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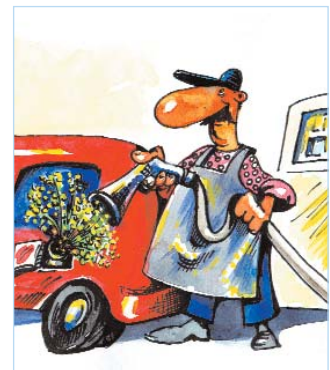
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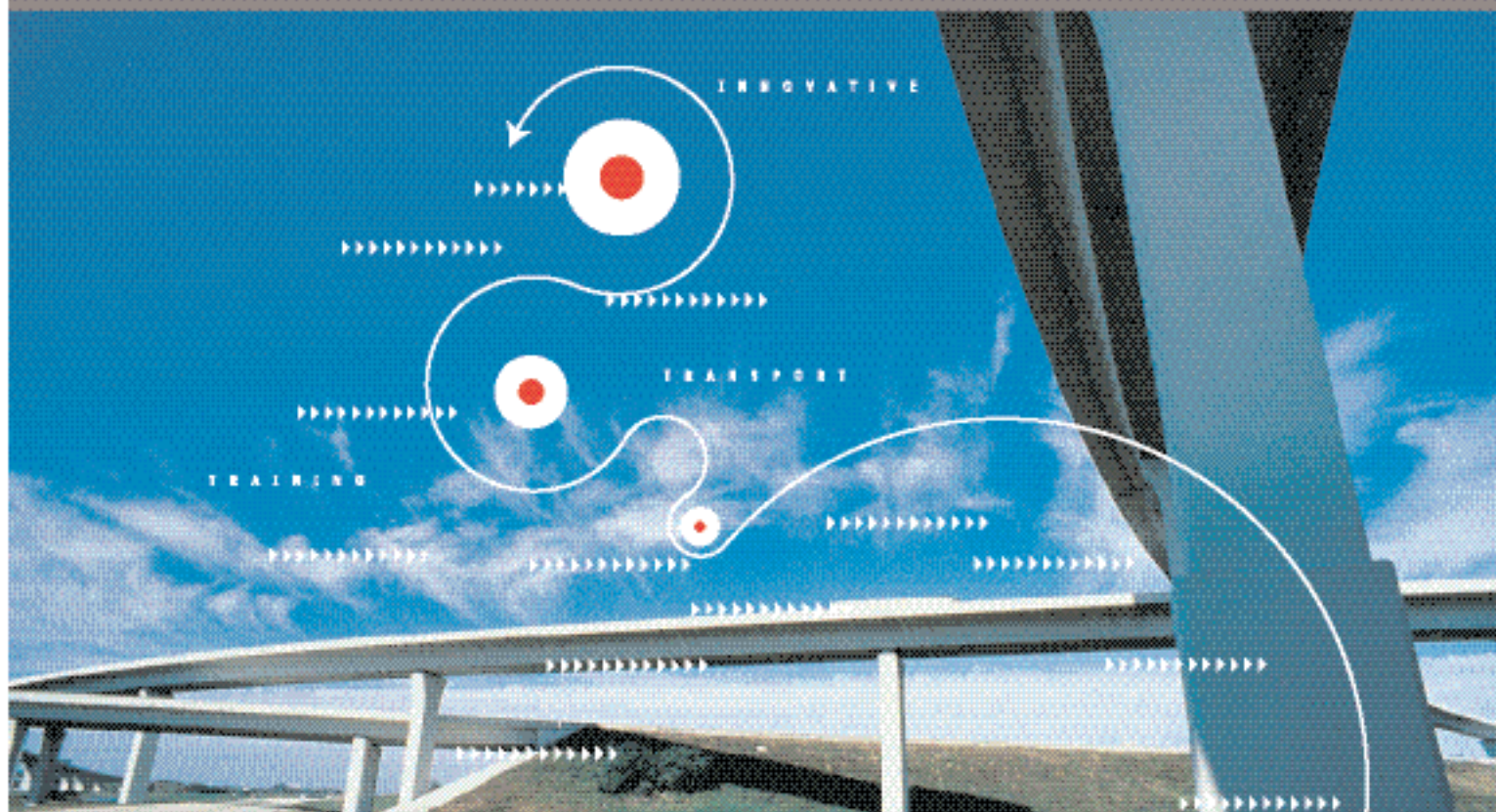
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INNOVATIVE VOCATIONAL EDUCATION  
AND TRAINING IN TRANSPORT AREA

# IVETTA 2005



European initiative

**Leonardo da Vinci**

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FOR DECISION MAKERS

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**Eugene Eteris**

*The New Year started with good news from the EU headquarters: final European Constitution Draft would go for approval by all Union's member states, and European Commission's President unveiled its team plan for the next five years' period. The plan stated three main goals for the Union (and for the Baltic States as well) — wellbeing, solidarity and security. Still the bad news is that Union's economic development, in particular in the eurozone states, is far from optimal; and leaders in the Union's member states are bound to take responsibility for tough economic decisions. Just the way the title of global forum on world economy in Davos sounds this year.*

*It seems, somehow, that the EU leaders have found the "missing link", i.e. how to deal with Union's economic problems. It is all being connected with innovations, science and technology, industry and enterprises. Newly elected Commissioner **Gunter Verheugen**, in the rank of the Commission's Vice President, has taken responsibility for this sphere. He is well known to Baltic States' leaders as enlargement commissioner in the previous team. Main difficulty in the new Commission's assignment lies in the fact that the EU, strange enough, has not yet formulated its industrial policy. Not because it does not exist, rather because it's elaboration is hidden behind so-called **complementary or supporting activities** of the EU and the member states. Industry is not, so to say, Union's exclusive and specific "subject"; instead the Union deals with several other spheres and regulatory aspects, such as "development", enterprise, research and innovation. The main tool to reach the goal is the EU's 6<sup>th</sup> coordinating Science & Technology Program for 2002-2006.*

*Present BC's issue is mainly connected with the mentioned **progressive side** of economic development, i.e. the EU innovation policy and its implications on the Baltic States. Main reason for this was both the BC's participation in the 4<sup>th</sup> European Innovation Forum in Germany and the importance attached to the EU innovation policy, with those states that are already good at it (see our report from the Forum). It's quite clear that we can pass knowledge to generations but experience is still the best way to learn how to progress.*

*New year is facing with several anniversaries: from cultural ones, such as H. C. Andersen's bicentenary jubilee up to political, e.g. 60<sup>th</sup> anniversary celebrations of the Soviet victory in "great patriotic war" against Nazi Germany. Latvian President acknowledged first — out of all three Baltic leaders — that she would go. It's a good sign for Baltic's businessmen hoping for stable economic relations with its huge eastern neighbor representing a big market of opportunities. With this thing in mind, we published BC's interview with the newly appointed Russian Ambassador in Latvia.*

*And readers, of course, can find traditional Baltic region's economic development reviews.*

## GAS PIPELINE UNDER BALTIC SEA



Gazprom

**ALEXEI MILLER:** Total pipeline investment is estimated at USD 5.5 billion.

Possible partners and financial resources for the North-European gas pipeline to be built on the Baltic Sea bed will be decided at the beginning of 2005, *PRIME-TASS* reported. The news was announced by *Gazprom* board chairman **Alexei Miller** at the meeting with Russian President **Vladimir Putin**.

