

# Latvia

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RISK & COMPLIANCE REPORT

DATE: January 2017

## Executive Summary - Latvia

<b>Sanctions:</b>	None
<b>FAFT list of AML Deficient Countries</b>	No
<b>Higher Risk Areas:</b>	US Dept of State Money Laundering Assessment
<b>Medium Risk Areas:</b>	Corruption Index (Transparency International & W.G.I.) Failed States Index (Political Issues)(Average Score)
<b>Major Investment Areas:</b>  <b>Agriculture - products:</b> grain, rapeseed, potatoes, vegetables; pork, poultry, milk, eggs; fish  <b>Industries:</b> processed foods, processed wood products, textiles, processed metals, pharmaceuticals, railroad cars, synthetic fibers, electronics  <b>Exports - commodities:</b> food products, wood and wood products, metals, machinery and equipment, textiles  <b>Exports - partners:</b> Russia 18.3%, Lithuania 15%, Estonia 12%, Germany 7.2%, Poland 5.6%, Sweden 4.8% (2012)  <b>Imports - commodities:</b> machinery and equipment, consumer goods, chemicals, fuels, vehicles  <b>Imports - partners:</b> Lithuania 18.9%, Germany 11.5%, Russia 9.3%, Poland 8.1%, Estonia 7.5%, Italy 4.6%, Finland 4.4% (2012)	
<b>Investment Restrictions:</b>  The Latvian government actively encourages foreign direct investment and works with investors to improve the country's business climate.	

Physical and legal persons who are citizens of Latvia or of other EU countries may freely purchase real property. In general, physical and legal persons who are citizens of non-EU countries ("third-country nationals") may also freely purchase *developed* real property. However, third-country nationals may not directly purchase certain types of agricultural, forest, and undeveloped land.

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## Section 1 - Background

The name "Latvia" originates from the ancient Latgalians, one of four eastern Baltic tribes that formed the ethnic core of the Latvian people (ca. 8th-12th centuries A.D.). The region subsequently came under the control of Germans, Poles, Swedes, and finally, Russians. A Latvian republic emerged following World War I, but it was annexed by the USSR in 1940 - an action never recognized by the US and many other countries. Latvia reestablished its independence in 1991 following the breakup of the Soviet Union. Although the last Russian troops left in 1994, the status of the Russian minority (some 28% of the population) remains of concern to Moscow. Latvia joined both NATO and the EU in the spring of 2004.



## Section 2 - Anti – Money Laundering / Terrorist Financing

### FATF status

Latvia is not on the FATF List of Countries that have been identified as having strategic AML deficiencies

### Compliance with FATF Recommendations

The last Mutual Evaluation Report relating to the implementation of anti-money laundering and counter-terrorist financing standards in Latvia was undertaken by the Financial Action Task Force (FATF) in 2012. According to that Evaluation, Latvia was deemed Compliant for 15 and Largely Compliant for 19 of the FATF 40 + 9 Recommendations. It was Partially Compliant or Non-Compliant for 2 of the 6 Core Recommendations.

### Key Findings from latest Mutual Evaluation Report (2012):

Latvia established an inter - agency working group to draft a national AML/CFT risk assessment in 2010 but at the time of the on - site visit the national AML/CFT risk assessment was not completed

The authorities consider that the money laundering and financing of terrorism risk has not changed considerably since the last evaluation report. Nonetheless, the authorities identified the following money laundering (ML) threats to the Latvian economy: tax evasion involving organised criminal groups, money laundering through the real estate sector, grey economy, phishing schemes and fraud involving complex legal arrangements. The authorities consider the terrorist financing (TF) risk to be low.

Latvia has a comprehensive legal structure and has taken significant legislative steps to remedy many of the deficiencies identified in the third evaluation round, particularly on the preventive side. In particular, Latvia enacted a new Law on the Prevention of Laundering the Proceeds from Criminal Activity (Money Laundering) and of Terrorist Financing (AML/CFT Law) on 13 August 2008 . The last amendment to the AML law , which entered into force on the 31 st of March 2011 , brought the material elements of the ML offence more into line with the Palermo and Vienna Conventions.

The TF offence is incriminated in the Criminal Law, but does not fully encompass all TF Convention and Special Recommendation (SR) II requirements. The evaluators noted that the Criminal Law does not specifically cover all acts which constitute an offence within the scope of, and as defined in, some of the treaties listed in the Annex to the TF Convention . The limitation arises from the fact that a part of the offences need to have an additional mental element in order to qualify as acts of terror.

The amendments made to the Criminal Procedural Law (CPL) since 2006 have improved the legislative framework for confiscation, particularly by subjecting indirect proceeds of crime to confiscation. The Latvian legal system has two confiscation concepts, which are the penalty confiscation and the confiscation of criminally obtained property. The Latvian legal framework provides for provisional measures and confiscation with regard to property laundered, proceedings from and instrumentalities used in and intended for use in ML and TF or other predicate offences. The results of the national risk assessment were planned to be published in September 2011 after the on-site visit concluded.

Latvia has implemented the UN Security Council Resolutions (UNSCRs) 1267 and 1373 by means of EU Council Regulations and Common Positions, as well as under the AML/CFT Law and other national legislation. The implementation of SR.III relies upon the application of binding EU legislation; however, the overall co-ordination on dissemination of the lists is unclear. While on the financial side the persons subject to the AML/CFT Law seemed to be sufficiently aware of the obligations related to SR III, there is a lack of appropriate coordination on the dissemination of the lists which stem from the UNSCR and EC Regulations in respect of some designated non-financial businesses and professions (DNFBP) sectors (real estate agents, car dealers, auditors and lawyers).

The Latvian AML Law establishes the Financial Intelligence Unit (FIU) referred to as the Office for Prevention of Laundering of Proceeds derived from Criminal Activity; within the Prosecutor's Office system. The Latvian FIU is entitled to disseminate its reports either to the pre-investigation institutions or directly to the Prosecutor's Office. This is considered to be a welcome improvement from the position in the third round evaluation report. The Latvian FIU's disseminations to the competent Law enforcement agencies (LEA) are mainly related to criminal offences of tax evasion and misuse of bank accounts (mainly abroad). Guidelines provided to the reporting entities are generic and not sector-specific to the financial institutions (FIs) and DNFBP.

Overall progress has been made to strengthen the preventive AML/CFT system. The AML/CFT Law has expanded the scope of persons subject to the AML/CFT Law (obligors), established enhanced customer due diligence measures, increased the number of supervisory authorities and their role in preventing money laundering and terrorism financing, and introduced a risk-based approach to customer due diligence (CDD). Since the last Mutual Evaluation Report (MER), the Latvian authorities have established the concept of Enhanced CDD through both law and regulation - where Latvia has applied it to PEPs, Correspondent banking, and non face-to-face business. In particular, the Financial and Capital Market Commission (FCMC) issued the Regulation for Enhanced Due Diligence that is binding on its obligors. The financial sector appears to be aware of the prohibition on the use of anonymous accounts; however fictitious accounts and numbered accounts are not expressly prohibited by law. With respect to politically exposed persons (PEPs), Latvia has adopted a restrictive legal approach, therefore not covering all categories of persons in the FATF definition.

The Latvian AML/CFT Law establishes an obligation for all covered entities to report to the FIU without delay any unusual or suspicious transaction for ML and TF.

Since the 3<sup>rd</sup> round report Latvia has improved the supervisory regime, transposing into the new AML/CFT law both the provisions of the third European Union (EU) AML/CFT Directive (2005/60/EC) and its Implementing Directive (2006/70/EC). Under the new AML/CFT legal framework, almost all FIs have a designated supervisory authority. However, the evaluation team found a lack of a dedicated supervisor for the following categories: persons providing money collecting services, reinsurance services, and micro - credit lending services provided by non - banks.

The AML/CFT supervision of the financial sector is divided between the FCMC, the Bank of Latvia (BoL) and the Ministry of Transport (MoT). However, according to the AML/CFT Law, only the FCMC is permitted to issue regulatory provisions for the supervision and control of AML/CFT regime. This raises questions with regard to the regulation and supervision of both sectors.

