



Management of mineral resources in Latvia

Rīga 2023



Latvijas Republikas
Valsts kontrole

Audit report

The date is stamped on the document's signature time stamp and the document number is shown in a text file.

“Management of mineral resources in Latvia”

Combined (compliance/ performance) audit “Is sustainable management of mineral resources ensured in Latvia?”

The audit was performed by Head of Audit Team, Senior State Auditor Jānis Salenieks, Senior State Auditor Vineta Šņepste, State Auditor Jūlija Orlova and State Auditor Olga Loginova, State Auditor Dace Paegle (until 13 June 2021), State Auditor Pēteris Bricis (until 20 May 2022), responsible Head of Sector Aija Feldmane and Department Director Inga Vilka, based on audit schedule No 2.4.1-15/2021 of the Fourth Audit Department of the State Audit Office of 17 May 2021.

The audit report shall take effect when a decision of the Fourth Audit Department of the State Audit Office on approval of the audit report takes effect.

The cover design includes an image from the personal archives of an auditor.



Dear Reader,

The depths of Latvia are rich in abundant resources of raw materials for building materials (for example, sand, gravel, dolomite, clay, limestone), peat, spropel, and other resources used in national economy. A large part of them, such as sand, gravel, clay and so on are non-renewables. Therefore, sustainable use of minerals is crucial by using them as effectively as possible, while ensuring the replacement of non-renewable resources with renewable resources or recyclable materials.

The government must create preconditions for sustainable management of natural resources, stable and predictable availability of resources, demand and follow up so that mining sites are recultivated after the extraction of minerals is completed, that is, prepared for their full-fledged further use.

The State Audit Office of Latvia has completed combined (compliance/ performance) audit on the management of mineral resources in Latvia. We can see that the government has not had the political will to solve the issues of subsoil use in previous years, as the country does not have a strategy or future vision for the use of subsoil, a system that would provide complete, high-quality and timely information about the available and extracted mineral resources in the country is being slowly developed, but the existing information is not analysed and used for decision making. Therefore, supervision over the mining of mineral resources is insufficient while an unreasonable administrative burden has been placed on the miners at the same time, and there is insufficient cooperation among state institutions.

The situation in the field of subsoil ownership is made more complicated by the Civil Law of Latvia because the problems of ownership in subsoil exploration have not been resolved in the

country. As a result, planned and systematic search and exploration of new mineral resources and other subsoil resources (for example, the use of useful properties of subsoil), as well as additional exploration of known mineral deposits to ensure their more rational use, is limited. Solving these issues also requires political will, cooperation among ministries, and a modern perspective.

Considering the implementation of several large-scale infrastructure construction projects of national significance, an essential increase in the demand for raw materials for building materials is expected, which, due to the absence of policy and monitoring deficiencies, can make the future operation of the industry difficult, as well as create an environment favourable to the shadow economy. Therefore, the responsible Ministry of Environmental Protection and Regional Development should be decisive in developing a strategy for the use of subsoil, as well as the State Environmental Service and state-owned Limited Liability Company “*Latvijas Vides, ģeoloģijas und meteoroloģijas centrs*” (Latvian Environment, Geology and Meteorology Centre) should act actively in eliminating the deficiencies found during the audit and increasing the efficiency of the processes.

We would like to thank the employees of the audited entities, the Ministry of Environmental Protection and Regional Development, the State Environmental Service and state-owned “*Latvijas Vides, ģeoloģijas und meteoroloģijas centrs*” Ltd, for their cooperation during the audit. We appreciate the improvements already initiated and carried out during the audit as well as the tasks included in Strategy of the State Environmental Service for 2021-2023 to ensure effective monitoring of mineral resource extraction process. We wish the best endeavours

in implementing the recommendations successfully!

We also thank the State Revenue Service, local and regional governments, non-governmental organizations, and experts who provided

information, data, shared their experience and knowledge in this audit.

Respectfully
Ms Inga Vilka
Department Director



Summary

Main conclusions

Sustainable management of mineral resources is not ensured in Latvia, that is, the management and use of resources that would balance environmental, economic, and social aspects, thus not contributing to the development of the national economy. This is caused by the lack of a strategy for the use of subsoil, the absence of complete, high-quality, and timely information about the mineral resources available in the country, the lack of structured data and risk-based controls, and the shortcomings of laws and regulations on recultivation of mineral mining sites.

Mineral resource management policy

The Ministry of Environmental Protection and Regional Development, as the responsible institution of sector, has not developed a strategy for the use of subsoil, thus not contributing to a balanced and sustainable management of the development of the national economy and the use of natural resources. The Ministry explains this situation by the fact that there has been no political will in Latvia to ensure the settlement of the subsoil issue and to ensure the development of a strategic vision for a long time¹.

