



Country Issue: Latvia



The Relaunch of Europe

Mapping Member States' Reform Interests

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About the authors

Carmen Gerstenmeyer, Julia Klein, Julian Plottka, Jana Schubert, Amelie Tittel, all IEP.
Aldis Austers, Researcher, Latvian Institute of International Affairs; Guest Lecturer, Riga Stradiņš University.

Institut für Europäische Politik (Institute for European Politics, IEP) is one of the leading foreign and European policy research centres in the Federal Republic of Germany dedicated to the study of European integration.

Further information on the project can be found here:

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Responsible for this publication in the FES

Dr. Dominika Biegón, Friedrich-Ebert-Stiftung (FES).
Arne Schildberg, Friedrich-Ebert-Stiftung (FES).

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THE RELAUNCH OF EUROPE

MAPPING MEMBER STATES' REFORM INTERESTS

The Relaunch of Europe. Mapping Member States' Reform Interests (RelaunchEU) is a project conducted by the Institut für Europäische Politik (IEP) on behalf of the Friedrich-Ebert-Stiftung (FES) that surveys the implementation prospects for twelve concrete reform proposals. It covers the policy areas of Social Union, Economic and Monetary Union and Defence Union as well as asylum and migration policy and the EU's institutional set-up. Furthermore, it analyses the support for flexible integration and the positioning towards the five scenarios presented in the European Commission's »White Paper on the Future of Europe« of spring 2017. It covers the positions of national governments and of relevant progressive political parties, which received a minimum share of 5 % of the votes in the previous European or national elections.¹

The study follows two main objectives: (1) It demonstrates the scope of action for prompt reforms of the EU in the selected policy areas while also taking into account which member states would, under certain conditions, be willing to implement the specific proposals. (2) It empirically determines which member states could belong to an avant-garde group willing to deepen integration.

Researchers from think tanks and research institutions in the member states of the EU-27 compiled information to determine the position of governments and progressive political parties towards the twelve reform proposals. This qualitative analysis reflects the country experts' views and is based on documents such as coalition agreements, government or party programmes, position papers, press releases, interviews, op-ed pieces, and official documents. It presents a snapshot of the discussions within the governments and parties. In order to keep the country issues short, internal debates and deviating opinions cannot be covered in detail. Positions are subject to change, especially following elections and the formation of new governments. The snapshot was taken at the end of September 2017. More recent developments could not be included. Notable exceptions are the country issues of Austria and Germany, which were updated following the latest coalition negotiations.

The study's results are published in English on the website www.relaunch-europe.eu. It presents maps for every actor and reform proposal, 27 country issues and an analytical paper. The paper compares the positions of all actors in all member states of the EU-27 on the twelve concrete reform proposals and presents five flagship-projects, which bear the chance for a relaunch of Europe.

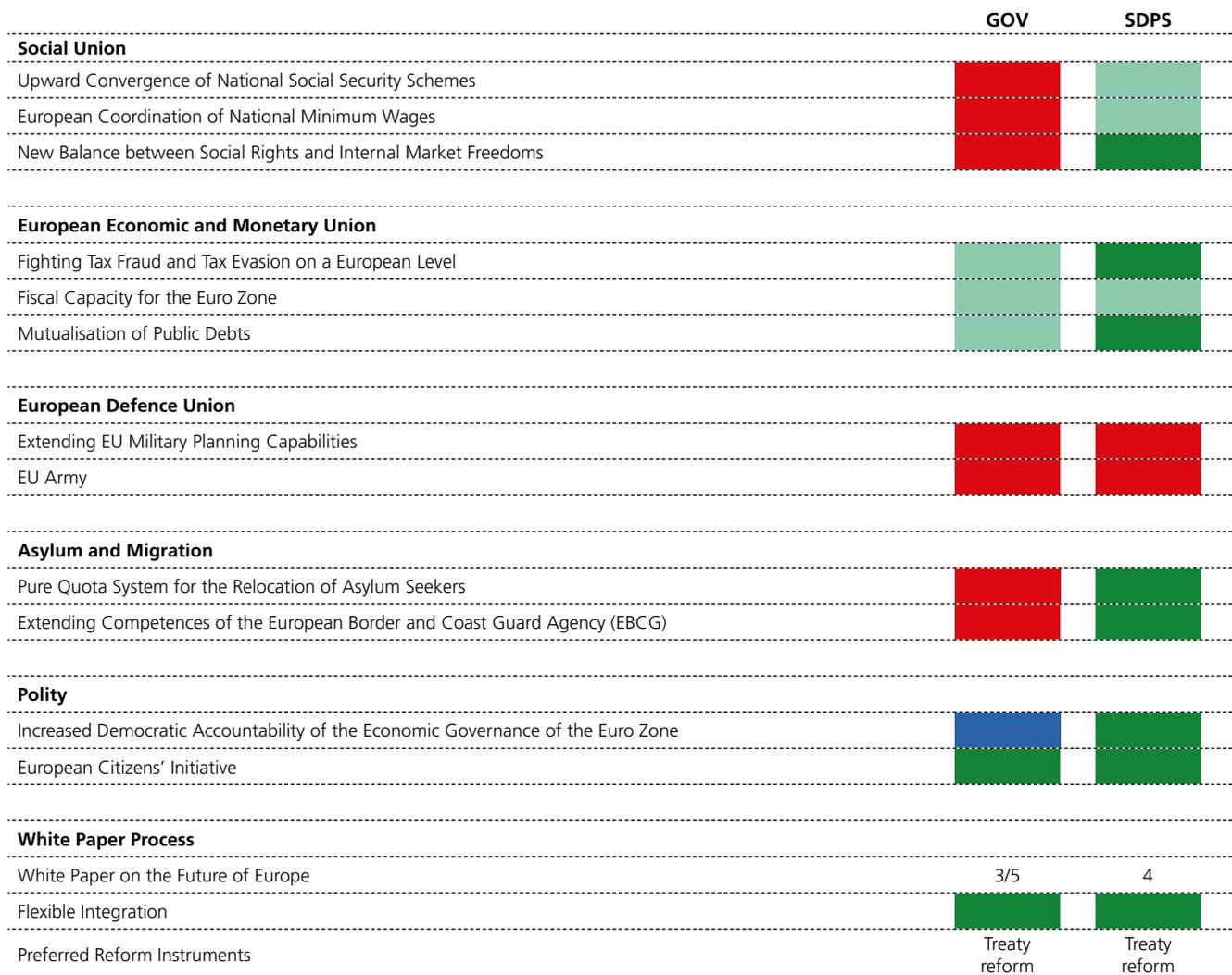
¹ If a party fulfills this criterion, but is not a relevant actor in the national public debate anymore, it was deleted from the sample based on the judgement of the projects' country expert.

