

**European Employment Observatory**

**EEO Review: The Employment Dimension of Economy  
Greening**

**Latvia**

Alf Vanags  
NMS Consulting  
and  
Baltic International Centre for Economic Policy Studies

December 2009

## **1. Introduction<sup>1</sup>**

### ***1.1 The Latvian debate***

The context of any debate on energy policies and climate change in Latvia is shaped by the fact that Latvia has relatively low GHG emissions. This is partly the result of the closing down of high polluting Soviet enterprises and partly because of the high share of renewables in Latvia's energy production – mainly the hydroelectric power. Nevertheless, the largest producer of carbon emissions is the power and heating sector, but that sector's impact on the labour market is small. The restructuring of Latvia's economy away from the wasteful Soviet central planning means that Latvia, like many other former communist countries, now has surplus emission credits and will not even come close to using its allocation granted by the UN under the Kyoto Protocol. While this implies trading opportunities, the large surplus of emission credits in Europe has driven down the price of carbon and the infrastructure for efficiently trading carbon assets on a liquid international market does not yet exist.

In the short term, the Latvian economy will struggle to become much greener and, therefore, the impact on the labour market in the short term is expected to be minimal. In addition, the Latvian state is struggling to provide even basic services such as education, healthcare, pensions and municipal services. Unemployment in Latvia is around 20% (December 2009 data) and a broad range of consumption and income taxes are being increased. Public debate is dominated by basic immediate survival issues and is less concerned with climate change.

Since 2007, the Ministry of Economy and Latvenergo (the national state-owned power utility) have led the debate on the future needs for sustainable base energy production. However, financing of investments for a greener economy will have to rely on EU funding or from occasional bilateral carbon trading.<sup>2</sup>

### ***1.2 Public opinion***

Public opinion in Latvia about the greening of the economy is generally supportive, including for example on issues relating to maintaining a clean water supply, clean air and reducing pollution in the Baltic Sea. There are some concerns among the general public about the effects of the increase in sea level and the subsequent erosion of the Baltic Sea coastline and changes to Latvia's biodiversity. A related but more immediate issue for households and businesses is heating costs, which represent a significant monthly expense. Therefore, there is increasing demand for better energy efficiency and less heat loss from buildings.

---

<sup>1</sup> Major research input from Ieva Moore is gratefully acknowledged.

<sup>2</sup> In 2009, Latvia signed a number of bilateral agreements for selling Assigned Amount Units (AAUs) under the Kyoto Protocol. The cash payments from these sales are regarded as an attractive means for funding energy efficiency improvements in Latvia as compared with the funding from EU Regional Development Fund where expenditures are reimbursed and need pre-financing.

### 1.3 The employment dimension

The employment dimension of measures to address climate change is almost entirely absent in Latvia. For example, there is no linking of these two themes in the 2009 Lisbon National Reform Programme Implementation report.

## 2. Labour market outcomes

- *Challenges/bottlenecks on the labour market identified in terms of transposition of EU Directives implementing 20-20-20 targets (the targets in terms of climate change and energy efficiency)*

The primary challenge for the Latvian government relating to developing labour market policy in this area is first to prioritise the risks implied by climate change in northern Europe. This requires effective dialogue among all the countries in the Baltic Sea region, to agree the key risks and to agree the regional risk management strategy. Only then will labour market policy in Latvia have a useful overarching framework.

Recent research by the Riga Technical University on the requirements for renewable energy to meet the target of 40% in the total energy production in Latvia (set in the 20-20-20 targets) concluded that the implementation of the required renewable energy technologies by 2020 would result in the creation over the coming 10 years of only about 3 600 new jobs, representing approximately 0.03% of the total labour force<sup>3</sup>.

- *The effects of the greening of the economy on the levels of employment, composition of employment (including skill demand) and quality of jobs*

The Latvian government has still to consider the issues of the composition of employment as a result of the greening of the economy. For example, the recent forecasts of the Ministry of Economy (see Ministry of Economy, 2009) on medium and long-term labour market developments contain no categories that could be interpreted as green jobs.

- *The effects on labour productivity*

Improved energy efficiency is expected to reduce heating and power costs. However, a detailed cost/benefit analysis of capital investment versus operating cost savings over the long run has not been made in Latvia.