Mr. Miller said that “investments in the gas pipeline undersea stretch to be laid on the bottom of the Baltic Sea will reach some USD 3 billion. As to the entire cost of the project for construction of a pipeline from Russia to the United Kingdom, the total investments are expected to be in the range of USD 5.5 billion.”

## LITHUANIAN INVESTMENTS IN KALININGRAD

In 2004 Lithuania ranked first by investments in Kaliningrad region, Russia's Baltic enclave. Lithuanian investments in Kaliningrad region increased nearly 30 times in the first six months of 2004. Lithuania is also the top foreign investor by number of companies established in Kaliningrad region.

Diplomats say that Lithuanian business interest and investments in the region are likely to grow, although that will depend on the new Kaliningrad law on special economic zone, Lithuanian business daily *Verslo ziniuos* reported.

According to statistics, Lithuanian investments in Kaliningrad region reached USD 4.7 million in the first half of 2004. Investment growth is due to capital investments by such companies as refrigerator manufacturer *Snaige*, fish processor *Viciunai*, sweets maker *Naujoji Ruta* and the grain processor *Kretingos grūdai*.

## FIRST OFFICIAL VISIT

Latvian President **Vaira Vike-Freiberga** made a state visit to the Netherlands on January 18-19, 2005.

The state visit began with an official meeting between the Latvian president and **Queen Beatrix**. Vike-Freiberga also met with Dutch Prime Minister **Jan Peter Balkenende** and discussed with him bilateral relations as well as future development of the EU and NATO. At the talks with Amsterdam Mayor **Job Koen**, the Latvian president noted positive results of the cooperation agreement between capitals of the two countries. Upon visiting the European Federation of National Academies of Sciences and Humanities, Vike-Freiberga said that both public and private money should be used to maintain competitiveness of research.

Latvian Transport Minister **Ainars Slesers** also met the Dutch prime minister and said that first of all Latvia was interested in the Dutch experience in logistics and distribution. The Latvian minister also called on Dutch business people to make use of opportunities offered by Latvia. Slesers told Balkenende about operations of Latvian ports and the Riga airport that last year saw a 49 percent growth of passengers. (See: p.32)

## GERMANS TO SUPPLY PIPES TO LIETUVOS DUJOS

German company *Salzgitter International* has won a tender for supply of pipes to Lithuanian natural gas utility *Lietuvos dujos* which intends to build a gas main to the neighboring Russian enclave, the Kaliningrad region. The 63-kilometer-long pipeline from Kaunas to Sakiai will be built from January to May 2005. The tender attracted 9 participants – companies from Lithuania, Germany, Turkey, Poland and Switzerland, said *Lietuvos dujos* spokeswoman **Sigita Petrikonyte-Jurkuniene**. The construction will be financed by the gas company itself. The new pipeline will make it possible to supply Kaliningrad with up to one billion cubic meters of gas annually. Total length of the *Lietuvos dujos* gas pipeline network is 1,600 kilometers. *Lietuvos dujos* is owned by Germany's *E.ON Ruhrgas International* (38.9%), Russia's *Gazprom* (37.1%) and the Lithuanian state (17.7%); the rest of the shares are held by small investors.

## BALTIC AND WEST EUROPEAN POWER SYSTEMS TO BE LINKED



The BC archives

**VALDAS ADAMKUS:** We have to secure independence of our main economic sector.

Latvia, Lithuania and Estonia will support construction of a power transmission line that would link Baltic and West European energy systems. However, energy experts have warned that so far there is no guarantee that the project will be implemented by 2009 when Lithuania is required to shut down the second reactor at its Ignalina Nuclear Power Plant (NPP).

“Energy issues are vital for all three Baltic states. We need to secure economic independence and therefore we will join our efforts,” Lithuanian President **Valdas Adamkus** said after the meeting with Latvian and Estonian presidents in Vilnius in late November 2004.

But there is still no certainty on the commencement of power bridge construction from Lithuania to Poland and Western Europe. Unofficial sources have blamed Poland for delay.

According to preliminary estimates, it would cost EUR 434 million to link Lithuanian and Polish power transmission lines. Lithuanian energy company *Lietuvos energija's* strategic department head **Anzelmas Baciauskas** said that without the project Lithuania would not be able to close the Ignalina NPP as the country would lose the required power supply reliability.

At the meeting in Vilnius the leaders of the three Baltic states also agreed to urge competent EU authorities to extend the prospective gas mains, due to be constructed from Denmark via Germany and Poland, to Lithuania and Latvia. In that case Lithuania will no longer depend on natural gas supplies from Russia's *Gazprom* and would be able to receive gas from Denmark or Norway.

## VIA BALTICA IN LATVIA IS MORE EXPENSIVE



G. Diezins, A.F.I.

**VIA BALTICA:** Via Baltica road quality in Lithuania and Estonia is better than in Latvia.

Latvia has spent more money on construction of international highway *Via Baltica* which is running through the three Baltic states but the road quality in Latvia is worse than in Lithuania or Estonia, reported Latvian business daily *Dienas Bizness*. According to motor road supervision authorities in the three countries, *Via Baltica* cost per kilometer is EUR 1.4-2.3 million in Latvia, EUR 0.25-2 million in Estonia and EUR 0.28-1.7 million in Lithuania.

Road carriers claim that *Via Baltica* road quality in Lithuania and Estonia is definitely better than in Latvia. "In Lithuania road maintenance is taken more seriously. They were the first to start improving their roads and we were the last, lagging behind even Estonians," said Latvia's *DFDS Transport* director **Janis Meikulans**.

## SAMPO BANK LAUNCHES BALTIC LINE

Finland's *Sampo Bank* has entered the Latvian financial market by acquiring *Maras Banka*, a bank founded in 1997 and specializing in mortgage loans to individuals. "We see the fast-growing Latvian banking market as an interesting area for *Sampo Bank's* business. In addition, we want to support *Sampo's* Finnish and Baltic customers in all Baltic states," said *Sampo Bank* board chairman **Mika Ihamuotila**.

Currently *Sampo Bank* works in eight countries, including Estonia and Lithuania. After acquisition of *Maras Banka*, the Finnish bank will be able to offer bank services to clients in all three Baltic states where *Sampo Bank* has 135,000 clients served by 25 branches and 720 employees.

## LATVIAN AND GERMAN POLICE CATCH BANK ROBBERS

As a result of cooperation between Latvian and German law enforcement authorities, seven Latvian citizens, suspected of committing a series of bank robberies in Germany, were detained in Riga in November 2004. They managed to get totally about half a million euros from the banks. Four of the detainees are suspected of 14 bank robberies in the German federal land Lower Saxony and theft of eight cars; the other three are considered their



B. Kolesnikov, A.F.I.

**JANIS ZASCIRINSKIS:** Latvian National Police chief is obviously pleased.

accomplices in Latvia. During the investigation, 22 searches were conducted and two more criminal cases opened over illegal possession of drugs and use of forged documents. As many as 122 Latvian criminal police officers participated in the investigation on the Latvian side.

## GAZPROM HAS BOUGHT LATVIJAS GAZE SHARES

*Gazprom* board of directors has finally decided to increase the Russian gas concern's stake in the Latvian natural gas utility *Latvijas Gaze (LG)* by buying another 9% of *LG* shares from *Itera Latvija*, reported the Latvian business daily *Biznes&Baltija*. Currently *Gazprom* holds 25% plus one share in *LG*. After the deal, *Gazprom's* holdings in *LG* will increase to 34% but *Itera Latvija* will keep 16% of shares.

