FOSSIL FUEL SUPPORT COUNTRY NOTE

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT June 2020

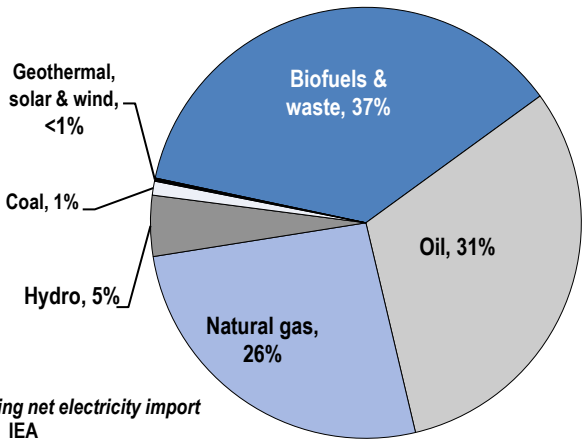
Latvia

The OECD Inventory of Support Measures for Fossil Fuels identifies, documents and estimates direct budgetary support and tax expenditures supporting the production or consumption of fossil fuels in OECD countries, eight partner economies (Argentina, Brazil, the People's Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa) and EU Eastern Partnership (EaP) countries (Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine).

Energy resources and market structure

Although Latvia has a large stock of non-fossil energy resources, the country's energy balance still relies heavily on imported fossil energy resources. The total consumption of primary energy resources in Latvia in 2018 was 4.66 million tonnes of oil equivalent (Mtoe) and self-sufficiency standing at 61%. All of the country's oil, gas and coal needs are imported. In the total consumption of primary energy sources, consumption of primary solid biofuels (mainly local fuel woods) accounted for 1.49 Mtoe, second only to oil.

Total Primary Energy Supply* in 2018



**excluding net electricity import*
***Source*: IEA**

Natural gas is the main resource for generating heat energy and electricity. The largest consumers of natural gas are CHPs owned by the energy utility Latvenergo (Riga CHP1 and Riga CHP2) and district heating companies, industries, and other consumers. The natural gas market became fully liberalised as of April 2017, with transition measures in place until 2019. Nevertheless, the natural gas market is dominated by Latvijas Gāze AS, which owns and provides gas transmission, distribution, storage and sales of natural gas. The next major change in the gas supply market was the development of a united gas market for Baltic countries – Latvia, Lithuania, Estonia – which also started operating in Finland as of January 2020.

The Latvian electricity market opened for free trade on July 2007. Nowadays, besides the largest state owned utility Latvenergo, there are 15 suppliers of electricity in Latvia and with some offering natural gas as well. Since 1 November 2012 all commercial energy consumers (representing 75% of electricity consumption) can choose their own supplier. Households representing the remaining 25% of electricity consumers were given this option as of 1 January 2015. Feed-in tariffs are in place for renewable sources.

The Latvian oil market is privately owned and fully open to competition. Latvia does not have a petroleum refinery industry with the only refinery in the Baltic states located in Mazeikiai, Lithuania. The main suppliers of gasoline and diesel fuel in 2018are Lithuania (61.3% and 66.1%), Finland (16.6% and 28.9%) and for diesel fuel Belarus (10.3%) and the Russian Federation (9.9%).