The FCMC is the only supervisory entity that can issue financial sanctions, according to the AML/CFT Law. The BoL, on the other hand, can suspend licenses for a limited period of time or withdraw the license. This power has been exercised in practice for failure to comply with AML/CFT regulations. The MoT's sanctioning powers are unclear.

With regard to DNFBP, Latvia has also designated the Ministry of Finance's State Revenue Service as a supervisory body for most DNFBP. During the on - site visit, the team noted that there was a lack of effective systems for monitoring and ensuring compliance with CDD requirements across most of the DNFBP sectors, as well as indications of gaps in CDD practices among DNFBP.

As set out in the 3<sup>rd</sup> round mutual evaluation report (MER), Latvia is a party to a number of international agreements, such as the 1959 European Convention on Mutual Legal Assistance (MLA) in Criminal Matters and its Additional Protocols, and the 1990 Strasbourg Convention and 2005 Warsaw Convention. It is a party to several bilateral mutual legal assistance agreements. MLA is provided on the basis of international, bilateral, or multilateral agreements, where available. Where there is no agreement on MLA, the CPL states that MLA is provided on the basis of reciprocity.

#### US Department of State Money Laundering assessment (INCSR)

Latvia was deemed a Jurisdiction of Primary Concern by the US Department of State 2016 International Narcotics Control Strategy Report (INCSR).

Key Findings from the report are as follows: -

#### **Perceived Risks:**

Latvia is a regional financial center with a large number of commercial banks and a sizeable non-resident deposit base. Foreign depositors account for more than half of the 30 billion euros (approximately \$33 billion) in Latvia's banking system, which markets itself as a gateway to the European Union. Nonresident cash continues to flow across the border from neighboring Russia and other former Soviet states. The Financial and Capital Market Commission (FCMC) stated in May 2015 that the growth of nonresident deposits from Russia

has remained steady despite international sanctions imposed in the spring of 2014. Nonresident deposits pose a substantial risk in that money obtained from corruption and other crimes committed outside of Latvia can be laundered inside the country. Latvia's geographic location, large untaxed shadow economy (estimated at about 25 percent of the overall economy), and public corruption make it challenging to combat money laundering.

Officials do not consider proceeds from illegal narcotics to be a major source of laundered funds in Latvia. Authorities identify the primary sources of money laundered in Latvia as tax evasion; organized criminal activities, such as prostitution and fraud perpetrated by Russian and Latvian groups; and other forms of financial fraud. Officials also report that questionable transactions and the overall value of laundered money have remained below pre-financial crisis levels. Latvian regulatory agencies monitor financial transactions to identify instances of terrorism financing.

There is a black market for smuggled goods, primarily cigarettes, alcohol, and gasoline; however, contraband smuggling does not generate significant funds that are laundered through the official financial system.

Four special economic zones provide a variety of significant tax incentives for manufacturing, outsourcing, logistics centers, and the transshipment of goods to other free trade zones. The zones are covered by the same regulatory oversight and enterprise registration regulations that exist for other areas.

***Do financial institutions engage in currency transactions related to international narcotics trafficking that include significant amounts of US currency; currency derived from illegal sales in the U.S.; or illegal drug sales that otherwise significantly affect the U.S.:*** NO

***Criminalization of money laundering:***

***"All serious crimes" approach or "list" approach to predicate crimes:*** All serious crimes

***Are legal persons covered: criminally:*** YES ***civilly:*** YES

***Know-your-customer (KYC) rules:***

***Enhanced due diligence procedures for PEPs: Foreign:*** YES ***Domestic:*** NO

***KYC covered entities:*** Banks, credit institutions, life insurance companies, and intermediaries; private pension fund administrators, investment brokerage firms, and management companies; currency exchange offices, payment service providers, money transmission or remittance offices, and e-money institutions; tax advisors, external accountants, and auditors; notaries, lawyers, and other independent legal professionals; trust and company service providers; real estate agents or intermediaries; organizers of lotteries or other gaming activities; persons providing money collection services; EU-owned entities; and any high-value goods merchant, intermediary, or service provider

***REPORTING REQUIREMENTS:***

***Number of STRs received and time frame:*** 6,923: January 1 - November 1, 2015

**Number of CTRs received and time frame:** 6,134: January 1 - November 1, 2015

**STR covered entities:** Banks, credit institutions, life insurance companies, and intermediaries; private pension fund administrators, investment brokerage firms, and management companies; currency exchange offices, payment service providers, money transmission or remittance offices, and e-money institutions; tax advisors, external accountants, and auditors; notaries, lawyers, and other independent legal professionals; trust and company service providers; real estate agents or intermediaries; organizers of lotteries or other gaming activities; persons providing money collection services; any high-value goods merchant, intermediary, or service provider; and public institutions

**money laundering criminal Prosecutions/convictions:**

**Prosecutions:** 27: January 1 - November 1, 2015

**Convictions:** 14: January 1 - November 1, 2015

**Records exchange mechanism:**

**With U.S.: MLAT:** YES **Other mechanism:** YES

**With other governments/jurisdictions:** YES

Latvia is a member of the Council of Europe Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism (MONEYVAL), a FATF-style regional body.

**Enforcement and implementation issues and comments:**

On June 30, 2015, several amendments were made to the Law on the Prevention of Money Laundering and Terrorism Financing. The amendments empower credit institutions to inform Latvia's Financial Intelligence Unit (FIU) of any suspicious transactions involving accounts closed by their clients, and more clearly define the institutions from which the FIU is permitted to request and receive information. The amendments also require these institutions to provide information on international passengers, airports, and aero-navigation service owners and related officials where money laundering, terrorism financing, or threats to national security are suspected.

Under Latvian law, foreign politically exposed persons (PEPs) are always subject to enhanced due diligence procedures, but domestic PEPs are not. The FCMC reports it is developing enhanced due diligence regulations as well as language for draft legislation that would ultimately extend existing PEP rules to cover domestic PEPs.

The 27 cases prosecuted in the first 11 months of 2015 involved 84 individuals. During 2015, Latvian authorities took additional actions against high-level government officials and appointees. In August, the Bureau to Prevent and Combat Corruption (KNAB) detained the CEO of state-owned Latvian Railways for two months for allegedly accepting a 500,000 euro (approximately \$546,000) bribe. The CEO posted bail and was freed, pending trial. In November, the Prosecutor's Office opened a criminal case against the Riga Freeport CEO and his deputy, who are suspected of using their official positions for private gain. The Riga Freeport Board declined to remove the two officials while proceedings are ongoing. Both

cases are pending. In December 2015, the FCMC announced a 2.0 million euro (approximately \$2.2 million) fine – its largest ever – against the Latvian branch of Ukrainian-owned PrivatBank and ordered the bank to fire its board for its role in handling cash from an alleged multi-billion euro fraud in Moldova. Also that month, the Latvian State Police arrested and searched the offices of two Trasta Komerbanka employees suspected of criminal involvement in money laundering. By late December, Latvian media had reported both a pre-trial investigation and an FCMC probe of the bank’s internal control system were underway.

In October 2015, the Organization of Economic Cooperation and Development’s Anti-Bribery Working Group released a report expressing concern about Latvian enforcement capacity and efforts to combat corruption and money laundering. It raises “serious concerns” about KNAB’s effectiveness, ongoing conflicts among personnel, and insulation from potential political interference that have overshadowed KNAB’s investigative efforts. The report further highlights the risks to Latvia’s banking system of money laundering by non-resident clients, FCMC’s failure to detect large-scale transfers subsequently reported in the media, and the low number of money laundering investigations and resulting convictions. The report recommends Latvia make further legislative amendments in the areas of foreign bribery, extradition, corporate liability, and external auditor reporting. It also urges FCMC to require banks that take nonresident deposits to adopt stronger AML measures, to inspect banks more frequently, and to punish banks that violate the law.

