

Fanija Bluma

Latvia
Project Manager
NGO "Green liberty"
Meza 4 LV-1048 Riga
Latvia

FDI policy in Latvia and sustainability

This section of the report examines the question of whether Latvia's economic development policy for foreign direct investments supports principles of sustainable development. Foreign direct investments (FDI) are executed primarily by companies, that fundamentally do not work altruistically. Despite this, in deciding to invest resources in current business or starting new enterprises in foreign countries, the leaders of these companies making foreign investments can choose to help local residents and enterprises. This can be done while maintaining respect for this country that provides its human and natural resources and enterprise facilities while simultaneously earning a profit. This would be a responsible business undertaking. The workforce can be considered not only as production factor, but as human beings empowered to choose the most suitable branch of industry and production methods for the locale where they live. Also natural resources are not only raw materials, but also the environment that ensures our existence. Such would be the business philosophy of a responsible company that promotes sustainable development.

It would be unsound to think that philosophy is only related to thinkers. This is the norm, especially in relation to direct foreign investments, that influence any and all economic domains at every level.

This section is written in the spirit of critical discourse to show that a fundamental change is needed in the paradigm of development. The current neo-liberal mindset that fosters inequity, over-consumption, and social stress needs to be transformed towards sustainable development that protects social intimacy, spiritual richness, and our cultural and natural diversity with economic sufficiency.

This analysis utilizes current actual Latvian economic policy documents, the collective normative acts, UN and social organization documents, press publications, and notes from Latvian environmental and social public organization seminars.

- 1 Context – UN Conference on Environment and Development 1992 and the World Summit on Sustainable Development 2002¹.

In the Rio Conference, the development discourse (see the Report's introduction), in which the leaders of 176 nations unanimously agreed that, „we are gambling on our planet's future if we do not halt its damaging exploitation²“, was a notable and unprecedented event in international politics. It was difficult to reach agreement that the unique functioning environment is being abused. However, the most difficult task was, and continues to be, to agree on the causes of the problems.

In 1992 approximately 28,000 Non Governmental Organizations' (NGO) representatives in the Global Forum gathered concurrently with the official gathering to show the governmental leaders and business representatives, by way of discussion, that development based on the dominant model of quantitative growth creates social inequality and damages the

¹ Sources: Multi-stakeholder dialogue segment of the second session fo the Commission on Sustainable Development acting as the preparatory committee for the World Summit on Sustainable Development, Dialogue paper by non-governmental organizations (E/CN.17/2002/PC.2/6/Add.4), The Dictionary of Human Geography, Codes of Conducts for Transnational Corporations: An overview, Irene, June 1998, Judith Richter, Holding Corporations Accountable, Corporate Conduct, International Code and Citizen Action

² Maurice Strong, General Secretary of the UN Conference on Environment and Development

surrounding environment. We call this phenomenon, which has liberalism as an ideological base, economic globalization.

Unfortunately, the idea of freedom was lost from classical liberalism and liberalism in its current battered form has become a speculative weapon of narrow-minded corporate interest groups.

A broad and diverse section of international society views the Washington consensus initiatives (among them privatization and liberalization), popularized and backed by the Bretton Wood's Institutions, as the cause of development problems and a hurdle for sustainable development. The official and actual distribution of power in these institutions differs considerably. Principally, the representatives of developed nations and their respective economic lobbyists – multinational business associations - set the international development tone and methods³. This is attested by the fact that nearly a twenty year long effort to develop a legally binding company code of conduct was curtailed, and its standards and guidelines were not discussed during the time of the Rio Conference. This was an unexpected shock for social organizations. Unlike the public forum, the chemical, oil, food, textile company offences in many world nation's were not criticized at the official meeting. Environmental disasters were ignored, including the tragic Shell activities in 1970s in Nigeria which resulted in environmental and human disasters, the 1984 Indian gas leak from pesticide factories of the US company Union Carbide (currently Dow Chemical) that killed more than 8000 workers, as well as other known, yet less frequently mentioned events.

In its place, under the referenced leadership of M. Strong with counsel from Swiss millionaire, one more corporate lobby group was created - the Business Council for Sustainable Development. The tendency was to replace a binding convention with the encouragement of voluntary and self - regulating mechanisms for companies. A current UN instrument for facilitating work of companies to be socially responsible and environmentally non-harmful is the UN Global Compact – a *voluntary* agreement⁴ by which signing companies pledge to heed and popularize nine principles of human rights, respect for worker rights, and environmental protection. Civil society organizations feel troubled that the world's largest corporations, many of which, in practice, do not respect environmental and human rights, have affiliated themselves with this agreement to use it to clean or polish their image. As a result, NGOs are asking that the Compact be fundamentally reformulated, to prevent its misuse as a positive example at the Rio + 10 gathering. Companies must take on responsibility for their actions and this cannot be based on the voluntary choice principle. Rio + 10 must encourage debate and the adoption of legally binding documents⁵.