Issues regarding planned and systematic identification, exploration of mineral resources, digitization of geological information, as well as planning of management are still not resolved. In the course of the implementation of large-scale infrastructure projects, a significant increase in the demand for raw materials for building materials is expected, so it is necessary to reduce the risks of irrational use of mineral resources and to ensure that the industry can plan its activities in the long term.

Also, systematic identification of new resources is not ensured because systematic search and exploration of new minerals and other subsoil resources has not been carried out in Latvia for 20 years.

¹ Letter No 1-132/981 of the Ministry of Environmental Protection and Regional Development of 17 February 2023.

Due to insufficient digitization of the existing geological information, the availability of geological information for further search and exploration of mineral resources is limited significantly, thus affecting the development planning of the territory negatively. By 2020, one planned to digitize 90% of the information in the geological information system², however only 10% of the geological information is digitally available due to limited funding³.

There are not enough incentives to promote the use of secondary raw materials created in the country, thus not reducing the extraction of primary raw materials, non-renewable natural resources (minerals). In Latvia, the amount of use of secondary materials (6% of the total consumption in 2021) is two times behind the average indicator of the European Union (12%)⁴. The Ministry of Environmental Protection and Regional Development has still not assessed the necessary measures for replacing mineral resources with secondary raw materials.

Information on mineral resource deposits

The Ministry of Environmental Protection and Regional Development and its subordinate entities, the State Environmental Service and state-owned “*Latvijas Vides, ģeoloģijas un meteoroloģijas centrs*” Ltd, have not safeguarded the availability of complete information about the mineral resources available in the country so that developing data-based qualitative development planning documents for the land in the field of subsoil use and planning targeted future use of subsoil in the long term would be possible.

Due to the deficiencies of data collection methodology, information about mining sites where mining has been stopped is not collected at all, but it is planned to resume in the future, while information about recultivated mining sites is incomplete. Also, there is no collected complete information about the licenses and permits issued by state institutions for the extraction of mineral resources, thus not providing the public and other interested parties with up-to-date necessary information.

Deficiencies in the quality of mineral resource data are evidenced by correction of mineral extraction data, data entry errors that occur when processing mineral resource extraction data manually. Manual processing and correction of data requires a large consumption of resources of state institutions and does not ensure a productive work result.

When analysing the data of the Register of Mineral Resource Deposits, the audit found several cases where the minerals were obtained after the expiry of the license or permit, which indicates that incorrect information was presented in the Register or that the State Environmental Service did not take sufficient measures to detect potential illegal mineral extraction. When conducting checks on these cases during the audit, the State Environmental Service detected that the discrepancies were mostly due to the mismatch of the Register data, while checks on potential illegal mineral extraction should be carried out in five cases regarding extraction of 13,490 cubic metres of sand and sand-gravel.

² Environmental Policy Guidelines for 2014-2020 (approved by Cabinet Order No 130 of 26 March 2014), Chapter 11

³ Informative Report on the implementation of the Environmental Policy Guidelines for 2014-2020 in 2017, 2018, 2019 and 2020 of 23 December 2021, pp. 129 and 176.

⁴ Available at: https://ec.europa.eu/eurostat/databrowser/view/env_ac_cur/default/table?lang=en [skatīts 09.01.2023.].

The data gaps have arisen due to insufficient cooperation between the relevant institutions of the Ministry of Environmental Protection and Regional Development, that is, the State Environmental Service and state-owned “*Latvijas Vides, ģeoloģijas un meteoroloģijas centrs*” Ltd.

Monitoring of mineral resource extraction

The State Environmental Service does not take into account specific requirements of the laws and regulations regulating the extraction of mineral resources when planning inspections of compliance with the laws and regulations of mineral resource extraction, but it uses criteria developed for the identification of inspections of operators of polluting activities for the selection of sites to be inspected, thus not detecting violations or detecting them late, for example:

- Failure to conduct a topographical survey of a mining site⁵. Topographical surveying should be carried out to obtain the most accurate data on the mined mineral resources. This requirement has not been met in 65 out of 98 mining sites audited in the audit sample, or 66% of cases;
- Failure to calculate the remaining reserves of mineral resources⁶ or perform an inventory of peat extraction fields⁷. This requirement has not been observed in 131 of 352 mining sites audited during the audit, or 37% of cases;
- Failure to preserve mining sites⁸. Out of 293 mining sites that should be conserved so as not to pose a threat to human health or the surrounding environment during the cessation of mining operations, preservation has not been carried out in 288 sites or 98% of mining sites.

The State Environmental Service does not have a documented selection procedure for planning inspections at mineral resource mining sites according to the established criteria, therefore tracking the preparation of an inspection plan is impossible, and 62% of mineral resource mining sites are included without evaluation in the 2022 inspection plan.