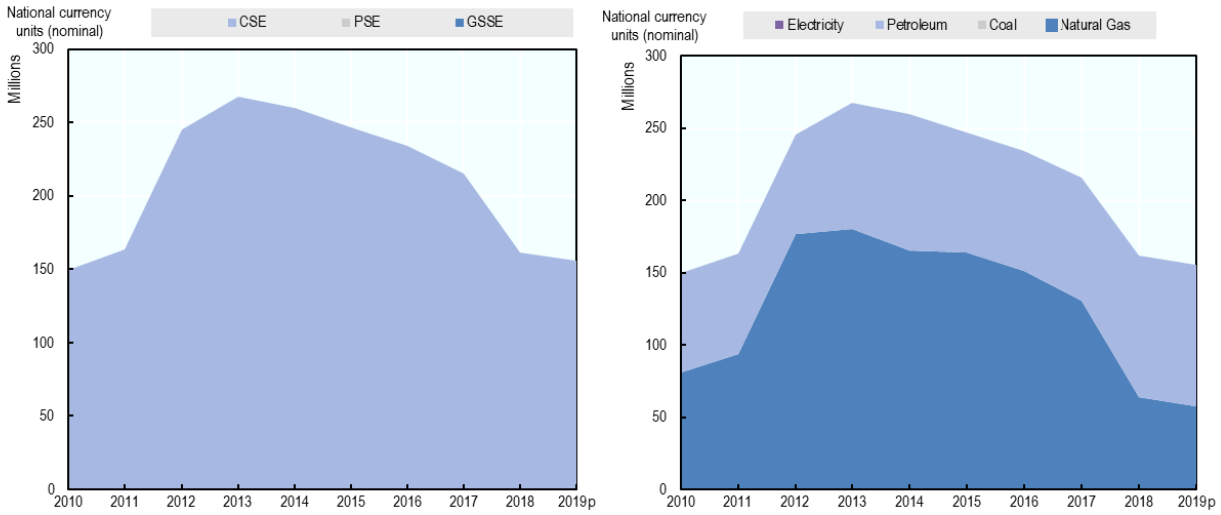
Energy prices and taxes

The Mandatory Procurement of Electricity (MPC) is a government-set support mechanism for electricity producers who use CHPs or renewable energy sources for production of electricity. To limit MPC impacts on electricity consumers, a "subsidised electricity tax" was set in force from 1st January 2014 until 31st December 2017 funded by contributions from electricity companies. The rates of the tax were 15% for fossil-fuel generated electricity and 5% for high efficiency CHPs using fossil fuel equipment with set power until 4 MW. From 2018 onwards, the MPC contains two parts: (i) a fixed component for CHP producers of electricity (EUR 0.00434/kWh) or from renewable sources (EUR 0.01029/kWh) and (ii) a variable component for end users (EUR 0.00805/kWh on average). Additionally, an electricity tax on consumption

is set at EUR 1.01 per MWh, with exemptions for electricity used by domestic public transport and households.

Crude and refined oil products are subject to excise taxes ranging from EUR 15.65 per tonne of heavy fuel oil to EUR 594.00 per 1,000 litres of leaded petrol. As of January 2020, excise tax increased for unleaded petrol, diesel fuel, petroleum gas, kerosene as well as diesel fuel for agricultural use. Due to the excise taxes and VAT at 21% that apply to fossil fuels in Latvia, their prices are twice as high as those in neighbouring Russia and Belarus, contributing to intensified fuel smuggling activities around these areas. Natural gas is subject to an excise tax of EUR 1.65 per MWh for use as heating fuel, EUR 0.55 per MWh for industrial purposes and EUR 9.64 per MWh for use as motor fuel.

Total support for fossil fuels in Latvia by support indicator (left) and fuel type (right)



Note: CSE=Consumer Support Estimate: PSE=Producer Support Estimate: GSSE=General Services Support Estimate

Recent developments and trends in support

About two-thirds of the support measures identified in Latvia were introduced before 2010, most of them are still active, and all but a few are energy tax or excise exemptions. The values of the exemptions remained relatively stable over the monitored period, while the estimates of mandatory procurement of electricity produced in CHP generation from natural has continued to decline beginning 2014.

The single largest support measure monitored in Latvia remains the Guaranteed Payment (Power Component) for Installed Capacity of Riga CHP1, CHP2 and Imanta CHP using Natural Gas, consistently receiving a direct support of around EUR 90 million from 2014.

Support measures in Lithuania mainly benefit the following economic sectors in 2019: transportation (40% of Total Support Estimates (TSE)), electricity generation sector (37% of TSEs) and other sectors (23% of TSEs).

Examples of measures	
VAT Reduction for Natural Gas for Households (estimates available 2006-2016)	Natural gas used by households was subject to lower VAT tax rates until 1 July 2011 (LR Saeima, 2013.). Data from the Central Statistical Bureau are used for annual natural gas consumption in households (The Central Statistical Bureau of Latvia, 2006.). The benchmark against which this tax expenditure is calculated is the full VAT tax rate (LR Saeima, 2013.)
Mandatory procurement of electricity produced in CHPs Using Natural Gas (estimates available for 2012-2017)	Although the main goal of this mechanism is to support energy production from renewable energy sources, it provides support to electricity production in CHPs from natural gas as well.