
Energy intensity (kgoe/1000 €)	323	144
Energy to trade balance (% of GDP)	-5.4%	-3.2%

→ **39% lower** per capita consumption, **more than double** energy intensity, contribution of energy to trade balance **above** EU average.

Taxes	LV	EU27
Share of environmental taxes (% of GDP)	2.5%	2.4%
Implicit tax rate on energy (€/toe)	67	184

→ **Slightly higher** share of environmental taxes; **63% lower** implicit tax rate on energy than EU average.

Key policy development in 2013: The main renewable energy support scheme (a feed-in tariff) is still under revision. A draft Renewable Energy Law was submitted to the Parliament for consideration, but has not been adopted yet. At the same time, a new tax for subsidized electricity producers was approved in November 2013 and will be introduced in January 2014: the tax will be paid by companies receiving financial support for power generation from renewable energy sources or from combined heat and power plants, making those low carbon technologies less attractive. In 2013 the Ministry of Economics issued the Building Certification Rules (Regulation No. 383) that introduce a comparative assessment scale and emphasize audits, in line with the new Law on Energy Performance of Buildings.

Key challenges: Emissions from the transport sector make up more than one fourth of all of Latvia's emissions (27%), well above the EU average, making it the main GHG contributor. At the same time, fuel taxes remain among the lowest in the EU and average CO_2 emissions of new vehicles are the highest in the EU. Therefore, transport emissions should be the focus of future emission policies.

Moreover, plans to liberalise Latvia's electricity market continue to be delayed, preventing the country from participating in EU energy markets. In addition, the Latvian economy's energy intensity remains one of the highest in the EU and from 2005 to 2011 efficiency improvements were rather low compared to other Member States with high energy intensities. In particular, household's energy intensity could only slightly be reduced (owed to lower demand for space heating) but electricity consumption increased substantially by 35% from 2000 to 2010 due to a growing number of appliances.

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1 Background on climate and energy policies

Climate change is not a priority topic in Latvian policy-making. Security of energy supply is currently the key concern, as the country remains isolated from EU energy networks and highly dependent on Russian gas.

A comprehensive national climate change strategy is currently not in place, but Latvia receives support from international donors on projects to develop a national climate change policy framework and improve its emissions inventories. The *Energy Strategy 2030* is in place since March 2013 and sets long-term actions to ensure energy supply, competitiveness, energy efficiency, and the use of renewable energy (Latvian Ministry of Economy, 2013a). Current energy priorities are described in Government's *Energy Development Guidelines for 2007-2016*. The main focus in the guidelines is on hydropower, as the largest source of Latvia's domestic electricity generation. A detailed energy policy framework for the period from 2014 to 2020 is scheduled to be developed in 2014.

The main renewable energy support scheme, a feed-in tariff, is still under revision. However amendments to the *Regulations on Electricity Production and Price Determination Upon Production of Electricity in Cogeneration* (Regulation No. 221) and the *Regulations on the Production of Electricity Using Renewable Energy Resources and the Procedures for Price Determination* (Regulation No. 262) strengthened oversight of subsidized energy producers (Cabinet of the Ministers, 2013b and 2013c). Furthermore, in order to limit the increase of electricity prices, an Electricity Customer Support Fund was introduced on 13 August 2013. It shall be funded by the new tax on subsidized renewable energy (Latvian Ministry of Economy, 2013b). A draft *Renewable Energy Law* passed by the Latvian Parliament is awaiting its adoption.

The electricity sector is still dominated by the state-owned national electricity company LATVENERGO, which also controls the Latvian transmission grid. Latvia's electricity pricing zone was slated to participate in power market trading on the spot market of Nordic electricity exchange NordPool in June 2013; however this has not been implemented so far – despite restating the intention in the National Reform Programme (NRP), submitted to the Commission in April of 2013.