Analysts think that the price for 9% of shares in *LG* will not be high and estimate it at 10 million lats. *Gazprom* needed the deal in order to retain its position on Latvian energy market in future. *LG* buys, transports, stores and distributes in Latvia natural gas that it receives from Russian companies *Gazprom* and *Itera*. *LG* owns a vast underground gas storage facility in Incukalna not far from Riga, the Latvian capital.

## LATVIAN BANK JOINS GLOBAL FACTORING NETWORK



The BC archives

**TRASTA KOMERCBANKA:** First FCI member in Latvia.

On October 15, 2004, Latvia's *Trasta komercbanka* became the first Latvian company to join *Factors Chain International (FCI)*, the world's largest association of factoring companies.

The *FCI* is a global network of leading factoring companies and banks, now listing 189 members in 57 countries which together account for 45% (EUR 338.346 mln) of the total factoring turnover in the world. Assisted by the *FCI*, *Trasta komercbanka* is now able to offer export factoring services without the right of regress. Latvian businessmen will no longer be liable for risk of non-payment on part of their trade partners. The reliability of the transaction will be guaranteed by the bank's *FCI* membership.

## RECORD-LARGE SEIZURE OF COUNTERFEIT CLOTHING

Estonian custom authorities have made a record-large seizure of counterfeit clothing and footwear being sent from China to Russia in 11 railway containers. The customs officers found out that the shipment contained about 50,000 articles with obvious signs of counterfeit. The cargo was discovered in the Sillamae special economic zone in late September. Containers were filled with clothes and footwear carrying such famous labels as *Nike*, *Adidas*, *Reebok*, *Columbia*, *Diesel*, reported Estonian *Postimees* newspaper. Representatives of the customs authorities said that it was the largest shipment of counterfeit goods ever seized in Estonia. The consignor of the cargo was a company in Moscow.

# Excessive cost of EU membership

By Tatyana Bogdanovich  
from Visaginas, Lithuania

The first of the two power units at the Ignalina Nuclear Power Plant (NPP) which generates about 80% of total electricity consumption in Lithuania was decommissioned on December 31, 2004. The RBMK-1500 reactor, which is the world's most powerful reactor in its class, came to a halt in just few hours.



This is it – the important shutdown button is being pressed by senior reactor control engineer Alexander Beschastnov.

Gradual reduction of the Unit 1 output began around 2 a.m., and both turbines were shut off at 8:02 p.m. “It is a regular procedure for shutting down the unit, a routine work done by the staff many times. The senior reactor control engineer just pressed the shutdown button, as usual”, said Ignalina NPP director general **Viktor Shevaldin**. The only difference was that previously the reactor was shut off for scheduled maintenance but now it was stopped for good on the order from Brussels.

## SAFETY ADEQUATE BUT...

On the eve of the Unit 1 shutdown the world mass media published a lot of articles about Lithuania closing down the power unit that “represented threat to entire Europe” and was “of the same

design as the notorious Chernobyl reactor”. None of the reporters, who raided the Ignalina NPP Information Center shortly before decommissioning of the Unit 1, bothered to inquire about any differences between the upgraded RBMK-1500 reactor at Ignalina and the Soviet-design RBMK-1000 reactor (all attempts to improve it were abandoned after the 1986 Chernobyl nuclear disaster). Everybody had only one question to ask: “Where’s that button you have to push to stop the reactor?”

Apparently, those, who conceived the idea of shutting down the “ideologically alien” reactor, were not interested in letting out information about the Ignalina NPP reactor having an advanced safety mechanism and the failure containment system

operating by the same principle as reactors made by *General Electric*.

Those, who have at least the slightest idea about nuclear power plants, must realize that it is a unique and exceptionally complicated mechanism and how difficult it is to hone the power generation process to absolute perfection. For the Ignalina NPP, it took 15 years. Before the safety level was brought up to the world standards, Lithuanian and Swedish nuclear energy specialists and Western experts had to do a detailed study of Russia’s RBMK reactor technologies to identify vulnerabilities of the design and to give their recommendations. They were used as the basis for a multi-phase safety improvement program that cost hundreds of millions litas. The fact that safety at the Ignalina NPP is up to the



V. Bogdanovich

The corridors here look like they belonged to hospital – all sterilely clean and people in white uniforms.

level of nuclear power plants in Western Europe has been confirmed not only by findings of international experts but also by the Lithuanian State Nuclear Power Safety Inspectorate (VATESI).

Regretfully, European politicians lobbying interests of West European reactor manufacturers do not care much about the expert opinion. They have their own far-reaching plans according to which it would be better to have Lithuania among electricity consumers rather than among power producers.

### WHAT HAPPENS TO PERSONNEL?

The personnel of the decommissioned power unit is depressed; pessimistic moods prevail also in the nuclear plant's satellite city Visaginas. Every resident is well aware of the likely effects



V. Bogdanovich

Each of the power units has two turbines with 800 MW generators and automated controls.



V. Bogdanovich

The Ignalina NPP has a very complicated system of steam lines.

from closing the only large industrial business in the region.

Presently the nuclear power plant employs 3,500 people, of which 502 were assigned to Unit 1. The Ignalina NPP personnel department, reluctant to dismiss highly qualified workers, plans to lay off only 200 people every year until 2009 when Unit 2 is to be decommissioned as well. But there are another 9,000 people, whose jobs are related to repairs, supplies and maintenance of the plant. What will happen to them?

Everybody, who felt like leaving, has already left the city; only those, who wish to live and work here, have stayed behind. It costs 60,000 litas to create a job in the region. Hardly anyone in Visaginas can afford to create jobs at their own expense which is not at all surprising as the average monthly salary at the Ignalina NPP was

2,600 litas in 2004. Most of the power plant workers are the sole breadwinners for their families. Needless to say, there are no millionaires, no villas and cottages, even the Ignalina NPP director general lives in an ordinary apartment in a standard multi-apartment house like everybody else.

To create jobs for about 5,000 people will require 300 million litas. Under the plan approved by the Lithuanian Economics Ministry, only 10 million litas or 0.4% of all allocations connected with the Ignalina NPP shutdown have been earmarked for regional development alternatives.

“Regretfully, the 2003 Law on Additional Employment and Social Guarantees to the Staff of the State-owned Ignalina Nuclear Power Plant is being financed only partially,” said the plant’s



A special refueling machine supplies fresh fuel and removes fuel waste from the operational reactor.

V. Bogdanovich

Human Resources Director **Feliksas Markevicius**. The situation is further complicated by the fact that most of those facing unemployment do not speak Lithuanian and not because they don't want to. The answer is simple, i.e. in a city where 80% regard themselves as native Russian-speakers, you cannot always find someone to talk to in Lithuanian.

### A CHANCE FOR REVIVAL

Decommissioning of the reactor does not mean ultimate shutdown of the power unit. During 2005 the unit will be kept in the "idle mode" but the necessary safety systems will be functional, explained the plant's Chief Engineer **Gennady Negrivoda**. It means that the unit can still be brought back to life.

"Under the de-fuelling program, nuclear fuel waste has to be removed from Unit 1 by 2013 and from Unit 2 by 2015";

said Mr. Shevaldin. The first phase of radioactive waste storage facility is to be put into commission by 2009. Then dismantling of equipment, buildings, installations and other sources of radioactive waste will begin.

