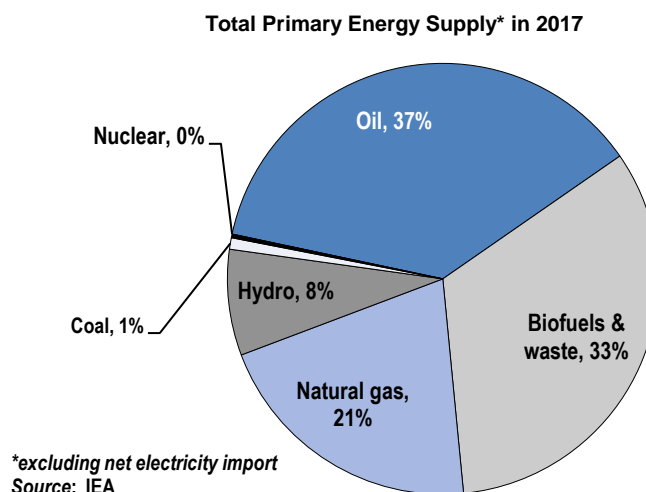


Latvia

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 and eight partner economies (Argentina, Brazil, the People’s Republic of China, Colombia, India, Indonesia, the Russian Federation, and South Africa).

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 2017 was 4.73 million tonnes of oil equivalent (Mtoe) and self-sufficiency standing at 55%. All of the country’s oil, gas and coal needs are imported. In the total consumption of primary energy sources, consumption of different local fuel woods accounted for 1.57 Mtoe, second only to oil while the electricity generated in hydropower stations and wind power stations constituted 0.39 mtoe.



Natural gas was 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 liberalized as of April 2017, with transition measures in place up 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 is the development of a united gas market for Baltic countries – Latvia, Lithuania, Estonia and also Finland—slated for 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 at Mazeiki, Lithuania. The main suppliers of gasoline and diesel fuel in January – August 2017 are Lithuania (64.6% and 61.4%), Finland (33.2 and 24.9%) and for diesel fuel Belarus (8.5%). All of fuel oil, imported to Latvia in 2017, comes from Estonia.

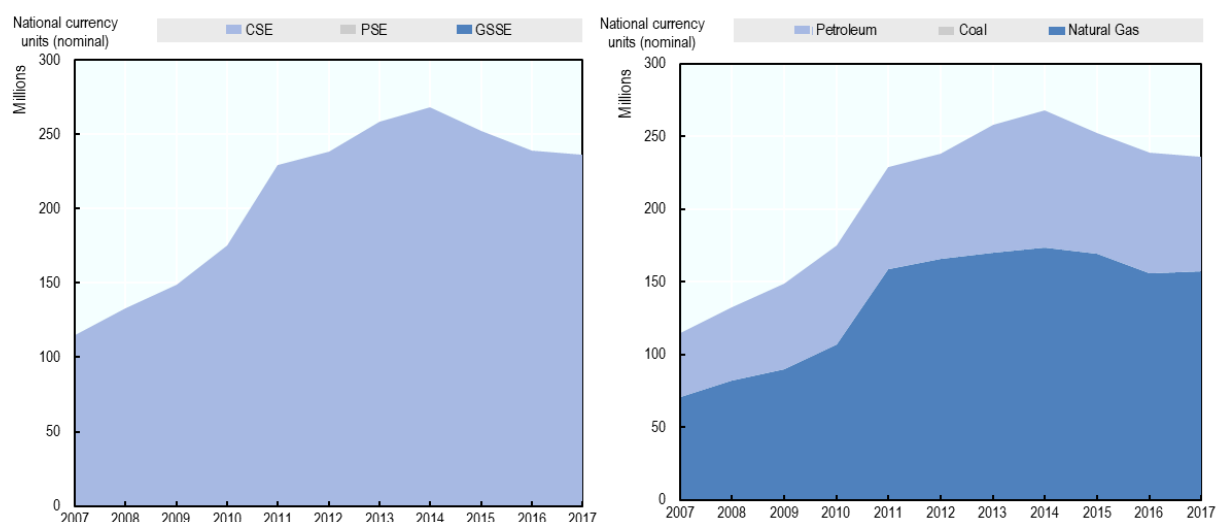
Energy prices and taxes

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 “subsidized 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. 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. All excises are scheduled to increase or remain unchanged up until 2020. Due to the excise taxes and VAT at 21% that apply to fossil fuels in Latvia, their prices are twice as large as those in neighbouring Russia and Belarus, intensifying fuel smuggling activity 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, all of them are still active, and all but one 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 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.

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.