In terms of green growth, the majority of green jobs occur in the building sector. Latvia's significant support for energy efficiency in buildings, from residential housing to municipal and industrial facilities, implies potential for skilled workers in construction, plumbing and heating, insulation specialists and manufacturers as well as installers of energy efficient products and appliances. The share of Latvian employment in the renewable energy sector accounted for just over 1% of total employment in 2010 (Green Jobs 2012).

2 GHG projections

Background information

In 2011, Latvia emitted 11.5 Mt CO_2eq (UNFCCC inventory 2011). Total emissions declined by over 50% between 1990 and 2011, reflecting the economic transition to a market economy in the early 1990s and the underlying transformation. Particularly the emissions from energy use, energy supply and agriculture have been reduced

significantly in this period. Emissions from industrial processes dropped in the early 1990s but were back to 1990 levels in 2010. The only sector that showed an emissions increase was transport due to an increase in the number of vehicles. As a result, transport sector emissions rose 5% between 1990 and 2011 (UNFCCC inventory 2011, EEA 2012, UNFCCC 2012). From 2011 to 2012 GHG emissions are estimated to have declined slightly (EEA 2013b).

Progress on GHG targets

There are two sets of targets to evaluate: 1) the Kyoto Protocol targets for the period 2008-12 and 2) the 2020 targets for emissions not covered by the EU ETS.

Under the Kyoto-Protocol the emission reduction target for Latvia for the period 2008-2012 has been set to minus 8% based on 1990 for CO_2, CH_4 and N_2O and on 1995 for F-gases. An evaluation of the latest complete set of greenhouse gas data (for the year 2011; there is only preliminary data for 2012) shows that Latvia's emissions have decreased by 55.6% from the Kyoto base year to 2011 (EEA 2013a). Therefore, Latvia is going to meet its Kyoto target through domestic emissions reductions directly.

By 2020, Latvia can increase its emissions not covered by the EU ETS by 17% compared to 2005, according to the Effort Sharing Decision (ESD) ([1]). The latest data for 2012 (EEA 2013b) suggest that Latvia is currently on track to meet the Annual Emissions Allocation ([2]) for the year 2013. Up to 2020, national projections show that Latvia is expected to increase its non-ETS by 18% with existing measures, thus not meeting its 2020 target while under the projections with additional measures the target can be met with an emission increases of only 15% by 2020 compared to 2005 (see **Fehler! Verweisquelle konnte nicht gefunden werden.**).

[1] Decision No 406/2009/EC of the European Parliament and of the Council of 23 April 2009 on the effort of Member States to reduce their greenhouse gas emissions to meet the Community's greenhouse gas emission reduction commitments up to 2020.

[2] Commission decision of 26 March 2013 on determining Member States' annual emission allocations for the period from 2013 to 2020 pursuant to Decision No 406/2009/EC of the European Parliament and of the Council. Online available at: http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2013:090:0106:0110:EN:PDF

Table 1: GHG emission developments, ESD-targets and projections (in Mt CO_2eq)

						ESD target**		2020 Projections***	
	1990	2005	2010	2011	2012*	2013	2020	WEM	WAM
Total	26.3	11.1	12.0	11.5	11.3				
Non-ETS		8.2	8.8	8.6	8.5	9.0	9.6	9.7	9.4
(% from 2005)					4%	10%	17%	18%	15%
Energy supply	6.3	2.1	2.3	2.1					
(% share of total)	24%	19%	19%	18%					
Energy use (w/o transport)	9.5	2.8	2.8	2.5					
(% share of total)	36%	25%	23%	22%					
Transport	3.0	3.1	3.3	3.1					
(% share of total)	11%	28%	27%	27%					
Industrial processes	0.6	0.3	0.6	0.7					
(% share of total)	2%	3%	5%	6%					
Agriculture	6.0	2.2	2.3	2.3					
(% share of total)	23%	20%	19%	20%					