It is possible that dismantling will really get under way only after closing of Unit 2, said Mr. Negrivoda. It is planned to complete dismantling of the equipment by 2025.

### POWER DEFICIT LOOMING

According to forecasts by European experts, a shortage of electric power capacity may occur in Europe in next few years. In case of further industrial growth, Lithuania may also experience energy deficit.

There are certain difficulties in operating a double-unit power plant when only one unit is functional. The Ignalina NPP is working on an emergency plan, should unscheduled shutdown of the functional power unit during winter become necessary for any reason. In summer Unit 2 will be stopped for 40 days for scheduled maintenance. Then the responsibility of supplying the country with electricity will shift to *Lietuvos Elektrine* thermal power plant built in 1959 but upgraded recently. This power plant runs on imported gas and fuel. If local power generation capacities turn out to be insufficient, Lithuania (which has made good profits from power exports ever since restoration of the country's independence) will have to start importing electricity.

The Ignalina NPP management is pretty sure that Unit 2 will be decommissioned according to the agreed schedule.



V. Bogdanovich

You won't see many people around here – everything is controlled by automatic systems.





Yury Grinevsky (in the foreground) was in charge of the shift which had to shut down the power unit few hours before the New Year set in.

V. Bogdanovich

Agreements have to be carried out, and one must not harbor any illusions. If the timetable for further operation of the Ignalina NPP power units was made by nuclear experts, not politicians, both reactors could be kept running at least for another 20 years.

### WILL LITHUANIA REMAIN IN "NUCLEAR CLUB"?

"The question of whether a new power unit is to be built in Lithuania depends on the government and the parliament," says Mr. Shevaldin. "Lithuania is a market economy. The state cannot and must not build new power units, especially since it does not have money for such construction, adds Mr. Negrivoda. But the Lithuanian President would welcome new nuclear power unit construction and this enables potential investors to consider feasibility of such a unit in Lithuania. The following calculations can be pertinent: it will cost some 3 billion euros to build a 1,600 MW power unit of the latest European design plus another 0.5 billion euros to build power transmission lines to the West. The total sum is 3.5 billion euros," experts said.

For economic reasons, it will not be profitable to operate a single-unit power station. The cost of electricity generated by such plant will be acceptable only if the power unit was running at full capacity throughout the year. If that is impossible, then the operation of the unit would not be economically feasible. The power station running load cannot be guaranteed: first, Eastern countries would not buy energy; it is cheaper for them to gen-

erate their own; second, Western states are not interested in buying import electricity. In addition, power losses during transmission have to be taken into consideration.

"The EU is not a charity organization, the Ignalina NPP Chief Engineer continues. Money that Western investors will invest in Lithuania under a state guarantee must yield a good return. Naturally, a question arises whether it is worth building a new nuclear power plant in Lithuania now, when *Lietuvos elektrine* is able to supply the country with electricity for next 20 years. Wouldn't it be better to wait some 10 years and see how new power units are being constructed, for example, in France or Finland?"

• Total load of Unit 2 at Ignalina NPP on January 5, 2005, was **1297.62 MW** and current nuclear fuel flow was **1.26 kg/h**. To

generate the same amount of electric power per hour, a power plant of a different kind would need to burn 489 tons of coal or 310 tons of fuel oil.

• In Lithuania most carbon dioxide emissions are being discharged by *Lietuvos elektrine* thermal power plant — it has been given a quota of 7.394 million tons for three next years. The EU quota granted to Lithuania for carbon dioxide emissions is 5% (12 million tons) lower than initially requested by Lithuania.

• According to a study by the International Atomic Energy Agency (IAEA), construction of a new nuclear power plant would be feasible, if the installation of 1 kW of capacity cost about 4,488 litas. Only then the plant will be able to compete with other power plants. In the best case, such nuclear power plant could be built in 2015.

The region around Ignalina NPP has attracted interest from foreign investors. The reason is simple, i.e. the EU will provide generous support to companies which would create jobs in towns likely to be hit by unemployment. Not only Lithuanian but also foreign companies plan to make use of these funds. A share of resources from the Ignalina NPP decommissioning support fund will be allocated for creation of new jobs. This year, for example, construction of a new factory in Visaginas will begin. An Austrian company intends to build a tile plant not far from the Ignalina NPP. Austrian investors plan to build a wood fiber plant, and Danes would like to build green-houses in Visaginas. Still another Danish company suggested a plan to open a tourist center in Visaginas, according to the Lithuanian newspaper *Lietuvos Rytas*. •



V. Bogdanovich

# Biodiesel — a cure-all for energy industry?

By Mikhail Tuzhikov

*Transport Rossii magazine, Baltic correspondent*

Biodiesel joined hydrogen, solar energy and hybrid power units in the line-up of methods for relieving mankind from its dependency on oil in the 1990s. But experts are not at all unanimous in their opinion about biofuel as a cure-all for the energy industry.

Presently 87% of the world's energy needs are satisfied by non-renewable primary energy carriers of organic origin, i.e. oil, natural gas and coal. Over 80% of mechanic power on the Earth is generated by internal combustion engines, the main consumers of all kinds of mineral fuels, but these resources are not unlimited. Stricter limits for hazardous engine exhaust emissions have made most world countries to look for ways to reduce environmental effects of heat engines.

Experts have estimated that oil reserves on the Earth will run out in 100 years, coal reserves could be depleted in 400 years and nuclear fuel in about 1,000 years. Therefore, use of alternative fuels based on renewable sources such as natural oils from oil-seed rape, sunflowers, corn, soybeans, oil palm fruit, peanuts as well as animal fats or even seaweeds has increased significantly in recent years. Such biological fuels are known as biodiesel and bioethanol.

Biodiesel is produced by mixing plant oil with alcohol and adding an alka-

line catalyst that creates chemical reaction resulting in two products, i.e. biodiesel (a compound of methyl esters from fatty acids in rape-seed oil) and glycerol. It is even easier to make bioethanol as one can "brew" it from anything found around, e.g. fallen leaves, sawdust and other types of biomass.

The search for environmentally friendly energy sources acquired special importance after signing of the Kyoto Protocol on restrictions in global CO<sub>2</sub> emissions. Currently most European countries pursue strict policies aimed at reducing hazardous emissions and creating incentives for environmentally safe energy sources. Moreover, the UN has declared August 10 the International Biodiesel Day. It is done first of all due to experts' reports that use of biofuel is going to reduce emissions of sulfur, CH, CO, CO<sub>2</sub> by 90% and preserve 60-90% of air resources on the planet.

## FUTURE LOOKS BRIGHT

The first biodiesel plant in the world was built in Austria in 1991. Since

then the world output of this environment-friendly fuel has increased 10 times. The European Commission in its White Paper "Energy For the Future: Renewable Sources of Energy" outlines the strategy under which alternative energy sources are to replace up to 20% of diesel fuel and gasoline consumption in the EU by 2020. As regards biofuel in particular, its share in energy consumption has to be raised from 2% in 2005 to 5.75% in 2010. Starting with 2009, all EU member states will have the obligation to produce and use biodiesel.