LATVIA

Since 2009, Latvia has been governed by a centre-right coalition of the pro-European »Unity« party, the Union of Greens and Farmers (ZZS) and the right-wing National Alliance (NA). The last general election in October 2014 allowed for the

continuation of the coalition but saw the centre-left and pro-Russian party *Sociāldemokrātiskā partija »Saskaņa«* (SDPS), also known under the name Concord, win the majority with 23 % of the votes. Latvia has a large Russian-speaking minority.

Support of the Latvian Government and »Saskaņa« for Deepening EU Integration



Legend

- support for
- support under conditions
- against
- neutral
- GOV** National Government
- SDPS** Sociāldemokrātiskā partija »Saskaņa«

- 1 – Scenario 1: »Carrying on«
- 2 – Scenario 2: »Nothing but the single market«
- 3 – Scenario 3: »Those who want more do more«
- 4 – Scenario 4: »Doing less more efficiently«
- 5 – Scenario 5: »Doing much more together«

SOCIAL UNION

The government opposes **upward convergence of national social security schemes** as the national social security standards in Latvia are ranked among the lowest in the EU due to a relatively low income level. According to the government, upward convergence would place high financial burdens on the national budget, which Latvia cannot afford, and would also discourage people from looking for jobs. The government could possibly agree on some common principles in case the member states decide to set up more harmonised social protection. However, contributions to the national social security schemes and the distribution of social benefits have to remain national competence. For this purpose, the government would support an EU directive as the least intrusive form of legal instrument. By contrast, the SDPS supports increasing social standards as an incentive to reduce the Latvian work force migrating to other EU states, which can provide higher levels of social security. It shares the government's concerns regarding the negative implications for the national budget and demands that financial obligations resulting from more harmonised social standards should be funded fully or partially by the EU budget. For this reason, it considers the establishment of a fiscal union as a prerequisite for the harmonisation of social standards. European standards for unemployment insurance systems are more important for social protection than pension schemes that may be harmonised at a later stage. An EU regulation is seen as a legal means to increase the degree of harmonisation. The government strongly opposes a **European coordination of national minimum wages** as this might reduce the competitiveness of Latvian companies, which show a lower level of labour productivity compared to companies in other EU states. Once more, there are concerns about potential financial obligations for the national budget stemming from higher minimum wages as well as inflation. While any EU harmonisation is out of question, the government could commit itself to gradually increase the national level of minimum wages. In contrast, the SDPS supports a European coordination of national minimum wages, however, only under the conditions that all member states participate and that it grants some flexibility for small and medium-sized businesses in preventing them from negative impacts. The EU should be provided with a right to intervene in the setting of national minimum wages for member states with weak labour unions. A **new balance of social rights and internal market freedoms** is refused by the government, as it is perceived as a threat to the competitiveness of Latvian companies and its workforce in the Single Market. The internal market freedoms should definitely remain EU primary law. One of the reasons for its opposition stems from a ruling of the European Court of Justice against the Latvian company Laval un Partneri Ltd., which exemplifies to what extent social rights might hinder companies from becoming active in another member state. Thus, the government considers the revision of the posted workers directive as an attempt by some member states to shield their own labour markets from a competitive foreign work force. The SDPS, in favour

of rebalancing social rights with internal market freedoms. It suggests adding a social protocol to the treaties. However, social rights should not prevail over competitiveness.