Source: UNFCCC inventories; EEA (2013b); Calculations provided by the EEA and own calculations.
** national proxies for 2012 emissions summarised by EEA (2013b)*
*** The ESD target for 2013 and for 2020 refer to different scopes of the ETS: the 2013 target is compared with 2012 data and is therefore consistent with the scope of the ETS from 2008-2012; the 2020 target is compared to 2020 projections and is therefore consistent with the adjusted scope of the ETS from 2013-2020. 2005 non-ETS emissions for the scope of the ETS from 2013-2020 amounted to 8 Mt CO_2eq.*
**** Projections with existing measures (WEM) or with additional measures (WAM).*
Legend for colour coding: green = target is being (over)achieved; orange = not on track to meet the target
Total greenhouse gas emissions (GHG) and shares of GHG do not include emissions and removals from LULUCF (carbon sinks) and emissions from international aviation and international maritime transport.

National projections of GHG emissions up to 2020 need to be prepared by the Member States in accordance with the EU Monitoring Mechanism ([3]) every two years, and the latest submission was due in 2013. The projections need to be prepared reflecting a scenario that estimates total GHG emissions reductions in line with policies and measures that have already been implemented (with existing measures, WEM), and an additional scenario that reflects developments with measures and policies that are in the planning phase (with additional measures, WAM) may also be submitted.

In the following two tables, these measures have been summarised with a focus on national measures and those EU instruments expected to reduce emissions the most. Please note that the table includes also measures that address GHG emissions covered under the ETS such as measures reducing emissions from electricity generation (e.g. feed-in tariffs). An update on the status of the policies and measures is included in order to assess the validity of the scenarios.

[3] Decision No 280/2004/EC of the European Parliament and of the Council of 11 February 2004 concerning a mechanism for monitoring Community greenhouse gas emissions and for implementing the Kyoto Protocol.

Table 2: Existing and additional measures as stated in the 2013 GHG projections

Existing Measures (only important national measures)		Status of policy in November 2013
Energy	Latvian Rural Support Programme 2007-2013 activity: "Support for establishment and development of enterprises (including differentiation of operations not related to agriculture)" sub-measure "Energy production from agricultural and forestry biomass"	In force
	Climate Change Financial Instrument: Supporting renewable energy technologies and resources to reduce GHG emissions from households, municipalities and business	It is planned to launch new tenders in 2014
	CO_2-tax stipulated by the "Law on Natural Resources Tax"	In force
	Excise tax on natural gas, introduced by the "Law on Excise Tax"	In force
Energy Efficiency	Operational programme "Infrastructure and services" of Latvian National Development Plan 2007-2013 provides support from the EU Cohesion Fund for "Measures to increase efficiency of district heating systems"	Implemented; A fifth tender of the programme was open for new applications from April to July 2013
	Climate Change Financial Instrument: Energy efficiency improvement in public buildings and in commercial buildings	Implemented; A third tender of this programme was open for new submissions until 22 August 2013
	Operational programme "Infrastructure and services" with its measures for improvement of heat resistance of multi-apartment houses and of social residential houses"	On hold, as the budget of the scheme is exhausted. It is planned to launch new tenders in 2014
	Building Energy Certification Rules and the Law on Energy Performance of the Buildings promote energy audits and energy management systems, also in residential multi-apartment buildings industrial enterprises	In force
Transport	Taxes and charges for highways	In force
	Mandatory addition of biofuels to gasoline and diesel used in road traffic according to the Cabinet of Ministers Regulation No. 648	In force
	Increase of Excise Tax on LPG	In force from 1 January 2014
	Registration tax for passenger cars in Latvia, differentiated by CO_2 emission factor per 1 km	In force
	Reduced fuel tax rates for biofuels	In force
	New passenger cars labelling on fuel economy rating	In force

Source: Reporting of MS in accordance with Decision No 280/2004/EC about their GHG emission projections up to 2020, May 2013.

Additional Measures (only important national measures)		Status of policy in November 2013
Energy	Renewable energy support	The support scheme is still under revision; New tax on subsidized renewable energy and more stringent controls are in force from 1. January 2014.
Waste	Promotion of recycling of municipal solid waste	Latvian National Waste Management Plan for 2013 to 2020 was approved on 21.03.2013; Introduction of deposit system envisaged from 01.01.2015.