Documents of businesses, non - governmental organizations, trade - unions, and other participating groups point to the Rio+10 gathering as a means for continuing the battle between historical orthodoxy and critical scientific reasoning. That is, a fight between paradigms of social development: one paradigm, that strengthens the dominant development models and a paradigm that invites freedom from these models or radical change.

Sustainable Economics

The decision about the necessity of sustainable development was conceptually accepted with the 1972 UN Stockholm Declaration and reinforced with the five 1992 Rio documents. Accordingly it is the responsibility of nations to introduce the internationally accepted principles into national policy. The Rio Declaration's in relation to business and industry states that the nation must adopt national laws that declare responsibility for and compensation to victims of pollution or other environmentally damaging influence that they have generated (principle 13). The double standard (principle 14) states that they must also accept laws that prevent foreign enterprises from such work that is done under lower standards than those that apply to the headquarters nation. The safeguard principle (principle 15) states that if there is significant pollution or threats of environmental hazard

³ E/CN.17/2002/PC.2/6/Add.4

⁴ <http://bctest.deac.lv/undp/news.php?SUBACT=SHOW&IDNEWS=227>

⁵ A/CONF.199/PC/.../Add.4

then they cannot use the excuse of a lack scientific evidence to forestall measures to safeguard the environment. The polluter pay principle (principle 16) states that polluters must take responsibility for resulting pollution. The principle 17 states that they must perform observable work for environmental impact assessment.

For the purpose of developing a sustainable economy, at a minimum, these principles must be recognized. Resident opinion in Riga, which has the highest concentration of foreign direct investment, is that, „Local economic development and support is seen as sustainable when it does not create dependency on other nations or large international firms, which have been severely criticized from a sustainable development standpoint, and secondly decreases transport that is often damaging to the environment.” Consequently, as stated in surveys⁶ and following from discussions, sustainable development is reflected by support for local products and small businesses, and a priority on using small stores in central Riga.

Sustainable Business Economy

This year, Denmark's government started an environmental management system pilot-project in Latvia, during which time, the Latvian Pollution Prevention Center, together with the Danish institute FORCE, and the consulting firm COWI, worked together with Latvia's Economic Ministry (without compensation) to train ten representatives of Latvian regional wood processing firms. A result of the training is that these firms will prepare and bring into operation, environmental management systems that support ISO 14001 international standards⁷.

Sustainable development principles for business include⁸:

1. Ethics, values, and principles. To what extent does the business monitor that it meets ethical values and principles.
2. Responsibility and transparency. To what extent has the business formalized a comprehensive and effective management system that commits to make public reports on progress towards sustainability.
3. General business policy on environmental protection, social and economic aspects.
4. Environmentally friendly production process. To what degree does the enterprise decrease any and all negative impacts on the environment by, for example, changing materials, re-tooling, or changing practices resulting from its production processes? Agenda 21 has set the goal for furthering cleaner production and stated objectives for enterprises to increase resource use efficacy, including, reusing and recycling surplus materials, as well as decreasing the amount of waste generated per unit of production. Baltic21 – calls for the introduction of environmental and quality management systems.
5. Environmentally friendly production. To what extent has the enterprise anticipated environmental protection principles across the entire lifecycle of its products. For example, have they considered developing or reshaping their product line to decrease negative environmental impact?
6. Socio - economic development. How actively and constructively does the enterprise use resources to support the community – through local social and economic development.
7. Human rights. How actively and constructively does the enterprise respects the human rights of their workers, neighbors, and local residents in regions where it conducts business.
8. Work conditions. What measures are pursued to improve working environment conditions?
9. Involved parties. Involving business partners (cooperative enterprise partners, contractors, shareholders, and clients) in company sustainable development strategy realization.
10. Inclusion of non - business partners. Company relations that further international understanding and cooperation with outside partners (government, NGOs, consumers) both in quantity and quality. Agenda 21 states broad conceptions about creating public and partner relations.

⁶ Sabiedriskās Politikas Institūts, Atstāsim Rīgu saviem bērniem! Sabiedrības iesaistīšana Rīgas vēsturiskā centra nākotnes attīstības vīzijas veidošanā. Aivita Putniņa, Guntra Aistara, 2001.g

⁷ Lietiņā Diena, 17.06.02.

⁸ Sources: Agenda 21, Baltic 21, www.sustainability.com/business-case/methodology.asp

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Foreign direction investment policy development in Latvia⁹

In 1991 Latvia began moving from the socially planned management model to the capitalist market economy model. As stated in the OECD summary of policy trends of the Baltic States in the transition period, „similar to other countries undergoing transition, the Baltic States in the early nineties were offered approximately the same, ‘political approach package’: economic policy liberalization firmly grounded in a macroeconomic framework.”