While Latvia has taken steps to implement anti-corruption and AML/CFT legislation, enforcement must be strengthened. Latvian banks continue to invest substantially in IT systems to develop programs for identifying high-risk clients. However, they should enforce a higher standard of due diligence and KYC best practices. The FCMC should inspect banks more regularly, investigate alleged malfeasance more aggressively, and impose penalties where appropriate, while continuing efforts to increase its human and financial resources, specifically for AML purposes. The government also should devote appropriate resources to its AML and anti-corruption programs and take steps to correct noted deficiencies.

#### **Current Weaknesses in Government Legislation (2013 INCRS Comparative Tables):**

According to the US State Department, Latvia conforms with regard to all government legislation required to combat money laundering

#### **EU White list of Equivalent Jurisdictions**

Latvia is on the EU White list of Equivalent Jurisdictions

#### **World Governance indicators**

[To view historic Governance Indicators Ctrl + Click here and then select country](#)

## **Failed States Index**

[To view Failed States Index Ctrl + Click here](#)

## **Offshore Financial Centre**

Latvia is not considered to be an Offshore Financial Centre

### US State Dept Narcotics Report

No report available

### US State Dept Trafficking in Persons Report 2014 (introduction):

Latvia is classified a Tier 2 country - a country whose government does not fully comply with the Trafficking Victims Protection Act's minimum standards, but is making significant efforts to bring themselves into compliance with those standards.

Latvia is a source and destination country for women and children subjected to sex trafficking and a source country for women, men, and children subjected to forced labor. Latvian women and girls are forced into prostitution overseas, in Austria, Belgium, Cyprus, Germany, Ireland, the Netherlands, Russia, Sweden, and the United Kingdom (UK), as well as within Latvia. Latvian men and women are subjected to forced labor abroad, including in Denmark, Germany, Russia, and the UK. Latvian women in brokered marriages in Western Europe, particularly Ireland, were vulnerable to domestic servitude and sex trafficking. Unemployed adults, single mothers, people raised in state-run institutions, and individuals with mental disabilities are particularly vulnerable to trafficking in persons.

The Government of Latvia does not fully comply with the minimum standards for the elimination of trafficking; however, it is making significant efforts to do so. The Latvian government continued to identify and provide care for victims exploited in labor and sex trafficking abroad. Latvian authorities provided some victims with compensation and witness protection; however, it did not identify any trafficking victims within Latvia for enrollment into the state assistance program. The government demonstrated strong prevention efforts through sponsoring awareness-raising activities, developing a comprehensive seven-year national action plan to combat trafficking, and applying new legal provisions targeting unscrupulous recruiters who arranged fraudulent marriages. Regardless of the improved anti-trafficking response by Latvia's State Police, other law enforcement and judiciary efforts remained the Government of Latvia's weakest area, as officials prosecuted and convicted very few cases under the anti-trafficking statute.

### Latest US State Dept Terrorism Report - 2009

In May, the Cabinet of Ministers approved an action plan for responding to terrorist threats and attacks on people or objects in Latvia's territory. In September, Latvia established a working group to develop an action plan for terrorist or pirate attacks against Latvian ships anywhere in the world. The Transportation Ministry is currently developing legislation to control hazardous cargo and is developing an action plan to respond to emergency situations related to hazardous cargo. Latvia regularly participates in the European Union's Terrorism Working Group.

In October, the Counterterrorism Centre of the Latvian Security Police and the Riga International Airport organized a counterterrorism exercise that simulated a plane hijacking and hostage situation. Representatives from the Security Police, Riga International Airport, Civil Aviation Agency, State Border Guards, State Police, State Fire and Rescue Service, Centre of Emergency and Disaster Medicine, and the Prosecutor General's Office participated.

As of December, Latvia was contributing 170 soldiers to support the International Security Assistance Force in Afghanistan, including an Operational Mentoring and Liaison Team. Latvia's Financial Intelligence Unit maintained a terrorist financing database that it shared with local banks.

## International Sanctions

None applicable

## Bribery & Corruption

Index	Rating (100-Good / 0-Bad)
Transparency International Corruption Index	57
World Governance Indicator – Control of Corruption	68

## Corruption and Government Transparency - Report by US State Department

Latvian law enforcement institutions, foreign business representatives, and non-governmental organizations, such as Transparency International, have identified corruption and the perception of corruption as persistent problems in Latvia. According to the 2013 Corruption Perception Index by Transparency International, Latvia ranks 49th out of 177 countries (in order from the lowest perceived level of public sector corruption to the highest). Among EU member states, Latvia ranks 20th out of 28.

In an effort to strengthen its anti-corruption program, the Latvian government has adopted several laws and regulations, including the 1998 Law on Money Laundering (amended in 2009), and the 2002 Law on Conflicts of Interest (replacing the 1995 Anti-Corruption Law). The Conflicts of Interest Law imposes restrictions and requirements on public officials and their relatives. Several provisions of the law deal with the previously widespread practice of holding several positions simultaneously, often in both the public and private sector. The law includes a comprehensive list of state and municipal jobs that cannot be combined with additional employment. Moreover, the law expands the scope of the term “state official” to include members of boards and councils of companies with state or municipal capital exceeding 50 percent.

Latvia has signed the Council of Europe’s Criminal Convention on Corruption and the United Nations Convention against Corruption. Latvia will become a member of the OECD Anti-Bribery Convention on May 30, 2014.

Under Latvian law, it is a crime to offer or to accept a bribe or to facilitate an act of bribery. Although the law stipulates heavy penalties for bribery, there have been only a limited number of government officials prosecuted and convicted for corruption. On April 1, 2013, new amendments to the Latvian Criminal Law came into effect which broadens the definition of state and local government employees to enable wider anti-bribery enforcement. The amendments also create the possibility of withdrawing charges against a person giving a bribe in cases where the bribe has been extorted, or in cases where the person voluntarily reports these incidents and actively assists the investigation.

The primary institution responsible for combating corruption is an independent anti-corruption agency -- the Anti-Corruption Bureau (known by its Latvian acronym KNAB) -- whose task is to

carry out operational activities on fighting incidents of corruption. The Crime Prevention Council chaired by the Prime Minister is in charge of coordinating and supervising all state authorities' activities to prevent crime and corruption. The Prosecutor General's Office also plays an important role in fighting corruption.

There is a perceived lack of fairness and transparency in the public procurement process in Latvia. A number of companies, including foreign companies, have complained that bidding requirements are sometimes written with the assistance of potential contractors or couched in terms that exclude all but "preferred" contractors.

A regulation of the Cabinet of Ministers provides for public access to government information, and the government generally provided citizens such access. There were no reports that noncitizens or the foreign media have been denied access.

## Section 3 - Economy

Latvia is a small, open economy with exports contributing nearly a third of GDP. Due to its geographical location, transit services are highly-developed, along with timber and wood-processing, agriculture and food products, and manufacturing of machinery and electronics industries. Corruption continues to be an impediment to attracting foreign direct investment and Latvia's low birth rate and decreasing population are major challenges to its long-term economic vitality. Latvia's economy experienced GDP growth of more than 10% per year during 2006-07, but entered a severe recession in 2008 as a result of an unsustainable current account deficit and large debt exposure amid the softening world economy. Triggered by the collapse of the second largest bank, GDP plunged 18% in 2009. The economy has not returned to pre-crisis levels despite strong growth, especially in the export sector in 2011-12. The IMF, EU, and other international donors provided substantial financial assistance to Latvia as part of an agreement to defend the currency's peg to the euro in exchange for the government's commitment to stringent austerity measures. The IMF/EU program successfully concluded in December 2011. The government of Prime Minister Valdis DOMBROVSKIS remains committed to fiscal prudence and reducing the fiscal deficit. The majority of companies, banks, and real estate have been privatized, although the state still holds sizable stakes in a few large enterprises, including 99.8% ownership of the Latvian national airline. Latvia officially joined the World Trade Organization in February 1999 and the EU in May 2004. Latvia intends to join the euro zone in 2014.