EUROPEAN ECONOMIC AND MONETARY UNION

In general, the government welcomes more efforts in **fighting tax fraud and tax evasion on a European level**. However, these efforts should be limited to increased transparency and, probably, a ban on letterbox companies. In addition, a Common Consolidated Corporate Tax Base (CCCTB) is seen more critically as it is feared that national flexibility on taxation would decrease. Thus, the government is completely opposed to setting up a Europe-wide minimum corporate tax rate. Latvia has recently reintroduced a zero tax rate on reinvested profits in order to create incentives for further legalisation concerning unreported profits and to boost investments. The SDPS is supportive of fighting tax fraud and tax evasion on EU level, in particular with regard to greater transparency and a ban on letterbox companies. Both the government and the SDPS would support a **fiscal capacity for the euro zone** under conditions. According to the government, a larger and separate euro zone budget is possible, provided that it does not lead to the harmonisation of taxes or to the bailout of fiscally profligate and unreformed member states. It is very concerned about the possibility of higher taxes, which would increase the burden on businesses. Thus, the government would rather accept a European unemployment insurance scheme followed by an investment fund. The latter should aim at disciplining member states with lax fiscal spending and be redistributed to peripheral member states. In order to finance such a euro zone budget consumption taxes rather than corporate taxes should be used. The SDPS prefers an investment fund enabling a sustained level of demand during economic downturns. However, the question of a further fiscal capacity of the euro zone is closely linked to the way the euro zone will develop in the future: In a closely integrated Union that would accept the responsibility for the development of Latvia's peripheral regions, a greater fiscal capacity also aiming at social convergence would be appropriate. However, a larger euro zone budget is of no use in a looser Union, leading to diversion of national resources for purposes not linked to Latvia's own development. Discussions concerning the **mutualisation of public debts** are clearly marked by the country's own experience of a financial crisis in 2008. Therefore, the government is aware of the importance of a financial backstop facility in times of crises. However, taking into account the high costs of reforms and austerity, Latvians themselves had to shoulder, it is not willing to bail out other, especially richer, member states. With relatively low public debt, Latvia has little to gain from public debt mutualisation. Its only attraction for the government would be an improved sovereign credit rating. While a debt redemption fund is no option, a common issuance of debt at times of crisis might be supported, as Latvia's small economy is more vulnerable

to crises than others'. If a common debt instrument was to be created, it should only be activated in situations of distress, apply to future debts only and strengthen resilience. Furthermore, it has to include a disciplining element in order to prevent moral hazard. Conversely, the SDPS would welcome a public debt mutualisation, as in their opinion the 2008 crisis was caused by excessive private sector borrowing, which a common issuance of debts could have averted.

EUROPEAN DEFENCE UNION

In general, the Latvian government as well as the SDPS oppose ideas to **extend EU military planning capabilities** and to establish an **EU army**. They both agree that NATO is the key security provider for the country, while EU membership is of geopolitical significance for Latvia and understood as complementary to NATO structures and actions. They are convinced that NATO is significantly more capable to counteract any military aggression. Thus, any proposal on military cooperation at EU level shall not compromise US involvement in NATO. Once more, both actors are concerned that EU headquarters for executive military missions and operations or an EU army would place further financial burdens on the country's limited defence resources. At most, the government might be supportive of a common defence fund.

ASYLUM AND MIGRATION

The Latvian government has not only agreed on the relocation of asylum seekers from Greece and Italy following the 2015 decisions, but fulfilled its obligations of resettlement. As public opinion polls at the time showed strong opposition towards this decision and accepting asylum seekers from predominantly Muslim countries of origin, the government announced in January 2016 that Latvia had not only exceeded its capacities to host and integrate further asylum seekers, but also that henceforth any relocation decisions at EU level should be voluntary. The **establishment of a permanent pure quota system for the relocation of refugees** thus is not acceptable. Any reforms in this policy area that create further obligations or pressure, such as sanctions, will not be supported. In contrast, the SDPS supports both a new quota system and the transformation of the European Asylum Support Office (EASO) into a European Asylum Agency with a greater say in the relocation process. Having welcomed the 2015 relocation decisions, the party calls for the use of punitive measures against non-cooperative member states. Similar to the government, it welcomes EU financial support for member states. As the **extension of competences for the European Border and Coast Guard Agency (EBCG)** has already been substantive in recent years, the government does not see the need for further changes. Latvia has contributed to the funding of the former Frontex agency and is currently participating in sea rescue and surveillance missions. However, the government calls for more efforts by

the Southern European states in order to protect the EU's external borders and opposes the deployment of border and coast guards against the will of member states. By contrast, the SDPS generally supports the further integration of the control of the Schengen area's external borders. However, this depends on the direction of European integration in the years to come: In a federal union centralised border control-operations would become indispensable, while in a looser union the centralisation of border guarding activities would be seen as an unacceptable intrusion into the sovereignty of member states.