During the ten year transition period, Latvia opened its internal market internationally and worked on introducing structural reforms. Liberalization of foreign investments was one of the primary reforms started with the 1991 Law On Foreign Investment in the Republic of Latvia” and continued with its changes in 1993, 1994, 1995, and 1996. Latvia has signed more than 30 bilateral double taxation avoidance and investment promotion and protection treaties. The privatization process resulting in FDI is concentrated on some of the largest light industries, energy, transport, telecommunications, and finance sector enterprises.

Table 1. Foreign direct investment in Latvia (end of year in millions lats)¹⁰

	1995	1996	1997	1998	1999
Accumulated foreign direct investments	330.5	520.5	750.2	886.2	1057.2
Foreign direct investments received in one year	94.1	210.6	303.4	209.9	202.7
Percent compared to Gross Domestic Product	4.0	7.4	9.3	5.8	5.5

Two organizations, the Latvian Development Agency (LDA) and Foreign Investment Council (FICIL) are the most important for economic policy development.

In 1993, the government established the joint-stock company Latvian Development Agency, whose goal is to attract of FDI and promote Latvian exports as well as deal with the issue of effective utilization of the energy resources. LDA is governed by the Economic Ministry, and its other members are the Foreign, Finance, Environmental Protection and Regional Development Ministry, as well as representatives of the private sector. The objective of the LDA is to ensure information dissemination, and to learn the needs of foreign investors and help them to realize investment projects in Latvia. The LDA is given rights to provide proposals for legislative changes that would improve the investment climate in Latvia. The LDA represents Latvia in international initiatives that are related to FDI¹¹.

The Foreign Investment Council’s (FICIL) mission is to improve the business environment and to promote foreign direct investments. The FICIL’s participants are ABB, Alte Leipziger, Coca-Cola, Ericsson, Ernst&Young, Jeld-Wen, Linstow ASA, Readymix Zement GmbH, Schenker-BTL, Statoil Marketing, Stora Enso, Tatko Group, Vereinsbank, Volkswagen, Volvo Truck, and the US, Great Britain, Sweden’s chambers of commerce, and the German-Latvian Business Association. The FICIL - government dialog is conducted through periodic meetings. These occur twice per year at the governmental level (including the Prime Minister, and ministers of Finance, Economics, Foreign, and Justice ministry, and other representatives) and the director level of foreign companies to discuss and evaluate foreign investment problems. Plans for initiatives to improve the business climate are worked out, improved, and implemented based on recommendations of the foreign investor council.

⁹ Sources OECD Baltic Regional Programme 2000 Annual Report (<http://www.oecd.org/pdf/M00028000/M00028542.pdf>) , 2001. Latvia Economic Overview, <http://www.lda.gov.lv>,

¹⁰ 2000 Statistical Yearbook of Latvia

¹¹ <http://www.lda.gov.lv>

The operation of business with foreign capital¹²

Investments generally are capital contributions made with the intent to increase the future value of the investment. FDI mean that foreign citizens, legal persons, or governments participate directly in choosing the objects for investment, as well as controlling and managing them. Most investments of this type are executed by foreign companies (see 1st attachment).

On March 7, 2002, Green Liberty organized a seminar for the NGOs in the social and environmental sector to determine a positive or negative experience from the operation of companies with foreign capital in Latvia. Latvia has attracted foreign business investments primarily in the textile industry and merchandising sector, where the goal is gaining quick returns. The following observations have been noted regarding these investments:

1. Worker rights offenses regarding:

- Social guarantees.
- Employment security.
- Health insurance.
- Work paid in "envelopes" (unofficial wages).
- More frequent and hidden industrial accidents.
- Work hours are not observed (extra hours, holidays, female worker offenses (labor, children to 3 years of age).
- Work contracts are not always executed.
- Foreigners work without residency permits.

2. Manufacturing and production related problems:

- Production is exported to foreign markets (export is primarily based on cheap labor or natural resources and dependence on foreign markets is increased).
- Large orders must be filled in a short time.
- Irregular orders.
- Standardization of production.

3. Enterprise leadership and control problems

- The foreign firm's in-country representation is charged only with execution of plans and policies from headquarters with no policy role.
- Good traditions cultivated in the firm's home country are not always introduced into Latvian subsidiaries.

4. Changing the consumption patterns

- Changing day to day consumption – supply of imported consumption goods overwhelms local production.
- The number of small stores has decreased in Riga's center and supermarkets (such as Rimi) are gaining monopoly status.

5. Economic aspects

- Tax breaks are foreseen for a cellulose factory.
- A cheap labor force ensures large profits for enterprises.

These are real problems that do not foster sustainable development. These also can not be taken as unavoidable sacrifices of the transition period or the current market economy.

Economic Policy

Official documents such as these are examined:

- Latvia's long term economic strategy (the Ministry of Economy 2001) (further in the text, Long Term Strategy), that offers long term (20-30 year) development scenarios to achieve the goal of reaching a quality of life for the residents of Latvia that matches that of the developed nations.