### **Agriculture - products:**

grain, rapeseed, potatoes, vegetables; pork, poultry, milk, eggs; fish

### **Industries:**

processed foods, processed wood products, textiles, processed metals, pharmaceuticals, railroad cars, synthetic fibers, electronics

### **Exports - commodities:**

food products, wood and wood products, metals, machinery and equipment, textiles

### **Exports - partners:**

Russia 18.3%, Lithuania 15%, Estonia 12%, Germany 7.2%, Poland 5.6%, Sweden 4.8% (2012)

### **Imports - commodities:**

machinery and equipment, consumer goods, chemicals, fuels, vehicles

### **Imports - partners:**

Lithuania 18.9%, Germany 11.5%, Russia 9.3%, Poland 8.1%, Estonia 7.5%, Italy 4.6%, Finland 4.4% (2012)

## Banking

Latvian government policies do not interfere in the free flow of financial resources or the allocation of credit. Local bank loans are available to foreign investors.

The regulatory framework for commercial banking incorporates all principal requirements of European Union directives. A unified capital and financial markets regulator was launched on July 1, 2001, replacing the Securities Market Commission, the Insurance Inspectorate, and the Bank of Latvia's Banking Supervision Department. Existing banking legislation includes provisions on accounting and financial statements (strict adherence to international accounting standards is required), minimum initial capital requirements, capital adequacy requirements, large exposures, restrictions on insider lending, open foreign exchange positions and loan-loss provisions. An Anti-Money Laundering Law and Deposit Insurance Law have been adopted, and an independent anti-money laundering unit is operating under the supervision of the Prosecutor General's Office.

## Stock Exchange

The Riga Stock Exchange began operations in 1995. France assisted Latvia in setting up the securities market based on a continental European model. In 1997, the RSE was admitted to the International Federation of Stock Exchanges as a corresponding emerging market. The RSE was the first exchange in Eastern Europe to create an index in cooperation with Dow Jones. Today it is part of the NASDAQ/OMX Baltic group of exchanges.

### Executive Summary

Located in the Baltic region of northeastern Europe, Latvia is a member of the EU, eurozone, NATO, and the World Trade Organization (WTO). Latvia became a member of the eurozone on January 1, 2014, which further improves Latvia's advantages as an investment destination. The Latvian government recognizes that Latvia, as a small country, must attract foreign investment in order to foster economic growth, and thus has pursued liberal economic policies. According to the World Bank's Doing Business Report 2014, Latvia is ranked 24th out of 189 countries in terms of ease of doing business.

As an EU country, Latvia applies EU laws and regulations, and, according to current legislation, foreign investors possess the same rights and obligations as local investors. Any foreign investor is entitled to establish and own a company in Latvia and has the opportunity to acquire a temporary residence permit.

Latvia provides several advantages to potential investors, and among them are the following:

Latvia provides strategic access to the EU market and the emerging markets of Russia and Central Asia. Companies can take advantage of Latvia's location as a regional hub that offers access to large neighboring markets.

Latvia's three ice-free ports are connected to the country's rail and road networks and the largest international airport in the Baltic region. The road network is connected to both European and Central Asian road networks. The railroads connect Latvia with the other Baltic states, Russia, and Belarus, with further connections extending into Central Asia and China.

Latvia offers a workforce that is well-educated, multilingual, and cost-competitive with other EU countries. Labor costs in Latvia are the 4th lowest in the EU. Latvia has one of the lowest corporate income tax rates in the EU at a flat rate of 15 percent, and personal income tax rate of 24 percent.

To further boost its competitiveness, the Latvian government has established special incentives for investment, both foreign and domestic. There are four special economic zones (SEZs) in Latvia: Riga Free Port, Ventspils Free Port, Liepaja Special Economic Zone, and Rezekne Special Economic Zone, which provide various tax benefits for investors.

The most competitive sectors in Latvia are woodworking, metalworking, food processing, IT, life science, green tech, and finance.

### 1. Openness To, and Restrictions Upon, Foreign Investment

#### Attitude Toward FDI

The Latvian government actively encourages foreign direct investment and works with investors to improve the country's business climate. To strengthen these efforts, the Latvian government has introduced the POLARIS process, a mechanism designed to create an alliance between the public sector, including national and local governments; the private

sector, covering both national and international companies; and major Latvian academic and research institutions to encourage foreign direct investment and spur economic growth. The Latvian government also meets annually with the Foreign Investors Council in Latvia (FICIL), which represents large foreign companies and chambers of commerce, with the express purposes of improving the business environment and encouraging foreign investment. The Coordination Council for Large and Strategically Important Investment Projects is chaired by the Prime Minister.

### **Other Investment Policy Reviews**

Although there have been no policy reviews specifically involving Latvia, the WTO published its latest review of the European Union on July 18, 2013 ([http://www.wto.org/english/tratop\\_e/tpr\\_e/tp384\\_e.htm](http://www.wto.org/english/tratop_e/tpr_e/tp384_e.htm)).

### **Industrial Strategy**

Latvia has established a National Industrial Policy (NIP) covering 2013-2020, which aims to promote structural changes in the economy to foster the manufacture of goods and services with higher added value. More information on the NIP is available here: [http://www.em.gov.lv/images/modules/items/finl\\_en%20\(1\).pdf](http://www.em.gov.lv/images/modules/items/finl_en%20(1).pdf).

### **Limits on Foreign Control**

Physical and legal persons who are citizens of Latvia or of other EU countries may freely purchase real property. In general, physical and legal persons who are citizens of non-EU countries ("third-country nationals") may also freely purchase developed real property. However, third-country nationals may not directly purchase certain types of agricultural, forest, and undeveloped land. Such persons may, however, acquire ownership interest in such land through a company registered in the Register of Enterprises of the Republic of Latvia, provided that more than 50 percent of the company is owned by: (a) Latvian citizens and/or Latvian governmental entities; and/or (b) physical or legal persons from countries with which Latvia signed and ratified an international agreement on the promotion and protection of investments on or before December 31, 1996; or for agreements concluded after this date, so long as such agreements provide for reciprocal rights to land acquisition. The United States and Latvia have such an agreement. In addition, foreign investors can lease land without restriction for up to 99 years. As of May 1, 2014 changes in the Law on Land Privatization in Rural Areas will allow EU citizens to purchase Latvia's agricultural land and forests. Other restrictions apply (to both Latvian citizens and foreigners) to the acquisition of land in Latvia's border areas, Baltic Sea and Gulf of Riga dune areas, and other protected areas.

### **Privatization Program**

The Law on Privatization of State and Municipal Property governs the privatization process in Latvia. The Latvian Privatization Agency (LPA), established in 1994, uses a case-by-case approach to determine the method of privatization for each state enterprise. The three allowable methods are: public offering, auction for selected bidders, and international tender. For some of the largest privatized companies, a percentage of shares may be sold publicly on the NASDAQ OMX Riga Stock Exchange. The government may maintain shares in

companies deemed important to the state's strategic interests. Privatization of small and medium-sized state enterprises is considered to be largely complete.

Latvian law designates six State Joint Stock Companies that cannot be privatized: Latvenergo (Energy and Mining), Latvijas Pasts (Services), International Airport Riga, Latvijas Dzelzceļš (Automotive and Ground Transportation), Latvijas Gaisa Satiksme (Aerospace and Defense), and Latvijas Valsts Meži (Forestry). Other large companies in which the Latvian government holds a controlling interest include airBaltic (Travel), Lattelecom (Information and Communication), and Latvian Mobile Telephone (Information and Communication).

### **Screening of FDI**

In keeping with European Union and World Trade Organization requirements, there is generally no screening of foreign investment. However, in cases of greenfield investment requiring licenses regulated by the Public Services Regulatory Commission, or when the state offers tax exemptions or other concessions, significant due diligence measures may be applied. Tender regulations for greenfield investment projects are prepared on a case-by-case basis.

Business activities are regulated by the Commercial Law, the latest version of which came into force on January 1, 2002. The Commercial Law serves as the legal framework for establishing, registering, operating, and closing a business in Latvia. The law specifies five possible business legal entities: individual merchants, partnerships (general and limited), and corporations (joint stock and limited liability companies). Legislation that went into effect in 2010 offers special tax treatment for qualifying "micro-enterprises." Latvia has established the Large and Strategically Important Investment Project Coordination Committee to promote the successful implementation of imperative investment projects and to organize cooperation between governmental institutions, municipalities, educational institutions, special economic zones and free ports. The Committee is led by the Prime Minister as the chairman of the board and the Minister of Economics as the deputy chairman.