Source: Reporting of MS in accordance with Decision No 280/2004/EC about their GHG emission projections up to 2020, May 2013.

With the exception of some expired subsidies, the measures included in the scenario "with existing measures" (WEM) are still in place in Latvia. Furthermore, a new support scheme on renewable energy and deposit system for beverages with reusable and disposable packaging from glass, plastic and metal are additional measures that will likely be adopted. However, the latter will not bring about significant emissions reductions. In order to achieve its ESD target by 2020, Latvia will need to implement measures that cut emissions in the emission intense sectors, such as the transport sector, through for instance, the introduction of electric vehicles and public transport systems. The margin under the scenario "with additional measures", under which Latvia is projected to meet its target, is too narrow to be counted on with the current state of implementation.

3 Evaluation of National Reform Programme 2013 (NRP)

In April of each year, Member States are required to prepare their National Reform Programmes (NRPs), which outlines the country's progress regarding the targets of the EU 2020 Strategy. The NRPs describe the country's national targets under the Strategy and contain a description of how the country intends to meet these targets. For climate change and energy, three headline targets exist: 1) the reduction of GHG emissions, 2) the increase of renewable energy generation, and 3) an increase in energy efficiency ([4]).

Latvia's NRP of 2013 focuses on climate change mitigating policies and measures, in particular on those aimed at increasing energy efficiency in industry and the building sector including both public structures and private apartment buildings. Moreover, a revision of the main renewable energy support scheme a feed-in tariff, is a key concern expressed in the document, while adaptation to climate change impacts remains largely unaddressed.

[4] There are specific targets for all MS by 2020 for non-ETS GHG emission reductions (see section 2) as well as for the renewable energy share in the energy mix by 2020 (see section 4, renewable energies). Specific energy efficiency targets will be defined (or revised) by the MS until the end of April 2013 in line with the methodology laid out in Article 3 (3) of the Energy Efficiency Directive (Directive 2012/27/EU).

In the following table, the main policies and measures as outlined in the NRP of April 2013 ([5]) have been summarised, and their current status (implemented, amended, abolished, or expired) is given, with specifics on latest developments.

Table 3: Main policies and measures as outlined in the NRP, April 2013

Energy performance of buildings: minimum requirements and comparable assessment system	
Status as stated in the NRP	Planned to be set in 2013
Status as per Nov 2013	In force
Description of policy or measure	The *Law on Energy Performance of Buildings (Ēku energoefektivitātes likums)* establishes minimum building performance requirements as well as certification requirements for energy, heating and air-conditioning in buildings (Saeima, 2013a). *Building Energy Certification Rules (Noteikumi par ēku energosertifikāciju)* have been developed and introduced on 19 July 2013. The energy audit results will be displayed in a comparative assessment scale, giving the building an appropriate energy efficiency class from A to F. In addition, the Rules define procedures and deadlines for the inspection of heating systems (Cabinet of the Ministers, 2013d).

Increasing energy efficiency in public and industrial buildings through financial support	
Status as stated in the NRP	Next tender planned in 2013
Status as per Nov 2013	Investment support in the third tender of the grant scheme for public and industrial buildings was available until 22.08.2013. The maximum subsidy available per project amounted to €900,000. The overall budget for the third round of the scheme amounted to €19,361,873 (Ministry of Environmental Protection and Regional Development, 2013a).
Description of policy or measure	Financial support is available to those intending to switch building energy sources from fossil to renewable, including biomass heating and co-generation. The funds can also support reconstruction and renovation that increases building energy efficiency as well as electricity management and control systems.

Introducing efficient lighting infrastructure in public territories of municipalities	
Status as stated in the NRP	Next tender planned in 2013
Status as per Nov 2013	The third tender of the grant scheme was open for new submissions from 7.10.2013. to 8.11.2013.
Description of policy or measure	The maximum subsidy available per project amounted to € 1 410 630. The overall budget for the third round of the scheme amounted to at least €1 029 489 (Ministry of Environmental Protection and Regional Development, 2013b).