In this relation, the global oil crops output in 2004 is expected to reach 357.5 million tons. According to the Russian Scientific Research Institute of Organic Chemistry and Technology, the breakdown of the world biodiesel production is the following:

- existing annual capacities: in Europe — 1.5 mln t, in the USA — 75,700 t;
- projected annual capacities: in Australia — 40,000 t, in Brazil — 50,000 t, in Malaysia — 500,000 t.

Italy, Belgium, France and Germany are the biggest biofuel producers. In these countries biodiesel is non-taxable therefore driving a car which runs on biodiesel is not only good for environment but also cheap for consumers.



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# 2005

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## FRANCE

French Prime Minister **Jean-Pierre Raffarin** has announced construction of four new biofuel plants, each with output capacity of 200,000 tons, reported *OGJ Agency*. The construction that will begin in spring 2005 and is to be completed by 2007 will cost 8 million euros.

France already has eight functional plants that make mostly *diester*, a mix of 30% biodiesel made from rape-seed or sunflower-seed oil and 70% diesel oil; possibility to start production of ethanol is also being considered.

*Total AS* is the only biofuel producer in France with an annual output of 219,000 tons.

## THE UNITED KINGDOM

Hundreds, if not already thousands of Britons and dozens of small companies throughout the country are making biodiesel from used cooking oil, reported *The Guardian*. There are plenty of raw materials as Britain disposes of more than 70 million liters of the stuff every year. The British biodiesel producers have formed an association, the Allied Biodiesel Industries (ABI), and the largest of its members makes about 5 million liters of biofuel a year.

## GERMANY

Future belongs to biofuel which will make Germany free from oil product imports. This was the subject discussed at the first international congress on problems of biofuel use in transport held in Wolfsburg in early November 2004. The congress was organized by the German federal authority for consumer protection.

At present about 1,600 gas filling stations in Germany sell biodiesel and the number keeps growing. A new biodiesel plant with annual output capacity of 50 million liters was opened in Magdeburg in 2003.

## FINLAND

First 3,000 cubic meters of ethanol from Italy was delivered to production plants of the energy concern *Fortum* in Finland in 2002. The new type of fuel contains 95% of 98-octane gasoline and 5% of ethanol made from Italy's surplus stock of wine alcohol.



## LITHUANIA

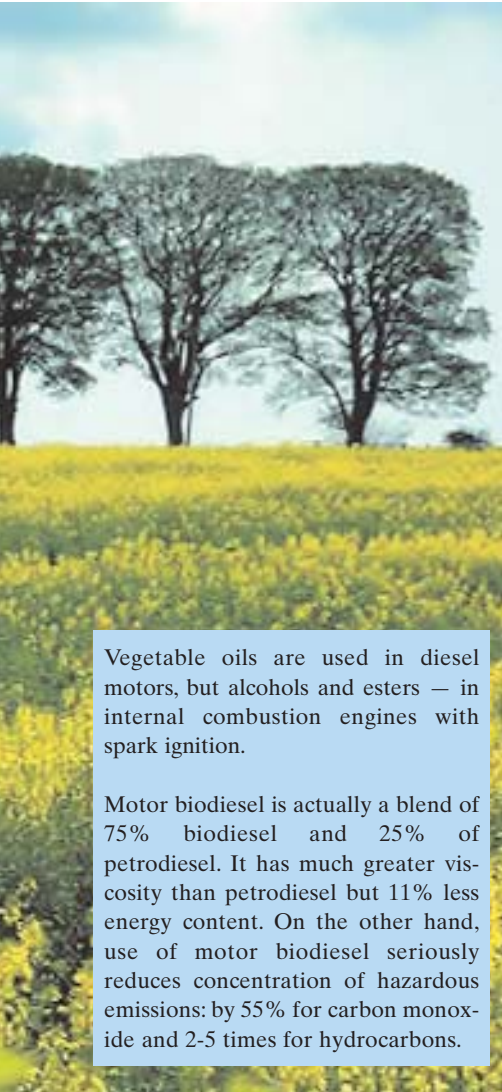
There are three main biofuel producers in Lithuania: Mazeikiai-based *Rapsoila*, which makes a 5% biofuel blend, started industrial-scale processing of rape-seed oil only in spring 2004 but already during the first half of 2004 its sales reached 1.71 million litas (USD 660,000), rising nearly 8 times compared to the same period a year before. Klaipeda-based *Rapsolis* has also begun processing rape-seed oil, and its annual capacity reached 10,000 tons a year. *Stumbras* distillery owned by *MG Baltic* has launched production of another type of fuel, i.e. bioethanol, also with annual capacity of 10,000 tons. Small amounts of biofuel are produced at Lithuanian plants *Plunges Grudai* and *Telsiu Bioenergija*.

Construction of another plant in Kaunas with expected annual bioethanol output of 130,000 tons would start in 2005. The likely investors in the project are Japanese company *Mitsui Engineering* and Germany's *ACS/GFT*.

## LATVIA

On April 27, 2004, the Latvian government adopted amendments to the Regulation No. 432 "The Procedure for Administration of Biofuel Circulation and Corresponding Excise Duties" which governs circulation of biofuel made of agricultural raw materials, and specifies conditions for application of lower excise tax rates for this kind of fuel. Proper implementation of the process requires additional financial investment in development of fuel storage facilities. Preliminary estimates have shown that the holding capacity of reservoirs alone needs to be tripled. Installation of special equipment will also be required, and this would take both money and time. In addition, Latvian parliament still has not passed the law on biofuel aimed at protecting local producers.

So far only two companies produce biofuel in Latvia. *Jaunpagasts plus* was the first company to launch bioethanol production in Latvia. It will build another plant with estimated daily output of 30,000 liters



Vegetable oils are used in diesel motors, but alcohols and esters — in internal combustion engines with spark ignition.

Motor biodiesel is actually a blend of 75% biodiesel and 25% of petrodiesel. It has much greater viscosity than petrodiesel but 11% less energy content. On the other hand, use of motor biodiesel seriously reduces concentration of hazardous emissions: by 55% for carbon monoxide and 2-5 times for hydrocarbons.

The BC archives

this year. In spring 2004 a renovated still-house in Iecava, in central Latvia, started to produce about 15,000 liters of biofuel daily.

Another two biodiesel fuel plants may be launched in Latvia in the nearest future. Oil-seed rape farming company *Latraps* intends to build a 15 million euros worth biofuel plant near Jelgava in southern Latvia. Ukrainian company *Biodizel Ukraina* and their Latvian partner *Baltic Biodiesel* have almost completed construction of a plant in *Vega* industrial park in the territory of the Riga free port. The total cost of the project is 15 million euros, and the plant with annual output of 75,000 tons is to become operational in May 2005. Ukraine is already busy growing raw materials for the new plant — 50,000 hectares of winter oil-seed rape and 50,000 hectares of the summer crop.

## ESTONIA

So far no biofuel is produced in Estonia. Although representatives of the German automotive concern *Daimler-*

*Chrysler* have shown interest in building a biodiesel plant in southern Estonia, the final decision has not yet been made. Meanwhile, the Tallinn Technical University has developed a technology for production of ethanol fuel that would be cheaper than conventional fuel.

The Estonian Nature Fund and two commercial firms, *WBT* and *Werol Tehased*, are also working on biofuel production technologies. The process has been slowed down by Estonian tax laws, the only obstacle to biofuel production, as currently they do not provide for any tax allowances on environment-friendly fuel. Without such allowances, the new product will not be competitive on the market.