### **Competition Law**

The competition environment is supervised by the Competition Council (CC). More information can be accessed at: <http://www.kp.gov.lv/en>

### **Investment Trends**

In December 2012, the Latvian government announced its full repayment ahead of schedule of an International Monetary Fund (IMF) loan that it had received to mitigate the effects of its 2008-2009 economic crisis. During the crisis, Latvia saw a reduction in FDI and a drop in GDP of almost 25 percent. FDI flows already exceed pre-crisis levels and the Latvian government expects to conclude 2014 with economic growth of 4.2 percent. The chart below shows Latvia's rank on several prominent international measures of interest to potential investors.

**TABLE 1:** The following chart summarizes several well-regarded indices and rankings.

Measure	Year	Rank or value	Website Address
TI Corruption Perceptions index	2013	(49 of 177)	<a href="http://cpi.transparency.org/cpi2013/results/">http://cpi.transparency.org/cpi2013/results/</a>
Heritage Foundation's Economic Freedom index	2013	(42 of 177)	<a href="http://www.heritage.org/index/ranking">http://www.heritage.org/index/ranking</a>
World Bank's Doing Business Report "Ease of Doing Business"	2013	(24 of 189)	<a href="http://doingbusiness.org/rankings">http://doingbusiness.org/rankings</a>
Global Innovation Index	2013	(33 of 142)	<a href="http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener">http://www.globalinnovationindex.org/content.aspx?page=gii-full-report-2013#pdfopener</a>
World Bank GNI per capita	2012	14,120USD	<a href="http://data.worldbank.org/indicator/NY.GNP.PCAP.CD">http://data.worldbank.org/indicator/NY.GNP.PCAP.CD</a>

## 2. Conversion and Transfer Policies

### Foreign Exchange

On January 1, 2014, Latvia adopted the euro as its currency.

There are no restrictions on exchanging currencies or capital movement. Foreign investors are allowed to extract their profits in any currency with no restraints. As of April 17, 2014, one euro is worth \$1.384.

### Remittance Policies

Latvian law provides for unrestricted repatriation of profits associated with an investment. Investors can freely convert local currency into foreign exchange at market rates, and have no difficulty obtaining foreign exchange from Latvian commercial banks for investment remittances. Exchange rates and other financial information can be obtained at the Central Bank of Latvia's web site: [www.bank.lv](http://www.bank.lv).

### **3. Expropriation and Compensation**

There have been no cases of arbitrary expropriation of private property by the Government of Latvia. Expropriation of foreign investment is possible in a very limited number of cases specified in the Law on Expropriation of Real Property. Compensation must be paid in full within three months of the date of expropriation. If the owner of the property claimed by the government deems the compensation inadequate, the owner has the right to appeal to a Latvian court.

### **4. Dispute Settlement**

#### **Legal System, Specialized Courts, Judicial Independence, Judgments of Foreign Courts**

The 1993 Law on Judicial Power introduced a three-tier court system. Judicial power is exercised by town, city, and rural districts; regional courts; and the Supreme Court. In addition, the Constitutional Court reviews the compatibility of decrees and acts of the President of the Republic, the government, and local authorities with the constitution and the law. Unless otherwise stipulated by law, district courts are the courts of first instance in all civil, criminal, and administrative cases. Regional courts are vested with the authority of appellate review for district court verdicts. In addition, regional courts are courts of first instance for cases specified in the Civil Code. Such cases include cases on the protection of patent rights, trademarks, and geographical indications; and cases on the insolvency and liquidation of credit institutions. The Supreme Court consists of the Senate and two Chambers of Court: the Civil Chamber of Court and the Criminal Chamber of Court.

City and regional courts are administered by the Ministry of Justice ([www.tm.gov.lv](http://www.tm.gov.lv)). The Supreme Court and Constitutional Court are independent. The Ministry has enacted reforms which have reduced the backlog of cases in the lower courts. Nevertheless, improvements in the judicial system are still needed to accelerate the adjudication of cases, to strengthen the enforcement of court decisions, and to upgrade professional standards.

#### **Bankruptcy**

There are two laws governing bankruptcy procedure: the Law on Insolvency, which came into force on January 1, 2008, amended in November 2010; and the Law on Credit Institutions (regulating bankruptcy procedures for banks and other financial sector companies), which came into effect in 1995. Recent changes to the Law on Insolvency were designed to make the process more efficient and accessible to physical persons.

According to the World Bank's Doing Business Report 2014 Latvia ranked 43rd out of 189 countries in terms of ease of resolving insolvency.

#### **Investment Disputes**

Investment disputes concerning U.S. or other foreign investors and Latvia are generally rare.

#### **International Arbitration**

A register of arbitration institutions was established in 2005. According to the information available in the register, there are 213 arbitration institutions registered in Latvia

([www.ur.gov.lv](http://www.ur.gov.lv)). In most commercial agreements, parties opt to refer their disputes to arbitration rather than to the Latvian courts.

The Civil Procedure Law, which came into force on March 1, 1999, contains a section on arbitration courts. This section was drafted on the basis of the UNCITRAL model law, thus providing full compliance with international standards. The law also governs the enforcement of rulings of foreign non-arbitral courts and foreign arbitrations. The full text of the law in English can be found at: [www.vvc.gov.lv](http://www.vvc.gov.lv).

### **ICSID Convention and New York Convention**

Latvia has been a member of the International Center for the Settlement of Investment Disputes (ICSID) since 1997 and a member of the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards since 1992. Judgments of foreign arbitral courts that are made in accordance with either can therefore be enforced in Latvia. The Civil Procedure Law stipulates that the judgments of foreign non-arbitral courts can be enforced in Latvia.

### **Duration of Dispute Resolution**

Investment and commercial dispute resolution proceedings in Latvia typically take between two and three years, if the case is reviewed at all possible levels and the involved parties do not deliberately delay the proceedings. It should be noted that the length of these proceedings can differ significantly depending on the Latvian region in which the case is filed.

## **5. Performance Requirements and Investment Incentives**

### **Investment Incentives**

The Latvian government extends national treatment to foreign investors. Therefore most investment incentives and requirements apply equally to local and foreign businesses. Latvia has two special economic zones and two free ports in which companies benefit from various tax rebates (real estate, dividend, and corporate income) and do not pay VAT. Long-term investments exceeding 7 million euros (approximately \$9.66 million) are considered large scale and thus receive a tax rebate on initial long-term investment of 25 percent of the investment amount up to 50 million euro and 15 percent above 50 million euro.

### **Research and Development**

The Latvian government offers incentive schemes for investment, both foreign and domestic, in several free ports, special economic zones, and in special support regions, as well as through the POLARIS process. The process provides free support for investors from the preparation phase up until the investment project is completed. For more information on these programs, see [www.liaa.gov.lv](http://www.liaa.gov.lv) and [www.polarisprocess.com](http://www.polarisprocess.com).

### **Performance Requirements**

Except for specific requirements for investors acquiring former state enterprises through the privatization process, there are no performance requirements for a foreign investor to establish, maintain, or expand an investment in Latvia. In the privatization process,

performance requirements for investors, both foreign and domestic, are determined on a case-by-case basis.

Under Latvian law, foreign citizens can enter Latvia for temporary business activities for up to three months in a half-year period. For longer periods of time, foreigners are required to obtain residence and work permits.

A physical third-country national may obtain a five-year temporary residence permit if he or she has made certain minimum equity investments in a Latvian company, certain subordinated investments in a Latvian credit institution, or purchased real estate for certain designated sums, subject to limitations in each case.

## **6. Right to Private Ownership and Establishment**

The Latvian constitution guarantees the right to private ownership. Both domestic and foreign private entities have the right to establish and own business enterprises and engage in all forms of commercial activity, except those prohibited by the law. Private enterprises have competitive equality with public enterprises with respect to access to markets and business operations.