[5] All NRPs are available at: http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm

Improving energy efficiency in heating, modernizing heat supply systems through the EU structural funds	
Status as stated in the NRP	Next tender planned in 2013
Status as per Nov 2013	Fifth tender implemented
Description of policy or measure	Investment support in the fifth tender of the grant scheme was available until 31.07.2013. The overall available budget for the tender was € 9 Million (LIAA, 2013a).

CCFI funded tender Use of Renewable Energy Resources in Household Sector	
Status as stated in the NRP	Implemented in 2012
Status as per Nov 2013	Last tender was implemented in 2012
Description of policy or measure	There is no information available about new grants improving the use of Renewable Energy Resources in Household Sector.

Adjusting the legal basis for renewable energies to promote a broader use of renewables	
Status as stated in the NRP	Implemented in 2012
Status as per Nov 2013	The *Renewable Energy Law* is still under development and Latvia, instead, introduced a new tax for subsidized energy and more stringent supervision of subsidized electricity producers in 2013 (with possible detrimental effect on renewables deployment).
Description of policy or measure	The draft *Renewable Energy Law* has been submitted to the Parliament for consideration, but has not been adopted yet. Stricter supervision of subsidized electricity producers, more stringent controls and limited timeframe for the implementation of RES projects (within 10 years latest) are foreseen by the amended *Regulations Regarding Electricity Production and Price Determination Upon Production of Electricity in Cogeneration* and *Regulations Regarding the Production of Electricity Using Renewable Energy Resources and the Procedures for the Price Determination.* A new tax on subsidized electricity was introduced (see more in Policy development).

Ensuring availability of financial resources for the production of renewable energy to promote its use at the local level	
Status as stated in the NRP	Planned in 2013
Status as per Nov 2013	The existing support mechanism (a feed-in tariff) is on hold. The Ministry of Economy is currently working on new support schemes.
Description of policy or measure	Latvia's feed-in tariff for renewable electricity is currently being assessed and revised due to concerns about transparency and corruption. More stringent supervision of subsidized electricity producers and more stringent controls as well as limited timeframe for the implementation of RES projects, within 10 years latest (see more in Policy development).

Promoting biofuels in the transport sector	
Status as stated in the NRP	In force and planned to continue
Status as per Nov 2013	In force
Description of policy or measure	The Government plans to keep the existing mandatory biofuel addition, excise tax allowances for biofuels and biofuel blends with fossil fuel containing at least 30% biofuel, as well as to increase availability of biofuels to all consumers.

Financing programs to reduce GHGs in non-ETS sector	
Status as stated in the NRP	Existing grant programs being assessed
Status as per Nov 2013	Electric vehicle and charger programme planned
Description of policy or measure	The grant programme would subsidise up to 85% of the cost of electric cars and their chargers.

Encouraging competition in the major energy networks and improving connectivity with EU energy networks	
Status as stated in the NRP	Is being implemented
Status as per Nov 2013	Delayed
Description of policy or measure	Latvia's electricity pricing zone was slated to participate in power market trading on the spot market of Nordic electricity exchange NordPool starting 3 June 2013, but this did not materialise. Liberalization of the electricity market has not been implemented so far.

Improving environmental infrastructure (water and waste management systems)	
Status as stated in the NRP	Ongoing
Status as per Nov 2013	Ongoing
Description of policy or measure	Conception of the deposit system is approved. From the 1st of January 2015 the deposit system shall be adapted for beverages with reusable and disposable packaging from glass, plastic and metal.

4 Policy development

This section covers significant developments made in key policy areas between February 2013 and November 2013. It does not attempt to describe every instrument in the given thematic area.