¹² Sources: Sabiedriskās Politikas Institūts, Atstāsim Rīgu saviem bērniem! Sabiedrības iesaistīšana Rīgas vēsturiskā centra nākotnes attīstības vīzijas veidošanā. Aivita Putniņa, Guntra Aistara, 2001.g & Semināra "Multinacionālo kompāniju (MNK) darbības Latvijā sociālie un vides aspekti" lekciju darba grupu piezīmes, Valsts darba inspekcijas 2001.gada pārskats, UNDP 2000.Annual Overview.

- Mid Range Economic Strategy in the Context of Joining the European Union (the Ministry of Finance, Ministry of Economy, the Bank of Latvia, 1998) (Further in the text as, Mid Range Strategy). That states mid term (3-5 year) economic policy direction to ensure sustainable economic development in conditions of unified market supporting Copenhagen Criteria¹³.
- Strategy for European Union Integration (Republic of Latvia, 2000), which states decisions for acceptance of ground rules in EU policy matters. The strategy is fulfilled when Latvia becomes EU member.
- Law On Foreign Investments in the Republic of Latvia (in force from November 5, 1995), which has a goal of attracting foreign investment to the Republic of Latvia, to ensure the observance of the interests of the Republic of Latvia.

International economic environment

It is critical to pay attention to the external factors as these are largely defining the direction of Latvia's development.

Long term economic strategy recognizes that, in the present economic order, economic and political power is owned by international organizations (World Bank, IMF, WTO) and transnational companies, while economic activity (production and marketing) is concentrated in Western Europe, North America, and South East Asia¹⁴. Strategy to benefit from such an economic order is seen as the responsibility of the individual country, with the uppermost consideration being its competitiveness.

However, the long term strategy does not mention that the public of less developed nations is directing matters of payment for ecological debts to these centers. This concept was first voiced at the 1992 gathering in Rio. The ecological debt for industrial nations has resulted from unaccountability of companies in using cheap labor and natural resources¹⁵.

Latvia's place in this environment

Economic policy anticipates that the nation must take its place in the world and European market for goods, services, and capital, as the international economy dictates the tempo and terms of trade. As a result, this causes non-sustainable liberalization for purposes of competitive advantage to increase exports and to attract more foreign investment.

Latvia's economic development

The dominant thought in long and mid term economic policy is about the economic necessity of rapid and long term growth that can be attained by transition to a new economy with its advantages - cheap mid and low qualified work force, advantageous geographic condition and natural resources. Such a policy can not be considered sustainable. It is not based on fundamental sustainable economic principles – diversity of economic activity, local self-sufficiency, and national economy based on innovation. Long term policy anticipates that investment projects are economically based so that Latvia may:

- Create large and economically effective farms in the agricultural sector;
- Become an industrial satellite for multinational manufacturers.

This kind of attitude does not speak to the ambitions of sustainable development, but only considers immediate economic benefits. As a result, it (long term strategy) points to the strategy adopted by South Korea, Taiwan, and Mexico as positive examples though the results achieved by development of these nations do not support the reality of conditions in those countries. They became the industrial satellites of companies from foreign nations. The consequences have been profound human rights and environmental offences by the production facilities of these companies.

¹³ The Copenhagen economic criteria are the development of a functioning market economy with the potential to sustain competitive pressures and the influence of market forces in the EU.

¹⁴ 89% of the world's largest multinational companies are headquartered in US (32%), ES (31%), Japan (25%).

¹⁵ <http://www.foei.org/ecodebt/>

Localization

In the long term strategy is explained as a specialization – in exports, anticipated mass production with low value-added for the producing foreign company's owned factories, using cheap labor and resources, and regionalization. This is completely in contradiction to the conception of localization held by social organizations which is the basis for a sustainable economy small-scale production for the local market sufficient to meet local demand for production and employment.

Foreign Direct Investment Policy

The long term strategy includes two classic fundamental economic assumptions that explain the necessity of FDI:

- 1) Latvia's economic growth rate is too slow therefore increased FDI is needed to speed up the rate of economic development.
- 2) Foreign companies represent not only the potential for large capital investment but also the potential for:
 - The introduction of modern technology in the economy, state of the art manufacturing management, and access to the global market;
 - Stimulate research work (laboratories, research centers), and increase the rate of technological advancement;
 - Furthering the creation of industrial clusters as well as small and mid size enterprise development¹⁶.

A goal of mid range economic policy is to attract large amounts of investment, and the liberalization of the investment climate. The primary policy direction for mid-term was/is for Latvia to join the OECD Multilateral Investment Agreement. It must be concluded that the mid range policy is not a sustainable one. With signing of the MAI (1995), the country would lose its ability to protect the interests of its residents. The secretly prepared agreement provided multinational companies the greatest rights yet. Among them, the right to sue the government in cases where, for example, in the area of environmental protection, a company is forbidden from bringing in production materials that contain toxic ingredients. The work of social organizations and several industrialized country government objections led to the termination of negotiations in 1998. Still, resumption of negotiations on the agreement are possible (or may have already occurred?) in the new WTO framework or OECD itself.