## **7. Protection of Property Rights**

### **Real Property**

Latvia has full legal rights to property and, according to World Bank's Doing Business Report 2014, is ranked 33rd out of 189 countries in terms of ease of registering property.

### **Intellectual Property Rights**

In an effort to harmonize its legislation with EU and WTO requirements, Latvia has established a legal framework for the protection of intellectual property. In 1993, the Latvian Parliament passed legislation to protect copyrights, trademarks, and patents. In 2000, the Parliament adopted the Law on Copyrights. The law strengthens the protection of software copyrights and neighboring rights. Foreign owners may seek redress for violation of their intellectual property rights through the appellation council at the Latvian Patent Office; court action can also be sought in such cases. In copyright violation cases, the interested party can request that the use of the pirated works be prohibited, that pirated copies be destroyed, and that remuneration for losses be paid (including for lost profits). The criminal law stipulates penalties for copyright violations.

In July 1994, the United States signed a Trade and Intellectual Property Rights Agreement with Latvia. Latvia has been a member of the World Intellectual Property Organization (WIPO) since January 1993, the Paris Convention since September 1993, the Berne Convention since August 1995, and the Geneva Convention for the Protection of Producers of Phonograms against Unauthorized Duplication of their Phonograms since August 1997. In addition, the Latvian government has amended all relevant laws and regulations to comply with the requirements of the WTO TRIPS agreement (Agreement on Trade-Related Aspects of Intellectual Property Rights), to which Latvia acceded by joining the WTO.

Latvia has also acceded to the following international treaties and agreements:

- Patent Co-operation Treaty (September 1993);
- Budapest Treaty on the International Recognition of the Deposit of Micro-organisms for the Purposes of Patent Procedure (December 1994);
- Madrid Agreement on International Registration of Trade Marks (January 1995);
- Nice Agreement on International Classification of Goods and Services for the Purposes of Trade Mark Registration (January 1995);
- Rome Convention for the Protection of the Rights of Performers, Producers of Phonograms, and Broadcasting Organizations (with a note to not apply article 12 of the convention concerning phonograms of producers that are not nationals of contracting states) (August 1999); and
- Geneva Agreement on Trade Marks (December 1999).

Concerns exist regarding the enforcement of these intellectual property protection standards in Latvia. As in much of Eastern and Central Europe, piracy rates are relatively high. Previously, there have been some reports of infringement of software licensing agreements by government offices.

#### **Contact at Copyright Offices**

- **Ms. Ilona Tomsone**
- **Director of Legal Division, Ministry of Culture of the Republic of Latvia**
- **(371) 67330 211**
- **[pasts@km.gov.lv](mailto:pasts@km.gov.lv)**

#### **Contact at Industrial Property Offices**

- **Mr. Sandris Laganovskis**
- **Director of the Patent Office of the Republic of Latvia**
- **(371) 670 99 608**
- **[valde@lrpv.lv](mailto:valde@lrpv.lv)**

For additional information about treaty obligations and points of contact at local IP offices, please see WIPO's country profiles at <http://www.wipo.int/directory/en/>.

Embassy point of contact: Guntars Vicmanis [VicmanisG@state.gov](mailto:VicmanisG@state.gov)

Local lawyers list: [http://riga.usembassy.gov/legal\\_assist\\_en2.html](http://riga.usembassy.gov/legal_assist_en2.html)

## **8. Transparency of the Regulatory System**

The Latvian government has amended its laws and regulatory procedures in an effort to bring Latvia's legislation in compliance with the European Union and WTO GPA requirements. A number of legislative changes were aimed at increasing the transparency of the Latvian business environment and regulatory system. At the same time, the massive legislative changes carried out in a short period of time have led to some laws and regulations that could be subject to conflicting interpretations. The Latvian government has developed a good working relationship with the foreign business community (through FICIL) to streamline various bureaucratic procedures and to address legal and regulatory issues.

## **9. Efficient Capital Markets and Portfolio Investment**

### **Money and Banking System, Hostile Takeovers**

Latvian government policies do not interfere with the free flow of financial resources or the allocation of credit. Local bank loans are available to foreign investors.

The regulatory framework for commercial banking incorporates all principal requirements of European Union directives. A unified capital and financial markets regulator was launched on July 1, 2001, replacing the Securities Market Commission, the Insurance Inspectorate, and the Bank of Latvia's Banking Supervision Department. Existing banking legislation includes provisions on accounting and financial statements (strict adherence to international accounting standards is required), minimum initial capital requirements, capital adequacy requirements, large exposures, restrictions on insider lending, open foreign exchange positions, and loan-loss provisions. An Anti-Money Laundering Law came into effect in August 2008 and a Deposit Guarantee Law came into effect in January 2003. An independent anti-money laundering unit operates under the supervision of the Prosecutor General's Office. Some of the banking regulations, such as capital adequacy and loan-loss provisions, exceed EU requirements.

According to the Association of Commercial Banks of Latvia, total assets of the country's banks at the end of 2013 stood at approximately \$38.3 billion. At the end of 2013, 79 percent of total loans had no payment arrears. More information is available at:

<http://www.bankasoc.lv/en/statistics/> and

[http://fktk.lv/texts\\_files/0\\_FKTK\\_Infografika\\_banku\\_dati\\_2013\\_ENG.pdf](http://fktk.lv/texts_files/0_FKTK_Infografika_banku_dati_2013_ENG.pdf).

Securities markets are regulated by the 2000 Law on the Consolidated Capital Markets Regulator, the 2004 Law on the Financial Instrument Market, and several other laws and regulations. Protection of investor interests is ensured by strict control over participants in the securities market.

The NASDAQ/OMX Riga Stock Exchange (RSE) ([www.nasdaqomxbaltic.com](http://www.nasdaqomxbaltic.com)) began operations in 1995. France assisted Latvia in setting up the securities market based on a continental European model. In 1997, the RSE was admitted to the International Federation of Stock Exchanges as a corresponding emerging market. The RSE was the first exchange in Eastern Europe to create an index in cooperation with Dow Jones.

## **10. Competition from State-Owned Enterprises**

Private enterprises may compete with public enterprises on the same terms and conditions with respect to access to markets, credit, and other business operations such as licenses and

supplies. The Latvian government is working to implement the requirements of the EU's Third Energy Package, which would further open the electricity market to private power producers, allowing them to compete on an equal footing with Latvenergo, the state-owned power company.

SOEs are active in the energy and mining, aerospace and defense, services, information and communication, automotive and ground transportation, and forestry sectors.

Senior managers of SOEs report to independent boards of directors, which in turn report to the line ministries. Many SOEs previously had a council in addition to a Board of Directors, but these councils were eliminated in 2009 due to widespread allegations that they provided little guidance and served only to provide jobs for politically connected individuals.

SOEs are required by law to publish an annual report and to submit their books to an independent audit.

### **Sovereign Wealth Funds**

Latvia does not have a sovereign wealth fund.

### **11. Corporate Social Responsibility**

On January 9, 2004, Latvia joined the OECD Declaration on International Investment and Multinational Enterprises. Adherence to these OECD principles and standards reinforces the efforts of the Latvian government to pursue investment-friendly economic reforms. Awareness of and adherence to principles of corporate social responsibility (CSR) is developing among producers and consumers. Two of the most active promoters of CSR are the American Chamber of Commerce in Latvia and the Employers' Confederation of Latvia. The Latvian Ministry of Welfare has also taken an active part in promoting CSR. As a result, several initiatives have been developed. One of the most successful is the Sustainability Index. For more information on this program, see: [www.ilgtspejasindekss.lv](http://www.ilgtspejasindekss.lv).

### **12. Political Violence**

There have been no reports of political violence or politically motivated damage to foreign investors' projects or installations. The likelihood of widespread civil disturbances is very low. Civil unrest is generally not a problem in Latvia. While Latvia has experienced peaceful demonstrations related to internal political issues, there have been rare incidents when peaceful demonstrations have devolved into crimes against property, such as breaking shop windows or damaging parked cars. U.S. citizens are cautioned to avoid any large public demonstrations, as even peaceful demonstrations can turn confrontational. The Embassy provides periodic notices to U.S. citizens in Latvia that can be found on the Embassy's web site: [riga.usembassy.gov](http://riga.usembassy.gov).