Should the government make biofuel exempt from excise tax, Estonia's largest rape-seed oil producer *Werol Tehased* is ready to act. The company has picked *Painkula* in the *Jogevamaa* district in eastern Estonia for construction of a biodiesel plant that would cost about 200 million kroons. *Werol Tehased* board chairman **Erki Aavik** said that plant could be put into operation already in 2005.

Another plant to produce biodiesel from rape-seed oil may be built in *Rakke*, the *Laane-Virumaa* district in north-east Estonia. The local government has started working on details of the project. The construction will be done by *OU Makoiilus*, reported local newspaper *Virumaa Teataja*.

*OU Makoiilus* owns 4 hectares of land at the prospective construction site and is therefore interested in the project. Project manager **Toomas Tauts** confirmed that the plant could employ some 15 people. It is going to be a small plant and won't cause any environmental problems, he said.

## FLY IN THE OINTMENT

Biofuel is not only inferior to petroleum fuel by heating value and cost (biofuel is 25-30% more expensive than its petroleum analogue) but also has some other drawbacks. Upon combustion oils tend to form a residue on various parts of the engine's cylinder and piston assembly. Rape-seed oil fuel is more aggressive to rubber car parts than conventional diesel. Moreover, biofuel is adverse to car paints and varnishes. It is recommended to be careful not to spill drops of this fuel on the car surface while filling up the tank.

There is another negative aspect: in order to switch to biofuel a car is to be fitted with a special fuel filter and special fuel lines. Oil in the engine needs to be changed more frequently, observing a certain temperature range. The disadvantages of

## THE CZECH REPUBLIC

A new law on excise duties took effect in the Czech Republic on July 1, 2004. As was suggested by the Agricultural Ministry, the excise tax on biofuel was lowered from 8.15 crowns to 5.62 crowns. This brought biofuel price at gas filling stations down by 1.5 crowns per liter and the desired result was achieved — biofuel now costs 10% less than conventional diesel fuel.

## THE US

On October 22, 2004, US President **George W. Bush** signed the American Jobs Creation Act under which US biodiesel producers will be granted tax allowances of one US cent per percentage point of biodiesel blended with petroleum diesel for first-use oils, like soybean oil, and 0.5 US cents per percentage for biodiesel made from other sources, like recycled cooking oil. The bigger the percentage of biodiesel in the blend, the greater the tax allowance, and this will help to reduce the cost of this fuel.

The US Department of Agriculture expects the tax incentives to increase biodiesel consumption from an estimated 30 million gallons in 2004 to at least 124 million gallons in 2005. However, depending on a number of other factors, including crude oil prices, the actual demand in future may prove to be much higher than the initial estimate.

The American Soybean Association (ASA) president **Neal Bredehoeft** has said that upon annual soybean-based biodiesel demand of 378 million liters, the soybean price will grow by USD 3.7 per ton.

The tax incentive takes effect on January 1, 2005, and will last two years. It is expected to create up to 50,000 jobs in the US over the next ten years. At present biofuel can be bought at about 300 gas filling stations in the country.

## JAPAN

Philippines hope to begin coconut biodiesel exports to Japan this year, the Western press reported. The Philippine Agriculture Ministry representative said that Japan would need 2.5 billion liters of biofuel

blended with 95% of petrodiesel annually. Tokyo alone consumes 600 million liters of 5% biodiesel blend every year. Three Philippine companies — *Chemrez Inc.*, *Sendel Chemicals* and *RI Chemicals* — produce 33 million liters of biodiesel from coconut oil a year, and can double production, if necessary.

## CHINA

China has planned a nationwide switch from gasoline to ethanol. In 2005 Chinese authorities will start a major campaign to expand production of ethanol from grain throughout the country. The start of active ethanol production in provinces Hubei, Shandong, Hebei and Jiangsu was announced on October 11, 2004.

Previously only few Chinese cities used ethanol, including Zhengzhou, the capital of the Henan province in central China. But even there ethanol sales at gas filling stations are nearly 40 times lower than sales of conventional gasoline and diesel fuel. The explanation is that drivers fear the new fuel could harm engines of their cars.

biodiesel as compared to petrodiesel also include lower combustion heat — 372 MJ/kg against 42.5 MJ/kg (minus 10%), less engine power (by 7% on average) and, consequently, bigger fuel consumption (by 5-8%). In addition, alcohols and esters are toxic and cause corrosion of the car's structural elements.

These were the main reasons why the German car giant *Volkswagen* gave up the idea about industrial usage of biofuel and stopped adapting its diesel models to biofuel. After two years of research it turned out that alongside reduced hazardous emissions in the air the use of biofuel can cause serious engine trouble:

- degrading rubber gaskets;
- speedy formation of solid residue and clogging of nozzles, injectors and other calibrated orifices;
- high-pressure pump failure;
- fuel filter failure.

Following *Volkswagen*, the *BMW* concern also announced that all its diesel models meeting the Euro-4 standards will be available only in versions meant for use of petrodiesel.

Fuel dealers also are not at all happy about perspectives of all-around introduction of biofuel. *LUKoil Baltija R* board chairman **Khaim Kogan** said: "When you

work with biodiesel, you need three reservoirs instead of just one. You put biodiesel in one reservoir, and petrodiesel in another, and then use the third reservoir to blend the two. It means that reservoir capacity will have to be expanded. Moreover, biodiesel cannot be stored for long, it segregates. In winter it simply freezes. The EU directives were meant for old EU member states which are mostly countries with warm climate, e.g. Italy and France. These countries can comply with the regulations. They do not care that in winter biofuel can freeze as it can very well happen in the Baltic states where winter temperature can drop to minus 30 degrees Celsius?"

**Janis Blums**, the executive director of *Mazeikiu nafta Tirdzniecibas nams* (*Mazeikiu Nafta Trading House*) in Latvia, said: "Ready-for-use biofuel represents a blend of biofuel with conventional fuel — gasoline or diesel. At the moment it is perfectly obvious that no fuel dealer is ready to do the blending. In order to carry out this procedure properly, additional investments in development of fuel storage facilities are required?"

This makes environmentally friendly fuel an indulgence that can be very expensive. Who is going to pay for saving the world from hazardous emissions? •

## Biofuel-powered super car



The BC archives

Alcohol and alcohol blends are well-known in motor sports. This kind of fuel was widely used for powering high-speed racing engines in the past, but in recent decades European race-engines have been running exclusively on fuel. However, in 2004 the British racing team *Nasamax* from Suffolk participated in the Le Mans 24-

hour race with a vehicle running on bioethanol.

The car *Reynard Cosworth* entered the race in the LMP-900 class. A Reynard chassis was fitted with a *Cosworth* 2.7-liter V-8-turbo engine that had undergone some serious transformations to be able to use alcohol fuel.

Alterations were made in induction, fuel supply and cooling systems. Alcohol has 40% less heat-generating capacity than gasoline, therefore fuel consumption by the biofuel-powered super car during the race was about 70 liters per 100 kilometers. The car accelerated to 300 km/ph on certain stretches of the track and stayed in the race for 16 hours, quitting on the 140<sup>th</sup> lap due to gearbox problems.