Flows of Capital

The current foreign investment climate is very liberal; foreign investors ascribe to the national regime principle. Foreign investors can freely repatriate their income and/or investments. As a result, Latvia is not safeguarded from possible flows of speculative capital threatening stability. Economic stability is one of the basic principles of sustainability.

Environment

Long term economic strategy posits assumptions that, in the future, demand will grow for a quality environment – organic food, clean air and water, and, in time, the mindset will change favoring investments in environmental protection. These are basic human rights which must have served the base of the fundamental values of any development strategy.

However, it is significant that statements can be found in the strategy whose holistic meaning is in disagreement with the rest of the text:

" Quality of life is not only goodness of products that can be consumed but also clean air, water, biodiversity, etc.";

"Environmental protection and preserving biodiversity is a fundamental prerequisite for a nation's balanced development";

¹⁶ Long-range strategy

"In modern economy social well being and harmony are not only a consequence of economic growth but also one of the most important prerequisites";

"To develop Latvia's national economy, investing the national territory as a resource for development of international economic activity, it is necessary to create factories that meet environmental requirements, integrating environmental protection requirements in sector strategies. Where possible biomass and other renewable resources should be used to increase production.

Currently, the following are forecast in normative acts:

- 30% tax rebate from the calculated income tax for those enterprises that produce high technology products or software and are certified by ISO 9001 or ISO 14001 standards, or are pharmaceutical products that are certified in accordance with normative acts as meeting the requirements of Good Production Practices¹⁷ (Law on Corporate Income Tax, 18th paragraph, 2nd point).
- Natural resource tax rebate for tax payers that finance projects whose goal is to decrease environmental pollution or natural resource consumption, furthering technological improvements or environmental protection initiatives, for such a sum that is required to realize such a project (Law on Natural Resources Tax, 16th paragraph, 1st point).
- Tax exemptions and rebates for those enterprises which voluntarily realize programs for managing packaging (Law on Natural Resources Tax, 16.1 paragraph).

Incentives for investors¹⁸

"It is a fallacy that Riga is full of supermarkets. There are still many places, areas, and streets where to purchase goods on a normal level, it is necessary to travel at least two or three kilometers...In Riga, there is 6 times less retail store area per resident than in developed European countries. This means that there are still great possibilities." , Rimi Latvia executive director Uldis Lebedevs¹⁹

- The national regime principle applies to foreign investors – this is a legal regime in which foreign investors are subject to the same kinds of rights and responsibilities as legal and physical persons resident in the Republic of Latvia (Law on Foreign Investment in the Republic of Latvia).
- For the most part there are no restrictions on foreigners regarding ownership control of Latvian enterprises.
- In most cases, if subsequent legislative acts of Latvia worsen investment conditions, foreign investments adhere for ten years to those legislative acts that were in effect at the time that the investment was executed (Law on Foreign Investments 8th paragraph, 4th point). This law also ensures the protection of foreign investments.
- A foreign investor can freely:
 - Repatriate profits following payment of taxes
 - Repatriate investment following settlement of all debt obligations (Law on Foreign Investments 11th and 12th paragraphs).
- No taxes are held for gross profit remitted to enterprise headquarters by branch operations in Latvia.
- Latvia's Development Agency.
- Investment policy anticipates tax rebates:
 - The enterprise is given a tax rebate on its corporate income for a sum that equals the foreign taxes it has paid (Law on Corporate Income Tax 16th paragraph, 1st point).
 - Foreign investors can obtain duty and VAT tax relief on imported resources that are imported as foreign investments that are not expected to be resold (Law on Foreign Investment 13th paragraph).

¹⁷ Regulations of CM Nr.396 "The Evaluation of Suitability of Pharmaceutical Manufacturing and the Procedure for Issuance of Certificates of Good Manufacturing Practices for Pharmaceutical Manufacturers.", in force from September 19, 2001.

¹⁸ Sources: Investment Guide for Latvia (OECD), Laws on Foreign Investment in the Republic of Latvia, Customs Duties, Corporate Income Tax, Excise Tax, LDA.

¹⁹ Kapitāls, 2002, #3

- Excise tax relief on exported goods for which tax has been paid on raw materials used in their production (Law on Excise Tax, 8th paragraph, 2nd point).
- Goods that are imported to be used in further processing are relieved of VAT tax (Law On Value Added Tax, 6th paragraph, 2nd point).
 - The standard VAT is 18%.
 - The Government's Freeport initiative ²⁰ (duty tax exemptions, VAT, and excise tax exemptions) and the creation of a special economic zone (80% of income tax relief and up to 100% real estate tax relief) with an effective term of 2017.
 - Creation of a technological park.
 - Foreign companies can take part in government owned enterprise privatization.
 - Foreign legal or physical persons can be the only Latvian registered enterprise founders.