To some extent, the energy efficiency issue has been addressed in the past decade through extensive building renovations and new building construction. Many houses have switched away from city heating systems to autonomous gas heating, have added additional insulation to outside walls and have replaced old windows with new, better insulated windows. Having invested recently in a vast number of business premises and housing, people and businesses are not motivated to invest again and change newly

---

<sup>3</sup> Riga Technical University (2009).

installed systems to something else, which is not yet proven to be more cost efficient. Heat pumps have been a recent fad in the last five years. However, the public is still not fully convinced that it is the most cost-effective heating solution. The state has not allocated any financial support specifically to encourage the usage of such new methods.

- *The effects of climate change and energy policy measures on particular regions and/or sectors*

In Latvia, the energy sector has the greatest impact on climate change in terms of GHG emissions, but the key political issue for Latvia is energy security, since approximately one third of Latvia's energy is fuelled by natural gas imported from Russia. Russia is regarded as a potentially unreliable supplier, though, in practice, gas supplies to Latvia have never been interrupted. This is a long-term challenge and in fact is a broader EU policy issue, given the EU's current dependence on Russia as a major gas supplier.

- *The characteristics of the labour market that can influence or determine the restructuring process*

Latvia has particular management competence in forestry and R&D competence in wood chemistry and various forms of bio-energy, such as bio-gas, bio-ethanol and bio-diesel. Timber and timber products provide fuel for approximately one third of Latvia's annual energy production capacity. EU agricultural policy provides subsidy incentives for Latvian farmers to switch from food production to energy-related biomass production, for example, rapeseed.

- *The main reasons for structural unemployment possible due to greening of economy*

The major restructuring of Latvian economy was undertaken in the early 1990s with the closing of large Soviet-era (and highly polluting) industrial enterprises and energy production plants, replacement of Soviet-era transport vehicles, removal of the Russian military from Latvia's territory and the reduction of agricultural production. Consequently, a significant impact on structural unemployment is not anticipated as a result of further greening of Latvia's economy. On the contrary, greening is likely to create new businesses and new jobs.

- *Shortages of green professionals (e.g. with skills in energy efficiency, green engineering and green construction) identified*

As a result of the real estate boom in Latvia starting in 2000, when local banks began providing long-term mortgage loans for real estate purchase, to 2008, when the credit bubble burst, there is now a surplus of housing, office space and commercial real estate in Latvia. Very few new buildings will be constructed in the foreseeable future and, therefore, there will be little demand for green architects, green engineers or green builders.

The main barrier to implementing green stimulus programmes is not a shortage of green professionals, but restrictive access to financing. In March 2008, the Latvian government

passed the Law on Energy Efficiency of Buildings, with the aim of decreasing energy consumption. The new law was followed by several other regulations concerning energy efficiency evaluation methods, certified energy auditors and local standards. These activities have been supported with a government programme under which the state, together with the EU's Regional Development Fund, provides partial reimbursement of building insulation and renovation costs for improving energy efficiency. Despite these good intentions, municipalities and housing cooperatives find this programme challenging because of the heavy bureaucracy and lengthy reimbursement procedures, thereby requiring commercial bank financing for most of the projects. Such loans are currently difficult to obtain. Consequently, during 2009 the amount of state financing provided to these energy efficiency improvement projects has been much lower than originally forecast.

- *National research available on the employment dimension of climate change and energy related policies*

There is no meaningful research in this area in Latvia. There is no definition of the occupational needs for greening the economy. One reason for this is that there is no standard definition of “green” jobs. Modelling is also made difficult by the fact that the latest available input-output tables are from 1998.

- *Types of measures that can be introduced with a view to promoting green growth (R&D, grants for consumers, incentives for companies)*

Based on experience in other countries, including, for example, the high demand for solar panels installed on homes in Germany, it appears that direct subsidies to consumers will be the greatest green growth driver in Latvia. Other measures are for the medium to long term, and given Latvia's current weak economic situation, are simply not affordable. Reduction of the heating bill in winter is a very strong motivator.

Direct state assistance for financing housing insulation and renovation of public buildings to improve heat efficiency as in schools, hospitals and other municipal buildings would reduce energy consumption. However, the demand for state aid is much larger than state subsidies can support.

- *Examples of recovery measures that were shaped in a way that would address labour market needs and, at the same time, contribute to economy greening*

The government programme to support energy efficient improvements to housing and public buildings implemented under the already mentioned 2008 Law on Energy Efficiency of Buildings has the dual aim of energy efficiency and support for the construction sector.