Nevertheless, the team managers think that the goal has been achieved. Despite technical problems, it had been demonstrated to the European community that the possibility of using environmentally friendly fuel was real. •

### REYNARD LMP-900 CHARACTERISTICS:

Engine	2.65-liter V-8 turbo
Fuel	bioethanol
Transmission	RWD
Gearbox	XTrac 6-speed sequential
Body	carbon fiber parts on aluminum frame
Length	4590 mm
Width	1990 mm
Wheelbase	2730 mm
Weight	900 kg

## Opportunities for foreign investments

By Alla Petrova

Baltic ports on the EU eastern border have begun 2005 with a number of new projects aimed at increasing cargo turnover.

### VENTSPILS TAKES TWO PROJECTS TO EU

Latvia's Ventspils port has approved its investment plan for 2005 in which 7 million lats are to be invested in the port's infrastructure, the port's board chairman **Aivars Lembergs** told the press. Most of the investments will be spent on construction of wharves and infrastructure of grain and liquid cargo terminals. It is also planned to apply for the EU co-financing for construction of a cargo-passenger terminal and access roads to the port.

In 2005 port authorities intend to submit two projects for the EU co-financing. One project is for construction of the second stage of the Wood-processing Competence Center, and the other for development of an industrial park. Other plans for 2005 include construction of a large harbor for servicing big fishing vessels and a small harbor for fishing boats with coastal catch.

### RIGA STARTS MAKING PLANS REAL

Riga free port and its adjacent territory occupy about 7,337 hectares which is equal to 20% of the Latvian capital's total area. Out of 2,511 hectares of land, only 637 hectares are currently leased to different businesses. More than 1,200 hectares are still waiting for investors. Apart from low rent, the port's territory is attractive also for substantial tax relief.

The port has started actively implementing its numerous plans. The grandiose project of "cleaning" Andrejsala district from cargo operations is under way. The district is situated not far from Riga center and there are plans to construct there multifunctional buildings, office blocks and, possibly, the city's new concert hall. For this purpose, Riga-Krasta railway station needs to be removed from Andrejsala, most likely to Kundzinsala district farther up north. Railway company *Latvijas dzelzceļš* is already preparing a study of this option and the outcome will be made public somewhere in March or April 2005.

Krievu Island where *Uksoil* company once promised to build a huge plant for production of mineral fertilizers has now become a prospective site for quite a different facility. According to plans developed together with

partners from Kazakhstan, a terminal for reloading metalwork could be built there. The port can invest in the terminal about USD 4 million of its own assets; only technical support is required from Kazakh partners. Finally, the deadlock over construction of a ferry crossing on the Daugava River between Bolderaja and Vecmilgravis areas on the opposite banks of the river has been broken. The news was announced by Riga Mayor and Riga free port board chairman **Gundars Bojars**. The board has instructed the port manager **Leonids Loginovs** to make a financial inquiry and decide what type of vessels would be bought for future crossing operation. Depending on the ferry designs, required investments can double or even triple.

### LIEPAJA TO BUILD A TERMINAL

*Liepajas osta LM*, the largest stevedore in Liepaja port in south-western Latvia, has planned to invest over 40 million lats in construction of a terminal for reloading combined cargos and a deep-water wharf. The company expects to implement this ambitious project in six years. "It will be a universal terminal that can handle both containers and general cargos," said board chairman **Peteris Iesalnieks**. *Liepajas osta LM* manages all deep-water wharves at Liepaja port. Its largest shareholder is local metallurgy company *Liepajas metalurģis*.

### TALLINN WELCOMES RUSSIAN CAPITAL

"*Tallinna Sadam* (Tallinn Port) never discriminates between capital investments based on their country of origin: there's no difference between Russian and Western money. We have always perceived Russian investments as a good opportunity; therefore Russian capital is present in many terminals," said the port's marketing director **Erik Sakkov**.

Thus, Russian company *Severstaltrans* has not only bought a liquid cargo handling facility in this Estonian port but also built another terminal next to it. The *Trendgate* terminal with annual capacity of 8 million tons of oil and oil products is expected to become operational already in 2005.

The coal terminal built in the Muuga harbor within the Tallinn port was handed

over to Russia's second largest coal producer, *Kuzbassrazresugol*, on December 31, 2004. The company will purchase port cranes itself and also do the rest of the work necessary to make the facility functional. "We try to bring to Tallinn businesses which at first invest money in construction of terminals and then keep them busy with uninterrupted flow of products," Mr. Sakkov said in the interview to *Business & Baltija* newspaper.

"Investments are the main thing that the port can arrange to ensure development, create better conditions for existing stevedores and attract new operators. In recent years Tallinn port has been among the largest construction contractors in Estonia, he said. Investments in development are at the level of 1.5 million kroons for the second consecutive year. And we do all this with a single purpose in mind, i.e. to attract new cargo operators: the more cargos we get, the bigger are revenues to the Estonian state."

### KLAIPEDA EXPECTS INVESTMENT INFLOW

In 2004 investments in Klaipeda Special Economic Zone (SEZ) totaled 28 million litas, reported news agency *ELTA*. According to contracts for 2005, the Lithuanian port can count on much larger inflow of investments – 398 million litas.

Last year Klaipeda SEZ signed contracts for implementation of five new projects that could create 270 new jobs. "Interest has increased after Lithuania's accession to the EU. Foreign companies see that the same business rules work here but costs are much lower," said Klaipeda SEZ management company director-general **Eimantas Kiudulas**.

The project of the Thai concern *Indorama* which intends to build a polymer plant in Klaipeda is to be completed by the end of 2005 with total costs estimated at 80 million euros.

Russian company *OXK* will start working in the Klaipeda SEZ in 2005. It has founded a subsidiary, *OXK Klaipeda*, which will produce disposable dishes. An unidentified Lithuanian-French company is going to build a warehouse for car spare parts. The Danish-Irish joint venture *Klaipedos verslo parkas*, which last year built in the Klaipeda SEZ a production and warehousing facility of 3,500 square meters for rent, plans to expand floor-space meant for the same needs by another 16,000 square meters. At present there are three companies working in the Klaipeda SEZ: *SY Wiring Technologie*, a subsidiary of the German-Japanese concern *Siemens-Yazaki*; a fish-processing plant launched by Danish company *A. Esperesen* in 2003, and *Klaipedos verslo parkas*. •

# Common problems for Baltic road carriers

By Olga Pavuk

Changes in the customs rules following the Baltic states accession to the EU in May 2004 have caused additional problems to international road carriers in Latvia, Lithuania and Estonia. The Baltic associations of international road carriers at a regular meeting held in the Lithuanian capital Vilnius at the beginning of last December identified problems in the industry common to all three countries.

## SUPPLY OUTGROWS DEMAND

First of all the Baltic states have experienced since May 2004 excess supply from various road transport operators while demand has remained almost unchanged. In this respect, importance of Russian, Belarus, Ukrainian, Kazakh and other Eastern markets for the Baltic states must be underlined.

As cargos started to move along European roads faster, the truck fleet turnover increased 15-20% and clients did not hesitate to take advantage of this, offering lower freight rates. This resulted in imbalance on the market and loss of operational capital (a great problem for all truckers in the Baltic states). The problem has become vital as freight payments are being made with long delays.

## LESS TIR CARNETS

The number of issued TIR Carnets has reduced significantly. Lithuania said that amount of TIR Carnets issued after May 1, 2004, corresponds to 40% of the respective figure the year before. Latvia used to issue 12,000 TIR Carnets a month but during the period from May to November 2004 less than 6,000 TIR Carnets on average were issued every month. The reduction is serious but not as dramatic as was expected. To a certain extent it is also related to rising fuel costs and the wish of road carriers to work on the Eastern markets.