Environmental Taxation

The share of environmental tax revenues in total tax revenues in Latvia was 8.94%, the 4th highest in the EU. However, compared to the country's GDP these revenues reached only a value of 2.46%, which is close to the EU average. Latvia has no explicit carbon tax in place. The Latvian economy's implicit tax rate on energy is among the lowest in the EU, equalling a mere 67.4 € per tonne of oil equivalent in 2010. Latvia also exhibits one of the highest energy intense economies in the EU (6th highest in 2010). Despite the low

implicit tax rate, the share of energy tax revenues in total tax revenues is very high (Eurostat, 2013a).

Latvia has a longstanding natural resource tax that charges fees on air pollution, landfilling, extraction of natural resources and greenhouse-gas emissions produced by stationary technological equipment not included in the emission quotas. Taxes are also charged on goods polluting water and environmentally harmful goods. Amendments to the Natural Resources Tax made on August 2013 set a new tax rate for advertisement paper that amounts to 1,28 €/ 1 kg of paper (Ministry of Environmental Protection and Regional Development, 2013c).

Energy Efficiency

Energy intensity of the Latvian economy is one of the highest in the EU, although it dropped 7% between 2005 and 2011 and Latvia's energy consumption declined by only 1% (Odyssee 2012, Eurostat, 2013a). The energy intensity of the industrial sector has decreased by 9% from 2000 to 2010 but is also still above EU average. Energy consumption per household decreased by about 10% between 2000 and 2010. The main reason was a consumption reduction from heating by 32% but at the same time electricity consumption increased by 35% offsetting the positive development due to a growing number of appliances (Odyssee 2012).

Although the Guidelines for Energy Sector Development for 2007-2016 that were adopted by Latvian Ministry of Economics in 2006 see a long-term promotion of energy efficiency as one of the priorities for developing Latvia's energy sector, currently available instruments are insufficient to significantly improve Latvia's energy efficiency indicators. The Ministry of Economics plans to develop a long-term energy efficiency strategy in the first half of 2014. Moreover, a detailed action plan should be elaborated by the end of April 2014. The overall planed budget for energy efficiency activities until 2015 amounts to approx. €500,000,000 (Latvian Ministry of Economy, 2013d).

In 2013, the Ministry of Economics has developed and introduced the Building Energy Certification Rules (Regulation No. 383), that regulate energy efficiency of buildings in order to create a comparative assessment and classification system (Cabinet of the Ministers, 2013d). The energy audit results will be indicated in a comparative assessment scale, giving the building an appropriate energy efficiency class from A to F. The regulation No. 383 defines procedure for the certification of buildings with regards to energy efficiency, as well as procedural guidelines and deadlines for the inspection of heating systems. These regulations are designed in line with the new *Law on Energy Performance of Buildings* (Saeima, 2013a).

In the framework of the subsidy programme "Complex Solutions for Greenhouse Gas Emissions Reduction" („Kompleksi risinājumi siltumnīcefekta gāzu emisiju samazināšanai") of 22 August 2013, investment support was available for: a) activities aimed at increasing energy efficiency in buildings and in existing production processes; b) the installation of geothermal heating systems as well as system improvements to increase their efficiency; c) energy-efficient lighting installations and the implementation of energy management control systems; and d) the replacement of technologies using fossil fuel with ones powered by renewable energy sources. The projects were supported with direct subsidies. The maximum subsidy per project is € 900,000. The overall budget for the third round of the programme amounted to €19,361,873 (Ministry of Environmental Protection and Regional Development, 2013a).

In 2013, 22 projects have been supported in the second round of the subsidy programme "Greenhouse gas emissions reduction in lighting infrastructure of local community areas" („Siltumnīcefekta gāzu emisiju samazināšana pašvaldību publisko teritoriju apgaismojuma infrastruktūrā"). Under this programme funding for the costs of purchasing lighting fixtures and related equipment (without necessarily having to provide their installation, dismantling, etc.) is available to eligible applicants. In spring 2013, some changes were made to the subsidy programme. The key changes include the increase of the maximum funding available per project as well as the extension of pre-payments to local governments. The overall available budget for the programme amounts to € 4 Million, the maximum subsidy per project was € 500,000 (Ministry of Environmental Protection and Regional Development, 2013b). Several further schemes providing grants for energy efficiency measures - "Complex Solutions for Greenhouse Gas Emissions Reduction", "Improvement of heat insulation of residential buildings", "Improvement of heat insulation of social residential buildings", were available in 2013. The overall budget for energy efficiency activities in Latvia in 2013 amounted to € 174.93 Million (Latvian Ministry of Economy, 2013d).