### **13. Corruption**

Latvian law enforcement institutions, foreign business representatives, and non-governmental organizations, such as Transparency International, have identified corruption and the perception of corruption as persistent problems in Latvia. According to the 2013 Corruption Perception Index by Transparency International, Latvia ranks 49th out of 177 countries (in

order from the lowest perceived level of public sector corruption to the highest). Among EU member states, Latvia ranks 20th out of 28.

In an effort to strengthen its anti-corruption program, the Latvian government has adopted several laws and regulations, including the 1998 Law on Money Laundering (amended in 2009), and the 2002 Law on Conflicts of Interest (replacing the 1995 Anti-Corruption Law). The Conflicts of Interest Law imposes restrictions and requirements on public officials and their relatives. Several provisions of the law deal with the previously widespread practice of holding several positions simultaneously, often in both the public and private sector. The law includes a comprehensive list of state and municipal jobs that cannot be combined with additional employment. Moreover, the law expands the scope of the term "state official" to include members of boards and councils of companies with state or municipal capital exceeding 50 percent.

Latvia has signed the Council of Europe's Criminal Convention on Corruption and the United Nations Convention against Corruption. Latvia will become a member of the OECD Anti-Bribery Convention on May 30, 2014.

Under Latvian law, it is a crime to offer or to accept a bribe or to facilitate an act of bribery. Although the law stipulates heavy penalties for bribery, there have been only a limited number of government officials prosecuted and convicted for corruption. On April 1, 2013, new amendments to the Latvian Criminal Law came into effect which broadens the definition of state and local government employees to enable wider anti-bribery enforcement. The amendments also create the possibility of withdrawing charges against a person giving a bribe in cases where the bribe has been extorted, or in cases where the person voluntarily reports these incidents and actively assists the investigation.

The primary institution responsible for combating corruption is an independent anti-corruption agency -- the Anti-Corruption Bureau (known by its Latvian acronym KNAB) -- whose task is to carry out operational activities on fighting incidents of corruption. The Crime Prevention Council chaired by the Prime Minister is in charge of coordinating and supervising all state authorities' activities to prevent crime and corruption. The Prosecutor General's Office also plays an important role in fighting corruption.

There is a perceived lack of fairness and transparency in the public procurement process in Latvia. A number of companies, including foreign companies, have complained that bidding requirements are sometimes written with the assistance of potential contractors or couched in terms that exclude all but "preferred" contractors.

A regulation of the Cabinet of Ministers provides for public access to government information, and the government generally provided citizens such access. There were no reports that noncitizens or the foreign media have been denied access.

The U.S. Department of Commerce offers services to U.S. businesses seeking to address business-related corruption issues. For example, the U.S. Foreign Commercial Service provides services that assist U.S. companies in conducting their due diligence as part of the company's overarching compliance program when choosing business partners or agents overseas. The U.S. Foreign Commercial Service can be reached directly through its offices in every major U.S. and foreign city, or through its Website at [www.trade.gov/cs](http://www.trade.gov/cs).

#### Contact at Corruption Prevention and Combating Bureau (KNAB)

- Corruption Prevention and Combating Bureau
- Brivibas Str. 104 block 2, Riga, LV 1001, Latvia
- (371) 67356161
- knab@knab.gov.lv

#### Contact at DELNA (Transparency International)

- Association "Society for transparency - Delna"
- A.Čaka street 49-4, Riga, LV-1011
- (371) 67285585
- [ti@delna.lv](mailto:ti@delna.lv)

#### 14. Bilateral Investment Agreements

Latvia has concluded bilateral investment agreements with Armenia, Austria, Azerbaijan, Belarus, Belgium, Bulgaria, Canada, China, Croatia, the Czech Republic, Denmark, Egypt, Estonia, Finland, France, Germany, Georgia, Greece, Hungary, Iceland, India, Israel, Kazakhstan, Kyrgyzstan, Korea, Kuwait, Lithuania, Luxembourg, Moldova, the Netherlands, Norway, Poland, Portugal, Romania, Singapore, the Slovak Republic, Spain, Sweden, Switzerland, Turkey, Ukraine, the United Kingdom, the United States, Uzbekistan, and Vietnam. The agreement with the United States came into force in December 1996.

Currently the EU and the United States are negotiating the Transatlantic Trade and Investment Partnership (TTIP).

#### Bilateral Taxation Treaties

Latvia has concluded the Treaty on Avoidance of Double Taxation with the United States, which entered force on December 30, 1999.

#### 15. OPIC and Other Investment Insurance Programs

Overseas Private Investment Corporation (OPIC) political risk insurance coverage is available for U.S. investments in Latvia. Latvia is a member of the Multilateral Investment Guarantee Agency (MIGA).

On January 1, 2014, Latvia adopted the euro as its currency at an exchange rate of \$1.384 per 1 euro as of April 17, 2014.

#### 16. Labor

The official rate of registered unemployment at the end of 2013 was 11.9 percent according to the Latvian State Employment Agency. Unemployment is significantly higher in rural areas. A high percentage of the workforce has completed at least secondary or vocational education. Foreign managers agree that Latvians generally are hardworking, reliable, and

quick to learn. Foreign managers also praise the high degree of language skills, especially in Russian and English, among Latvian workers. However, there is a shortage of mid- and senior-level managers with western-style management skills.

Companies must keep wages above a legally specified minimum, which since January 1, 2014, is 320 euros (approximately \$442) per month. Union influence on the wage setting process is limited. Trade unions do not have significant influence on the labor market.

One challenge that employers have faced since Latvia joined the EU is that many skilled employees can find employment opportunities in other EU countries. Unofficial statistics suggest that more than 200,000 people have moved from Latvia to other EU countries since May 1, 2004. Despite the fact that the macroeconomic situation has stabilized, skilled and unskilled workers continue to emigrate.

In 2013, several reports indicated a shortage of available workers in the manufacturing, wholesale and retail, and transport and storage sectors. The largest share of registered unemployment is comprised of persons with only primary or secondary education who do not have specialized skills.

The Labor Law addresses discrimination issues, provides detailed provisions on the rights and obligations of employees' representatives, and created the Conciliation Commission – an institution that can be established in any workplace.

Full-time employees in Latvia work 40 hours a week. Normally, there are five working days per week, but employers are allowed to schedule six working days per week. Employees are entitled to four calendar weeks of annual paid vacations per year. An employer is prohibited from entering into an employment contract with a foreign individual who does not have a valid work permit.

Latvia has committed to adhere to the ILO Convention protecting workers' rights.

## **17. Foreign Trade Zones/Free Ports**

There are four free trade areas in Latvia. Free ports have been established in Riga and Ventspils, and special economic zones (SEZ) have been created in Liepaja, a port city in western Latvia, and Rezekne, a city in the middle of an eastern Latvian region that borders Russia.

Somewhat different rules apply to each of the four zones. In general, the two free ports provide exemptions from indirect taxes, including customs duties, VAT, and excise tax. The SEZs offer additional incentives, such as an 80-100 percent reduction of corporate income taxes and real estate taxes. To qualify for tax relief and other benefits, companies must receive permits and sign agreements with the appropriate authorities: the Riga and the Ventspils Port Authorities, for the respective free ports; the Liepaja SEZ Administration; or the Rezekne SEZ Administration. The SEZs will be in place until 2035.

## **18. Foreign Direct Investment and Foreign Portfolio Investment Statistics**

### **TABLE 2: Key Macroeconomic data, U.S. FDI in Latvia**

	Central Bank of Latvia Statistics Database of Latvia		World Bank Bureau of Economic Analysis	
<b>Economic Data</b>	Year	Amount	Year	Amount
Latvia Gross Domestic Product (GDP) (Millions U.S. Dollars)	2012	29,227	2012	28,370
<b>Foreign Direct Investment</b>	Year	Amount	Year	Amount
U.S. FDI in Latvia (Millions U.S. Dollars, stock positions)	2012	336	2012	13
Latvia's FDI in the United States (Millions U.S. Dollars, stock positions)	2012	0	2012	non-zero value between -\$500,000 and +\$500,000
Total inbound stock of FDI as % of Latvia's GDP	2012	1.15%	2012	0.046%

\*These figures significantly underestimate the value of U.S. investment in Latvia due to the fact that these do not account for investments by U.S. firms through their European subsidiaries.