### **3. Review of labour market policy developments**

#### ***3.1 Labour market policies***

Labour market policies are the responsibility of the Welfare Ministry and are implemented by the State Employment Agency (SEA). The SEA also deals with short term labour market forecasting, but medium and long-term forecasting is done by the Ministry of Economy. A short-term forecasting exercise up until the end of 2009 was organised by the SEA, which included surveying employers and businesses. However, no categories of green jobs are included in these exercises. Accordingly, almost no labour market policies have an obvious or explicit green content

#### ***3.2 The role of ESF funding***

In Latvia's current financial situation, virtually all labour market policies are heavily dependent on the ESF funding. This is likely to be the case also in the foreseeable future

#### ***3.3 Interesting practices***

The change in jobs due to greening in Latvia can be expected by adapting new technologies, which most likely will be imported from other countries. The change can be expected first of all in renewable energy production and transport. Recycling is also a potential area of development.

The main obstacles to the emergence of a greener labour market are lack of awareness of the issue among policy makers and lack of funding.

#### ***3.4 Assessment of the direction of existing reforms***

Latvia does not yet have a green reform policy *per se*, however, a number of measures are in place or are being put in place that support broader greening issues. Latvia has a Natural Resources Tax currently dating from 2005, amended from the previous 1991 law in order to comply with the EU norms. A green procurement system is due to be launched. Environmental criteria for green procurement cover six areas: the use of office paper, cleaning supplies and services, office appliances, vehicles, office furniture, and food products and catering.<sup>4</sup> Applications of the environmental criteria are classified into three operational stages: design and construction works; operation of the site; and the demolition process. Criteria can be applied for energy consumption, use of renewables, characteristics of materials and products used for the construction works, waste and water management, and other aspects.

All of Latvia's labour market instruments will require further modernisation in the coming years, because currently green issues do not appear in the instruments. The classification of professions has no green skills component.

---

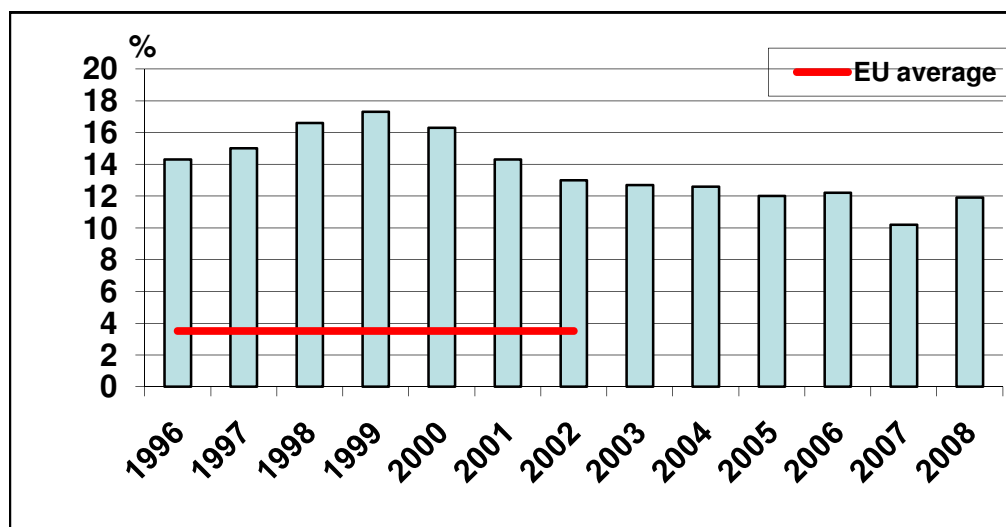
<sup>4</sup> <http://www.buy-smart.info/green-procurement/national-procurement-standards/latvia>

Skills anticipation and the uniform classification of professions have developed little during recent years. There has been some development of medium to long-term labour market forecasting at Latvia's Ministry of Economy, but it is based on the historic classification of professions, meaning that no specifically green professions are included.

Once a green jobs policy has been defined, it could then be implemented in a wide range of labour market instruments. For example, at present, the training and requalification programmes of the State Employment Agency are very traditional and have hardly changed for many years. The new voucher based training programmes could be directed toward skills that would be useful in green activities.

Taxes on labour are high in Latvia relative to EU averages, but low on energy and fuel, so it would make sense to shift from taxing labour to taxing energy, by significantly more than the existing Natural Resources Tax. This would have the double benefit of promoting employment, especially legal employment, and creating incentives to economise on energy consumption. Consumption in Latvia of housing, water and energy is much higher than EU averages (see the Figure 1 below on household consumption expenditure).

**Figure 1: Household consumption expenditure in Latvia - housing, water, electricity, gas and other fuels<sup>5</sup>**



Source: Latvian Investment and Development Agency and author's calculations.