Renewable Energy

In Latvia, the share of renewable energies in total energy consumption was high at about 33% in 2011; however, this is almost the same share as in 2005 so further efforts are required to achieve the target of 40% in 2020. In the electricity sector, nearly half (44.7%) of final consumption was produced from renewable sources in 2011 with over 90% of Latvia's renewable electricity coming from hydropower. The share of the other renewable sources of total renewable electricity generation has increased in the last years from 3% in 2005 to 6% in 2011 (Eurostat 2013b).

On 11 March 2013, the Energy Strategy 2030 („Latvijas Enerģētikas ilgtermiņa stratēģija 2030 – konkurētspējīga enerģētika sabiedrībai") was approved by the Cabinet of the Ministers. The Strategy sets forth a long-term action plan to ensure a safe supply of energy and competitiveness of the energy sector. It also stipulates for improvements in energy efficiency and renewable energy sources (Latvian Ministry of Economy, 2013a, 2013c). The Ministry of Economic Affairs is due to develop a detailed energy policy framework covering the period from 2014 to 2030.

Legal modifications made to regulations regarding electricity production and price determination are expected to be implemented in the next ten years. If implemented they will bring about more stringent supervision of subsidized electricity producers, stricter controls and a limited timeframe for the implementation of RES projects (within 10 years at the latest). It is expected that the amendments will create more transparency in subsidized energy production and also reduce the risk of price increases for consumers (Cabinet of the Ministers, 2013b and 2013c).

Further steps to limit increasing electricity prices were taken by the Cabinet of Ministers resulting in the creation of an Electricity Customer Support Fund. On 6 November 2013, the Cabinet of Ministers approved a new tax on subsidized electricity that will be introduced in January 2014. The tax will be paid by companies receiving financial support for power generation from renewable energy sources or from Combined Heat and Power (CHP) plants. This might have adverse impact on the economic case for renewables deployment in Latvia. The revenue will flow into the budget of the Electricity Customer Support Fund, which will compensate Latvian households and companies for increased

prices resulting from the renewable energy Compulsory Procurement Component (CPC), which is expected to increase prices 30% from LVL1.89c/kWh (€2,69c/kWh) in 2013 to LVL 2.46c/kWh (€3,50c/kWh) by 2016. There is also a social support mechanism that will be offered to poor households in order to limit the potential increase in tariffs following its introduction in 2014. There will be a tax rate of 15% for energy produced from natural gas and a tax rate of 10% for energy produced from renewable sources, and the rate applied to central heating systems will be 5%. The tax is a temporary one and is scheduled to be in place until 2018, however, there is the possibility that it might be reduced or even abolished beforehand in the case of reduced subsidies under the CPC scheme (Latvian Ministry of Economy, 2013e).

Energy Networks and Markets

The announced liberalisation with electricity trading at the spot market at the Nordic electricity exchange "Nord Pool" has not started yet despite the fact that the official start had been scheduled for 3 June 2013. As a result, the Estonian Minister of Economy warned the Government of Latvia on 5 September 2013 that Estonia would block the flow of electricity across the Latvia-Estonia border; however, this has not been done.

The Kurzeme project, which aims to connect Latvia's electricity network to those of Estonia and Finland, is ongoing, but has been delayed due to lengthy authorisation processes and infrastructure problems.

The Ministry of Economics has announced plans to introduce a net-metering scheme from 1 January 2014. The scheme will apply to clients who are at the same time producers of electricity and are connected to the electricity grid through a connection with a throughput value smaller than or equal to 11kW. Producers will have to apply for an offer from the responsible grid operator for supplying electricity to the grid and are required to pay a grid use charge (Latvian Ministry of Economy, 2013e).