**TABLE 3: Sources and Destination of FDI**

Direct Investment from/in Latvia Data					
From Top Five Sources/To Top Five Destinations (U.S. Dollars, Millions)					
Inward Direct Investment			Outward Direct Investment		
Total Inward	13,577	100%	Total Outward	950	100%
Sweden	3,184	23%	Switzerland	174	18%
Netherlands	1,080	8%	Lithuania	163	17%

Cyprus	865	6%	Estonia	97	10%
Estonia	734	5%	Poland	56	6%
Norway	726	5%	Cyprus	53	6%
"0" reflects amounts rounded to +/- USD 500,000.					

Source: <http://cds.imf.org>

**TABLE 4: Sources of Portfolio Investment**

**Latvia, 2012**

Portfolio Investment Assets								
Top Five Partners (Millions, U.S. Dollars)								
Total			Equity Securities			Total Debt Securities		
World	4,925	100%	World	1,419	100%	World	3,506	100%
Luxembourg	888	18%	Luxembourg	622	44%	United States	584	17%
United States	636	13%	Ireland	269	19%	Germany	384	11%
Ireland	448	9%	France	101	7%	Netherlands	272	8%
Germany	402	8%	Estonia	59	4%	Luxembourg	266	8%
Netherlands	273	6%	Finland	57	4%	Canada	249	7%

Source: <http://cpis.imf.org>

## Section 5 - Government

### Chiefs of State and Cabinet Members:

For the current list of Chief of State and Cabinet Members, please access the following - [Central Intelligence Agency online directory of Chiefs of State and Cabinet Members of Foreign Governments](#)

### Legal system:

Civil law system with traces of socialist legal traditions and practices

### International organization participation:

Australia Group, BA, BIS, CBSS, CD, CE, EAPC, EBRD, EIB, EU, FAO, IAEA, IBRD, ICAO, ICC (NGOs), ICRM, IDA, IFC, IFRCs, IHO, ILO, IMF, IMO, IMSO, Interpol, IOC, IOM, IPU, ISO (correspondent), ITU, ITUC (NGOs), MIGA, NATO, NIB, NSG, OAS (observer), OIF (observer), OPCW, OSCE, PCA, Schengen Convention, UN, UNCTAD, UNESCO, UNWTO, UPU, WCO, WHO, WIPO, WMO, WTO

## Section 6 - Tax

### Exchange control

There is no exchange control in Latvia.

### Treaty and non-treaty withholding tax rates

*Treaty countries:* Dividends Interest Royalties

	1)	2)	3)
Albania	10/5	5/10	5
Armenia	10/5	10	10
Austria	10/5	10	5-10
Azerbaijan	10/5	10	5-10
Belarus	10	10	10
Belgium	15/5	10	5-10
Bulgaria	10/5	5	5-7
Canada	15/5	10	10
China	10/5	10	7
Croatia	10/5	10	10
Czech Republic	10/5	10	10
Denmark	10/5	10	5-10
Estonia	15/5	10	5-10
Finland	15/5	10	5-10
France	15/5	10	5-10
Georgia	10/5	5	5
Germany	10/5	10	5-10
Greece	10/5	10	5-10
Hungary	10/5	10	5-10
Iceland	15/5	10	5-10
Italy	10/5	10	5-10
Ireland	15/5	10	5-10
Israel	15/5	5/10	5
Kazakhstan	15/5	10	10
Korea	10/5	10	5-10
Kyrgyzstan	10/5	5/10	5
Lithuania	15	0	0
Luxembourg	10/5	10	5-10
Macedonia	10/5	5	5-10

Malta	10/5	10	10
Moldova	10	10	10
Montenegro <sup>4</sup>	10/5	10	5-10
Morocco	10/6	10	10
Netherlands	15/5	10	5-10
Norway	15/5	10	5-10
Poland	15/5	10	10
Portugal	10	10	10
Romania	10	10	10
Russia	10/5	5/10	5
Serbia <sup>4</sup>	10/5	10	5-10
Singapore	10/5	10	7.5
Slovak Republic	10	10	10
Slovenia	15/5	10	10
Spain	10/5	10	5-10
Sweden	15/5	10	5-10
Switzerland	15/5	10	5-10
Tajikistan	10/5/0	7	5-10
Turkey	10	10	5-10
Turkmenistan	10/5	10	10
Ukraine	15/5	10	10
United Kingdom	10/5	10	5-10
United States	15/5	10	5-10
Uzbekistan	10	10	10

1 In the case of some treaties, a reduced rate (usually 5%) may apply where a non-resident shareholder holds a set minimum of the share capital and votes in the company of the other country (usually 25%). From 2013 dividends paid by Latvian companies to non-resident companies are tax free. (The treaty rate does not apply if the statutory rate is lower).

2 Non-treaty rate: 10% applies if the recipient is a related party (5% if the recipient is a related company resident in the EU, see also section F); 5% applies if the payment is made by commercial banks registered in Latvia to related parties.

3 In respect of royalties, generally, 15% applies on royalties for literary works, including movies, videos and recordings paid to non-treaty corporations. 5% applies to payments for all other types of intellectual property. Withholding tax rate of 5%, 7%, 7.5% or 10% is applied to royalties paid to companies of treaty countries; the rate depends on the type of royalties. If payments are made to EU resident companies a 5% rate applies till 1 July 2013 See also Section F.

4 The treaty concluded between Latvia and the former Serbia and Montenegro.

## Methodology and Sources

### Section 1 - General Background Report and Map

(Source: [CIA World Factbook](#))

### Section 2 - Anti – Money Laundering / Terrorist Financing

	Lower Risk	Medium Risk	Higher Risk
<a href="#">FATF List of Countries identified with strategic AML deficiencies</a>	Not Listed	AML Deficient but Committed	High Risk
<a href="#">Compliance with FATF 40 + 9 recommendations</a>	>69% Compliant or Fully Compliant	35 – 69% Compliant or Fully Compliant	<35% Compliant or Fully Compliant
<a href="#">US Dept of State Money Laundering assessment (INCSR)</a>	Monitored	Concern	Primary Concern
<a href="#">INCSR - Weakness in Government Legislation</a>	<2	2-4	5-20
<a href="#">US Sec of State supporter of / Safe Haven for International Terrorism</a>	No	Safe Haven for Terrorism	State Supporter of Terrorism
<a href="#">EU White list equivalent jurisdictions</a>	Yes		No
<a href="#">International Sanctions UN Sanctions / US Sanctions / EU Sanctions</a>	None	Arab League / Other	UN , EU or US
<a href="#">Corruption Index (Transparency International) Control of corruption (WGI) Global Advice Network</a>	>69%	35 – 69%	<35%
<a href="#">World government Indicators (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Failed States Index (Average)</a>	>69%	35 – 69%	<35%
<a href="#">Offshore Finance Centre</a>	No		Yes

### **Section 3 - Economy**

General Information on the current economic climate in the country and information on imports, exports, main industries and trading partners.

(Source: [CIA World Factbook](#))

### **Section 4 - Foreign Investment**

Information on the openness of foreign investment into the country and the foreign investment markets.

(Source: [US State Department](#))

### **Section 5 - Government**

Names of Government Ministers and general information on political matters.

(Source: [CIA World Factbook](#) / <https://www.cia.gov/library/publications/world-leaders-1/index.html>)

### **Section 6 - Tax**

Information on Tax Information Exchange Agreements entered into, Double Tax Agreements and Exchange Controls.

(Sources: [OECD Global Forum on Transparency and Exchange of Information for Tax Purposes](#) [PKF International](#))

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