POLITY

Currently, Latvia's government has no position concerning **increased democratic accountability of the economic governance of the euro zone**. It rather supports more national parliamentary control within the framework of the European Semester compared to any additional bureaucratic structures like a European economic government that would broaden the complexity and opacity of euro zone decisions. If there is a decision, which aims at increasing the accountability of the euro zone governance, it should primarily concern the euro zone member states. The SDPS on the other hand is in principle supportive of this idea, although it does not see it as a realistic option at the moment. In general, both the government and SDPS are supportive of the **European Citizens' Initiative (ECI)**. Although the government is aware that the instrument needs to be improved, a position on how to accomplish this aim is still pending. The SDPS underlines that the ECI's procedure is too cumbersome and needs to be simplified. It also calls for a lower level of »intrusion« of the Brussels institutions in the process.

WHITE PAPER PROCESS

An official position of the government regarding the **»White Paper on the Future of Europe«** is still missing. However, according to previous statements the government is more in favour of both scenario 3, »those who want more do more«, and scenario 5, »doing much more together«, as long as the EU is not heading towards a federal union. Conversely, the SDPS rather supports scenario 4, »doing less more efficiently«, and calls for more independence of member states to decide on the usage of the EU's structural funds concerning national development. Although the government and the SDPS clearly reject a »Europe à la carte«, both are not totally opposed to the model of **flexible integration**. The government is in favour of a differentiation through each member state's preferred speed of integration. In that case, Latvia should be part of the core group. Every member state should be free to decide whether to be part of such a core or not at any given time. However, both agree that EU reforms in significant policies (see above) should be carried out through treaty reform.

Legend

Actors Covered by the Study in each EU Member State

- *National Government*: including its members from one or more political parties, the Head of State or Government, relevant executive ministers and administration.
 - *Progressive Parties*: They include all parties that are represented either in the Group of the Progressive Alliance of Socialists and Democrats in the European Parliament (S&D) or that are members of the Party of European Socialists (PES) and have gained a minimum share of 5 % of the votes in the last national or European elections. They also include La République en Marche (REM) in France.
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Concrete Reform Options in Different Policy Areas

Social Union

1. *Upward Convergence of National Social Security Schemes* to provide Europe-wide protection against social risks and to ensure a decent standard of living for EU citizens.
 2. *European Coordination of National Minimum Wages* to ensure a decent income within the EU to prevent in-work poverty, to promote social convergence and to avoid social dumping across the EU.
 3. *New Balance of Social Rights and Internal Market Freedoms* to compensate the current precedence of internal market freedoms over national social rights.
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European Economic and Monetary Union

4. *Fighting Tax Fraud and Tax Evasion on a European Level* for a fair allocation of tax burdens among natural and judicial persons.
 5. *Fiscal Capacity for the Euro Zone* to provide stabilisation against economic shocks through public expenditure in the euro zone.
 6. *Mutualisation of Public Debts* to tackle the problem of a sharp increase in public debts in some member states as a result of the euro zone crisis.
-

European Defence Union

7. *Extending EU Military Planning Capabilities* also for executive military missions and operations.
 8. *EU Army* establishing a permanent multinational military force under European command.
-

Asylum and Migration

9. *Pure Quota System for the Relocation of Asylum Seekers* which would replace the Dublin system.
 10. *More Competences for the European Border and Coast Guard Agency (EBCG)* expanding the current EBCG tasks in terms of »shared responsibility« between the EBCG and national authorities.
-

Polity

11. *Increase Democratic Accountability of the Economic Governance of the Euro Zone* to make its institutions more responsive to EU citizens.
 12. *European Citizens' Initiative (ECI)*: revision of the ECI regulation to make the instrument more citizen-friendly and effective in order to strengthen the participative democracy in the EU.
-

White Paper Process

13. *The White Paper on the Future of Europe* by the European Commission presents five possible scenarios for the future course of European integration.
14. *Flexible Integration*: limiting the application of certain rules to certain EU member states.
15. *Preferred Reform Instrument*: Treaty reform, reforms inside or outside the Treaties.

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Institut für Europäische Politik
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www.iep-berlin.de/en

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