Favorable Business Conditions Presented by Foreign Investors²¹:

- Strategically important geopolitical locality which ensures accessibility to EU and NIS markets with the potential of the not yet saturated Baltic regional markets.
- Accessibility of natural resources.
- Relocation of operations to gain greater returns on investment.
- Accessibility to a professional and well-educated work force.
- Overall positive attitude towards foreign investment by influential power centers and the general population

Restrictions for Foreign Investment

Change to the fundamental law over time has clearly shown that there is a tendency to prevent any norms that could ensure that foreign investors heed local resident interests or needs.

The 22/08/96 Law on Foreign Investments excluded the sixth paragraph 4th point that was in the first redaction of the law that was adopted on November 5, 1991, which anticipated the protection of the interests of the Republic of Latvia. Respectively, decisions about the foreign investments referenced in this paragraph, must consider:

- 1) The investment's impact on the economy of the Republic of Latvia especially as relates to:
 - Creation of new jobs.
 - Processing of local raw materials and use of local services.
 - Export of the Republic of Latvia's products.
- 2) The investment's impact on increasing labor productivity, technological development, improving production quality, and diversifying the range of goods produced in the Republic of Latvia.
- 3) Impact of the investment on competition in the related area.
- 4) The possibility of specific foreign capital to gain dominance in the economy of the Republic of Latvia.
- 5) The investment's impact on the competitiveness of Latvian production in the world market.
- 6) The impact of the Investment on the ecological situation.

Currently investors seeking to get a 40% reduction of income tax as provided by the Law On Corporate Income Tax 17th paragraph must take into consideration points like those listed below:

- Anticipated impact on regional development.
- Number of jobs that the project is planned to create.
- Planned use of modern technology and its introduction into the production process.
- Planned production of high technology products and the introduction of competitive technology suitable for export.
- Planned links with local enterprises (production and service consumption domains and collaboration with subsidiary enterprises).
- Anticipated impact on the environment.
- Planned exploitation of local resources (for example, material and natural resources).

²⁰ Currently there are the Riga and Ventspils freeports and the Liepaja and Rezeknes special economic zones.

²¹ Sources: 1998.OECD Survey of Companies Doing Business in Latvia, LAA

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While this could be a strong motivation for attracting responsible corporate investment, such a tax status can be claimed only for larger projects (where the investment is greater than 10 million lats). Questions are also raised by the Regulations of CM NR.410 which governs the order by which proposals for tax relief for investment projects are prepared, submitted, and evaluated, as submitted by in-country enterprises as well as non-residential permanent representatives. Based on the ruling, information about proposed projects is confidential with restricted access. The evaluation committee is primarily represented by the economic sector that could have a decisive role in decision making. Committee meetings are closed.

The 22/08/96 Law On Foreign Investment annulled the language of the first redaction of law in the 3rd paragraph, which stated that foreign investors can not gain control over enterprises which function in the following areas:

- State security.
- Narcotic preparation and distribution.
- Weapon and incendiary preparation and distribution; securities, currency notes, coin, and postmark preparation.
- In the field of mass information.
- In the field of public education
- Extraction of all natural renewable and non-renewable resources, including resources of the continental shelf.
- Fisheries in interior waters which are under the jurisdiction of the Republic of Latvia.
- Game hunting management.
- Harbor management.

Restrictions are still in place for wood product exploitation, raffles, gambling, and the domains of electronic public communication (radio, television, cable television, cable radio [radio re-broadcasting], satellite radio, satellite television, computer television, tele-text, radio data systems, and other broadcast systems):

In firms that work with wood product exploitation, there can not be a mixed enterprise whose business activities are controlled by foreign investors. Foreign investor control of business activity, as interpreted according to this law, is the foreign investor's rights to vote or otherwise state the method and direction of business activity (Regulation of CM Nr.96, adopted on April 4, 1996);

Foreign investors are not permitted to gain control of mixed enterprises which operate lotteries or gambling organizations and their upkeep. The foreign investor's ownership share of the capital stock of the joint venture enterprise can not exceed 49%. (Law On Lotteries and Gambling Games" 2nd paragraph, adopted on June 16, 1994).

Foreign investment in businesses (stock companies) that engage in business activity in the public electronic Broadcasting cannot exceed 20%. (Radio and Television law, 3rd paragraph, 8th point, adopted August 24, 1995).

The Law On Foreign Investment no longer anticipates barriers related to natural resources.

Conclusions and Recommendations

- The government's policy goal is to liberalize the investment climate and ensure the security of investments.
- A fundamental law has been adopted about attracting foreign investment in Latvia and other normative acts that state conditions for attracting investments.
- A non-profit organization has been formed whose goal is to attract FDI. This organization has rights to submit recommendations for changing legislation that affects FDI.
- A foreign investor lobbying group is operating whose recommendations are being acted on by the government to launch an initiative to improve the business climate in Latvia.
- Matters of corporate accountability and environmentally friendly production as a norm for business activity are starting to be debated outside of the economic and political elites as evidenced by occasional press publications.