When planning inspections, risks related to the correctness of natural resource tax calculations are also not assessed, because the Service only has information on the natural resource tax paid, which includes not only the extraction of mineral resources, but also the tax paid for environmental pollution although the State Environmental Service must control the correctness of natural resource tax calculations.

The auditors consider that it is possible to check several requirements of the laws and regulations regulating the extraction of mineral resources and to identify their non-fulfillment in a timely manner by collecting and analyzing the information submitted to the State Environmental Service and the information already in the Registers, to ensure the detection of deficiencies in a more productive way.

Contrary to what is stipulated in the regulation⁹ that an institution obtains information itself that is at the disposal of another institution, rather than requesting it from an individual, when conducting inspections on the compliance with the laws and regulations of mineral resource extraction, the State

⁵ Article 68 and 69 of Cabinet Regulation No 570 “Procedures for Extraction of Mineral Resources” of 21 August 2012.

⁶ Article 74.1, 74.3, and 74.4 of Cabinet Regulation No 570 “Procedures for Extraction of Mineral Resources” of 21 August 2012.

⁷ Article 78 of Cabinet Regulation No 570 “Procedures for Extraction of Mineral Resources” of 21 August 2012.

⁸ Article 83 of Cabinet Regulation No 570 “Procedures for Extraction of Mineral Resources” of 21 August 2012.

⁹ Section 10.8 of the Law on State Administration Structure.

Environmental Service, requires mineral miners to submit reports already submitted to the State Revenue Service on the calculated natural resource tax.

Reclamation of mining sites

The current legal framework regarding the recultivation of mineral resource mining sites is not sufficient, as there are no established criteria for recognizing mineral resource extraction as completed, the monitoring of recultivation process of mining sites is determined in general, there is no requirement to create financial security for the recultivation of mining sites.

Identifying mining sites to be recultivated in time is impossible to ensure high-quality supervision over the recultivation of mining sites because the legal framework stipulates that recultivation must be started within a year after the completion of mineral extraction but it does not set criteria for identifying the moment of completion of mining. Only a miner actually knows the moment of starting recultivation of the mining site but they have no obligation to inform the responsible institutions about it.

The Law¹⁰ stipulates that local and regional governments supervise the recultivation of mineral extraction sites but the legal framework does not provide more detailed instructions on what this obligation entails. The audit findings allow us to conclude that local and regional governments have different understandings of recultivation supervision. As supervision measures taken, local and regional governments indicate both the coordination of type of recultivation and the creation of a commission for the acceptance of completed recultivation work, as well as the fact that no supervision is carried out at all.

The initiative of the State Environmental Service to provide informative material to mineral miners on the reclamation of mining site on its website, while inviting mineral miners to inform both the State Environmental Service and local and regional governments about the start of reclamation work, is commendable.

The audit has identified 254 mineral resource mining sites where mineral resources may no longer be mined¹¹ but these sites have not been recultivated. Among them, mining may not be carried out for a long time, more than 10 years, in 140 mining sites. By not reclaiming mineral resource mining sites in a timely manner, sustainable environmental preservation is not promoted and full use of the mineral resource mining site is not ensured after mineral extraction is completed.

In Latvia, there is no requirement for financial collateral¹² for mining site recultivation. Consequently, funding for recultivation has not been provided in cases where a miner of mineral resources does not fulfil his obligation to recultivate the mining site, thereby creating a risk of an increase in the number of degraded areas. For example, the audit identified already 39 liquidated companies out of 128 mineral resource mining companies (or a third part) that have not recultivated 51 mineral resource mining sites in total.

It should be noted that the cost of reclamation of degraded mineral resource mining sites increases every year, for instance, recultivation costs of degraded peat mining sites identified in Latvia

¹⁰ Article 4.5.2 of the Law on the Depths of the Earth.

¹¹ Expired permit or license.

¹² Financial support for the reclamation of the mineral resource mining site is provided only in the case of crystalline bedrock.

amounted to approximately 14 million euros in 2016, but these costs have increased by 43% and already amounted to 20 million euros in 2022, which will have to be borne by the land owner if the miner has not fulfilled his obligation to recultivate the mining site. One should note that the majority of peat mining sites in Latvia belong to the state or local and regional governments.

Key recommendations

Following the audit findings and conclusions, there are 13 recommendations were made to the Ministry of Environmental Protection and Regional Development, the State Environmental Service and state-owned “*Latvijas Vides, ģeoloģijas un meteoroloģijas centrs*” Ltd to:

- Ensure the completeness and correctness of the information available in the Register of Mineral Resource Deposits;
- Provide sustainable management of natural resources by developing a subsoil use strategy;
- Safeguard planning and monitoring of risk-based mineral extraction inspections;
- Provide that liability for mineral resource extraction violations is applied in accordance with laws and regulations;
- Facilitate the recultivation of mineral resource mining sites after the completion of mineral extraction.