Transport

Emissions from transport have remained at approximately the same level between 1990 and 2011 increasing only slightly. However, as a proportion among Latvia's total emissions, transport has increased to 27%, well above the EU average of 20%. As transport emissions now account for the largest proportion of emissions, they should be the focus of future emissions policies (see also Table 1).

Average emissions for newly registered cars are very high in Latvia with a level of 151.9 CO_2/km in 2012. The level is the highest in the EU but has decreased at a faster rate than the EU average between 2005 and 2012 (Eurostat 2013a). In Latvia, vehicle taxes are only partly based on CO2 emissions. The registration tax only applies to passenger cars and motorcycles and is calculated according to CO_2 emissions. In addition, a natural resource tax is levied on every vehicle. The ownership tax in Latvia is based on maximum gross weight for passenger cars and commercial vehicles (ACEA 2012). Latvia is not charging any tolls for road use (CE Delft 2012).

The tax rates for both petrol and diesel are below the EU average. Diesel tax rates are around €80/1000 litres less than petrol tax rates (European Commission 2013).

In order to minimize the differences between the rates of excise duty on fuels and to promote renewable energy sources, the Ministry of Finance proposed to increase the excise duty on LPG from €128/1000kg to €160/1000kg in 2014. The planned increase of

the tax should affect liquid petroleum gas (LPG) retail price by about €0.015 to €0.02 and should not have a material impact on retailers and consumers. This does call into question the effectiveness of the measure with regard to its potential to influence consumption. According to the ministry, after the increase of the tax rate the price of LPG will be still the third lowest in the EU. The additional revenue of this LPG tax is foreseen by the Latvian Ministry of Economy to be directed towards energy efficiency measures in the transport sector, road or improvement of infrastructure (Latvian Ministry of Economy, 2013f).

Waste

On 17 May 2013, the Cabinet of Ministers approved a strategy for a mandatory deposit system. From 1 January 2015 the deposit system will be adapted for beverages with reusable and disposable packaging from glass, plastic and metal. The strategy determines the main requirements for the implementation of and adjustments to the deposit system as well as the duty for packagers, merchants and packaging reception centres to take part in this system. The Ministry of Environmental Protection and Regional Development shall develop the legislative amendments by the end of this year (Cabinet of the Ministers, 2013e).

5 Policy progress on past CSRs

As part of the European Semester, Country Specific Recommendations (CSRs) for each MS are provided by the EU Commission in June of each year for consideration and endorsement by the European Council. The recommendations are designed to address the major challenges facing each country in relation to the targets outlined in the EU 2020 Strategy. In the following table, those CSRs that are relevant for climate change and energy that were adopted in 2013 are listed, and their progress towards their implementation is assessed.

Existing Country Specific Recommendations	Progress
Continue improving energy efficiency, especially of residential buildings and district heating networks, provide incentives for reducing energy costs and shift consumption towards energy-efficient products.	*Energy Strategy 2030* sets forth a long-term direction of action to ensure a safe supply of energy, improve energy efficiency and increase deployment of renewable energy. *Building Energy Certification* of buildings is now madotory in order to create a comparative assessment and classification system and an overall support of € 23 million was provided for energy efficiency improvement in multi-family residential, public and industrial buildings.
Improve connectivity with EU energy networks	No specific progress could be identified as connection projects were delayed and integration of the electricity market did not take place as intended.
Shifting taxation to areas such as excise duties, recurrent property taxes and/or environmental taxes.	Amendments to the Natural Resources Tax made in August 2013 introduced a new tax on advertisement paper. In addition, it is proposed to increase the excise duty rate on liquefied petroleum gas in order to minimize the differences between the rates on petrol, diesel and liquefied petroleum gas. Next to this, a new tax on subsidized electricity from renewable sources and combined heat and power was introduced.

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