- Good initiatives are underway such as business education for ISO 14001 introduction.

Problems

- As a result of liberalization of foreign investment, important norms were excluded from the governing law that provided for:
 - barriers for foreign investments in such domains as mass information facilities, natural renewable and non renewable resources, continental shelf resource extraction, inland water fisheries, hunting, and harbor management.
 - As well as protection of the interests of Latvia (referenced in 4.1.3.).

Although these norms, in their narrowest understanding, (foreign investors are not allowed to gain control of joint venture enterprises that pursue business activity in the electronic public broadcasting domain, wood processing, or lottery and gambling organization) are included in other laws, there are no comprehensive laws that encourage the formation and operation of businesses that follow sustainable development policy.

- Information accessible only through payment from Latvian government registered enterprise data bases does not further general public awareness. Low income people do not have access to this kind of information for their decision-making. Therefore a subsidiary principle is difficult to follow.
- Contradictions in political documents which result in questions:
 - 1) Does sustainable economic growth mean growth in quantity or quality?
 - 2) Does the mention of sustainable development in the introduction of strategies imply that everything else is based on economic growth?

Recommendations

1. To encourage open and honest policy that integrates the interests and needs of the elite and the public.
2. *Company sustainable business activity.* Signing of the OECD Declaration On International Investments and Multinational Enterprises that includes principles that anticipate social responsibility and environmentally friendly company operations covered in related normative acts²².
3. *Company awareness of the sustainability of their operations.* Make binding the international principles "Sustainability Reporting Guidelines"²³ that emerged in 2000.
4. *Attracting responsible business investments.* Encourage responsible business activity with discounts and anticipated advantage (tax relief, government purchases) help. Promote ethical investments and attract investments from responsible corporations.
5. *Investment for sustainable projects.* Investment in parking garages, recreational sports, and supermarket buildings in Riga's center should be reoriented to investment in public transport and its development²⁴.
6. *Stability of financial markets.* To study currency operations or more known as James Tobin's concept Tax introduction necessity and possibilities in Latvia. In theory 0.5% of dealt sum would be applicable for any transaction with currency in such a way as to not disturb market related clearing or capital gains, however it would be large enough to disallow a rush of speculative finance²⁵.

²² OECD Guidelines for Multinational Enterprises, 2000, <http://www.oecd.org/daf>

²³ Global Reporting Initiative, Sustainability Reporting Guidelines on Economic, Environmental and Social Performance, June 2000, <http://www.globalreporting.org>

²⁴ Sabiedriskās Politikas Institūts, Atstāsim Rīgu saviem bērniem! Sabiedrības iesaistīšana Rīgas vāsturiskā centra nākotnes attīstības vīzijas veidošanā. Aivita Putniņa, Guntra Aistara, 2001.g

²⁵ James Tobin A Proposal for Monetary Reform, *The Eastern Economic Journal*, 4, 1978

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1. Attachment. The largest foreign investments and investors in Latvia²⁶:

Nation	Investment ²⁷	Investor ²⁸
1. USA	138,422,858.26	K-one Inc., K-two Inc., Itera International Energy L.I.c., Pbr Hotel Ltd., Aquachart Inc., Orbitex Forwarding, Gb Baltics Llc., McDonald's Restaurant Operations Inc., International Finance Corporation, Woodison Trading Llc., Triumph Enterprises Inc., Baltic Fund 1, L.p., Griffin Trade Llc, Norbiton Assets Inc., Inex Infotrade Inc., System Experts Llc, Knightsford Corporation Llc, Rowel Agency Llc, Euronordic Brokers Ltd, Cme International, Inc., B.t. Capital Ltd, Vancouver Insurance L.I.c., Non-ferrous Castings L.I.c., Wagner Star International, L.I.c., Oregon City United Llc., Latvian Gateway Corp., Procter & Gamble Eastern Europe, Inc., Cresta Finance Llc., Trimont Ventures Corp., Visarine Investments L.I.c. Lort Finance Llc., Ht Trading Inc., Balant Trade Corporation, Agromax, Trel Llc, Elegant Express , Inc., Centroform Inc., Saratoga Commercial Llc, Multitrade Financial Group Llc., Lasania Capital Llc, Inter Expert L.I.c, Incom L.I.c, Lion Heart L.I.c., Financial Consulting Group L.I.c., Tasko Enterprise L.I.c., Business Capital International Llc., Erkort Ltd., Techno Export/import L.I.c., Seatech Technologies Co.ltd.
2. Denmark	122,464,047.80	Tilts Communications A/s, Pindstrup Moseburg A/s, Hydro Texaco A/s, Latvian Investment Group Aps, Investeringsselskab For Oslandene, Thorhild Kristensen Properties A/s, Baltic Partner, The Danish Investment Fund for Central & Eastern E, Nordea Finance Finland Ltd., Sampo Enterprise Insurance Company Limited, House of Prince, Abl Holding, Colas Danmark As,
3. Sweden	111,334,003.29	Tele 2 Aktiebolag, Telia Aktiebolag, Scandinavian Airlines System Denmark-Norway-Sweden, Baltic Beverages Holding Ab, Aga Ab, Skanska International Holding Ab, Hebeda Tra Ab, Swedfund International Ab, Volvo Truck Corporation, Modo Paper East Ab, Boksa Invest Ab, Skanska Central Europe Ab, Korsnas Aktiebolag, K.g.f. Konfektion Aktiebolag, Swedgiro Ab, Pattyranie & Co Ab, Ica Baltic Aktiebolag, Ncc Ab, East Imwest F.Bergman Ab, Stocholm School of Economics, Bt Industries Ab.
4. Germany	98,868,122.26	Gebr. Knauf Verwaltungsgesellschaft, Norddeutsche Landesbank Girozentrale, Vereins- Und Westbank A.g., Glasseiden Oschatz Gmbh., Ruhrgas Ag, Readymix Ag, Preussenelektra Ag, Koelnische Rueckversicherungs-gesellschaft, Ergo Europa Beteiligungsgesellschaft, Sia Handels Gmbh, Zus Rohstoffe Trading Gmbh, Danzer Furnierwerke Gmbh & Co Kg, Ergo Europa Beteiligungsgesellschaft Ag, Readymix Beton Aktiengesellschaft, Drig Auslandsinvestitions-gmbh, Paulman Licht Gmbh, Baltika Holzindustrie Gmbh, Buchel & Co, F.w. Langguth Erben Gmbh & Co.Kg, Impex Beteiligung Gmbh, Verlag Heinz Heinse Gmbh & Co.Kg
5. Russia	73,345,271.58	Transoefteprodukt Ao, Gazprom, Mosbiznesbank, Njuvent Ooo, Gosudarstvennij Komitet Rossijskoj Federaciji Po U, Kuzoekije Ferrosplavi Oao, Balt-market International
6. Norway	61,832,300.00	Linstow Senterutvikling As, Statoil Asa, Linstow International As, Varner Tekstil As, Linstow Asa, Investa A/s, Narvesen International As, Findexa Holding As
7. Finland	59,193,476.37	Fortum Oil and Gas Oy, Nordea Bank Finland Plc, Kesko Oyj, Thomesto Oy, Oy Rudus Ab, Abb East Ventures Oy, Ab Chips Oy Ltd., Rautakirja Oyj, Sampo Plc, Kesko Food Ltd, Suomi Mutual Life Assurance Co, Skanska Oy, Vaasan Leipomot Oy, Tamro Medlab Oy, Melia Oy, Oriola Oy, Cultor Ltd., Tikkurila Paints Oy, Stora Enso Packaging Oy, Gnt Baltic Holding Oy, Kemira Agro Oy, Vaasan & vasaan Oy, Suomen Rehu Oy
8. Estonia	56,749,018.57	Hansapank As, Rakvere Lihakombinaat As, Neotrust, Talinvest Ltd., Eesti Buss, Hipo, Beta Systems, Elme Messer Gaas, Microlink, As Magnum Medical, Pepsico Estonia Ltd., Famar-desi, Pro Kapital, E.I.I. Kinnisvara As.

²⁶ Lursoft statistika. - <http://www.lursoft.com>.

²⁷ Informācija apkopota par tiešajām investīcijām Latvijā reī istrētu uzņēmumu reī istrētajā statūtkapitālā līdz 2002.gada 25.jūnijam.

²⁸ Reī istrētie ārvalstu investori Latvijas uzņēmumu reī istrētajos statūtkapitālos, kas investējuši vismaz 0.5 milj. latu. Informācija līdz 2002.gada 25.jūnijam.

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9. Great Britain	44,138,639.01	Shell Overseas Holdings Limited, Reportapex Limited, Bsw Europe Limited, Sappo Company Ltd, European Bank of Reconstruction and Development, Overseas Credit Management Limited, Ed & F Man Sugar Ltd., Camberly Commerce Limited, Ballantine Investments Limited, Danton Eximtrans Limited, Electrotech (europe) Limited, london (uk) Limited, ollis International Ltd.
10. The Netherlands	37,506,197.11	Finhold Limited, Geit Bv, Belegginmaatschappij Geit B.v., Bombadil Holding B.v., Hydro Central Europe B.v., Bpb Gypsum Bv, Marga B.v., Cc Beverages Holdings li B.v., Koninklijke Philips Electronics N.v., Lukoil Chemical B.v., Edon International B.v., Talfin Amsterdam Holding, Kpmg International Investments B.v., Oriflame Eastern Europe B.v., Lantzov Holding B.v., Swedwood Holding B.v.