The data presented above are partly the result of higher spending on housing and utilities due to less energy efficient equipment and systems, but is also related to the lower income in Latvia, where utilities costs take a larger proportional share of household budgets.

<sup>5</sup> The original data are from a presentation by Inguna Ozolina from the Latvian Investment and Development Agency, ([www.liaa.gov.lv/uploaded\\_files/Inguna\\_ozolina.ppt](http://www.liaa.gov.lv/uploaded_files/Inguna_ozolina.ppt)). For Latvia, it has been possible to update the figures to 2008, but for the EU the data did not allow this update.

In 2010, Latvia will increase the tax on natural gas consumption. However, this has not been on the basis of considering a link with labour market and greening of the economy, rather it is simply a means to raise tax revenue in order to address the consolidation of the budget deficit.

### ***3.5 The optimal intervention level of active labour market policies***

Since demand for skilled green engineers and architects in the short to medium-term in Latvia is expected to be small, as explained previously, active intervention in the labour market should be minimal, as the government needs to focus its efforts on more pressing issues. However, with a view to longer-term restructuring towards a greener economy, Latvia should invest more in education to strengthen broad awareness in society about green issues and to develop deeper green knowledge and skills.

## **4. Conclusions**

The somewhat bleak fact is that Latvia is currently quite well behind European thinking in the area of linking greening of the economy to jobs and jobs creation. This is partly because Latvia's emissions levels are quite low, so inherently greening is not a major current issue, partly also because in the current economic climate the authorities have other priorities. However, it is also partly the result of a lack of imagination on the part of Latvian policy makers. They tend to be followers rather than leaders. Now that green issues receive more attention in European level employment policy discussions, it is likely that green jobs will in the near future appear in the lexicon of the Latvian employment policy.

With more than 200 000 jobseekers in the labour market, the Welfare Ministry and SEA are actively looking for new measures to address the training and re-qualification of the unemployed. There is also a drive to promote entrepreneurship. It does not take too much imagination to perceive that there is an opportunity to link the economy greening trend, job creation and support to entrepreneurship.

### **References and further resources**

Dubra, E. (2007) "Detalizēts darbaspēka un darba tirgus pētījums tautsaimniecības sektoros" (Detailed investigation of the workforce and labour market by economic sectors), Internet:

[http://www.lm.gov.lv/upload/darba\\_tirgus/darba\\_tirgus/petijumi/darbaspeka\\_darba\\_tirgus.pdf](http://www.lm.gov.lv/upload/darba_tirgus/darba_tirgus/petijumi/darbaspeka_darba_tirgus.pdf)

Environmental Protection Fund, Internet: [www.lvaf.gov.lv](http://www.lvaf.gov.lv)

EU Regional Funds in Latvia, Internet: [www.esfondi.lv](http://www.esfondi.lv)

GHG inventory for UN monitoring, Internet: [www.meteo.lv](http://www.meteo.lv)

Institute of Environment and Energy Systems, Internet: [www.videszinatne.lv](http://www.videszinatne.lv)

Ministry of Economy, Energy Department, Internet: [www.em.gov.lv](http://www.em.gov.lv)



Ministry of Economy (2009) “Informatīvais ziņojums par prognozēm darbaspēka pieprasījuma un piedāvājuma atbilstībai vidējā termiņā” (Report on medium term forecasts of labour market supply and demand), Internet:

[http://www.lm.gov.lv/upload/darba\\_tirgus/darba\\_tirgus/emzino\\_030609.doc](http://www.lm.gov.lv/upload/darba_tirgus/darba_tirgus/emzino_030609.doc)

Ministry of Environment, Internet: [www.vidm.gov.lv](http://www.vidm.gov.lv)

Ministry of Welfare, Labour Department, Internet: [www.lm.gov.lv](http://www.lm.gov.lv)

Riga Technical University (2009) “Latvijas atjaunojamo energoresursu izmantošanas un energoefektivitātes paaugstināšanas modelis un rīcības plāns” (Latvian action plan for the exploitation of renewable energy resources and a model for improving energy efficiency), Internet:

[http://www.videszinatne.lv/attachments/175\\_AER%20izmantosanas%20modelis%20un%20ricibas%20plans\\_KOPSAVILKUMS.pdf](http://www.videszinatne.lv/attachments/175_AER%20izmantosanas%20modelis%20un%20ricibas%20plans_KOPSAVILKUMS.pdf)