## APPEAL TO BALTIC GOVERNMENTS

In the wake of the International Road Transport Union (IRU) General Assembly, the Baltic international road carriers held their own assembly in Vilnius and drafted an appeal to governments of their countries.

Three main items were included in the appeal:

- First: lowering the excise tax on fuel for international road carriers.
- Second: initiating organization of logistics centers in the Baltic states, granting these facilities the status of national importance.
- Third: the training of drivers must be made a national priority in vocational training and the EU funds used for training of young drivers. It was also proposed to lower the age qualification for receiving the Category E driving license.

## ABOUT WEIGHING CARGOS IN LATVIA

Another question discussed at the meeting in Vilnius and causing concern to all Baltic truckers was related to the fact that the Latvian customs use weighing of trucks as a means for systematic customs control. The heads of Latvian, Lithuanian and Estonian associations of international road carriers adopted another appeal, this time to the Latvian government agencies. The document addressed to the Latvian Finance Ministry, the State Revenue



The BC archives

**VILNIUS, DECEMBER 2, 2004:** Heads of Latvian, Lithuanian and Estonian international road carrier associations signed an appeal to Latvian authorities.

Service and the General Customs Administration pointed out that the purpose of the weighing procedure was to determine the maximum permitted total weight of the vehicle and weight on the axle.

The appeal states that the exclusively Latvian practice of weighing trucks for customs control purposes that may lead to application of sanctions is contradictory to the international law (the CMR Convention). This kind of customs control is not reliable enough as it does not take into consideration variations in the weight of the truck that may be caused by a number of reasons, including weather conditions (snow or rain), the amount of fuel in the tanks, the weight of fastening devices, packaging and, after all, the weight of the driver, his personal belongings, tools, accessories, security devices, etc.

Presently, the Latvian customs officers calculate the weight of the cargo as the total weight minus the weight of the truck itself as shown in the registration papers based on the manufacturer's documentation.

Therefore international road carriers believe that this kind of information cannot be regarded as reliable or used as official data and the basis for administrative punishment and punitive sanctions against drivers.

They also pointed out that a driver does not have means for weighing the cargo upon loading. According to the CMR Convention (Art. 8), the driver accepts the cargo by the number of packages and labels on them. A discrepancy between the total weight of the loaded vehicle and the weight specified in the consignment papers cannot serve as a proof of wrong cargo declaration and does not qualify as a violation according to the EU and Latvian customs laws, more so because the CMR Convention states that the documentation is the responsibility of the consignor.

The appeal addressed to the Latvian authorities was signed by leaders of the Baltic associations of international road carriers: **Pavel Groshev**, secretary general of Latvia's *Latvijas Auto*; **Algimantas Kondrusevicius**, president of Lithuania's *Linava*, and **Einar Vallbaum**, president of Estonia's ERAA.

The Baltic trucking associations believe that the truck weighing practice in the Latvian customs undermines competitive ability of Baltic international road carriers; it results in delayed delivery of cargos and direct financial loss to the road transport companies. •



# Everybody does it

By Olga Pavuk

Prosecutor Juris Jekabsons from the Latvian Customs Criminal Prosecution Office is already familiar to our readers from previous issues of the BC; now he describes some other popular fraud techniques where international road haulers are involved, whether intentionally or not.

At the beginning of our interview I asked the prosecutor about progress in the case about theft of eight heavy-duty trucks, on which the *BC* reported earlier. During the last year the case files have expanded to 17 thick volumes. In August last year inquiries were sent to law enforcement agencies in Sweden, Germany and Italy as documents from those countries were used in the fraudulent scheme. No replies have been received so far, and Mr. Jekabsons does not expect the case to reach the court soon. And we know that criminals do not only steal trucks...

## PHYSICAL EVIDENCE

When buying in Latvia a passenger car imported from Europe, the new owner is hardly aware that the car can easily become physical evidence and be impounded pending the trial. Mr. Jekabsons said that some such cars can be found at car lots of *Hansa Lizings* and *Unilizings* leasing companies. The vehicles just stand there, waiting solemnly for the court to pass a ruling.

Moreover, the new car owner may also lose the vehicle registration card. As the customs annul the clearance issued to the previous owner, who was ferrying cars from Europe and had obtained the customs documents in an illegal manner, the car's registration at the Latvian Road Traffic Safety Directorate is also annulled automatically.

The prosecutor described a regular scheme for importing cars to Latvia. The mastermind (Company X) has headquarters in Latvia. It rents car-hauling trailers from a Latvian firm and sends them to Europe. Company X has several representatives in different European countries who buy used cars for their boss and draw up fake documents (*Kaufvertrag*, or the car purchasing deed), stating the price at 25-30% below its actual value. Based on this amount, the car hauler declares the goods to the Latvian customs, but occasionally it is done by Company X itself. That way the customs duty is lower than it should have been.

"There is nothing new about the practice. Used car dealers will tell you that "everybody does it". In some cases the customs offi-

cers have detected such fraud before. But in the last year or two the law enforcement agencies have been flooded with similar cases. Dozens of cases are being investigated by the police, our prosecution office works on some five or six cases and few have been sent to court," said Mr. Jekabsons.

There have also been first convictions for fraud related to car imports to Latvia; punishments can vary from case to case, though. It can be a fine of maximum 16,000 lats or up to five years in jail. For a suspended jail term, there are alternative forms of punishment, including the ban on arranging customs formalities for up to six months which is not a short time for such a competitive business. If the person is again caught at some criminal act before his suspended sentence has run out, he will be surely put behind the bars.

Mr. Jekabsons said that investigation of cases like this can take rather long time, e.g. about two years as there is a need to contact colleagues in other countries. Leasing companies cry out over vehicles rusting in car lots as it is prohibited to re-register such cars until all facts in the case have been found out. New car owners or intermediary companies suffer loss over cars impounded as physical evidence.

The police and the prosecution office are quite aware of several such companies but it will be premature to disclose their names, said Mr. Jekabsons.

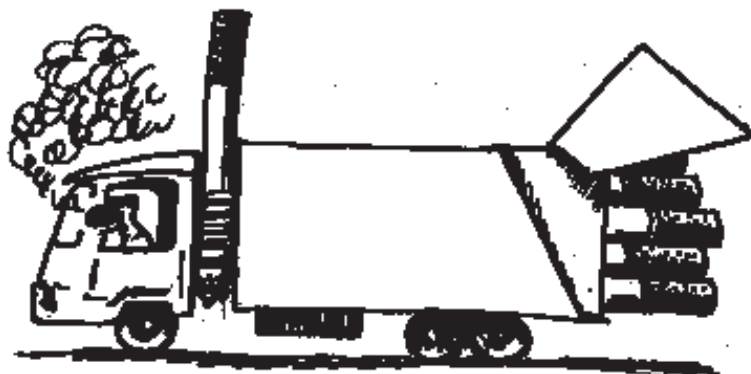
## SMUGGLING HABIT

Latvian customs officers can take pride in solving huge cigarette contraband

cases. One of such cases features a unique driver (let's say, citizen X), who over two years managed to get caught in the act in several countries. In April 2002 he was detained in the south-western Latvian port of Liepaja upon boarding a ferry in a car full of contraband cigarettes. In September 2002 he was caught in Suwalki, Poland, while in possession of 245,000 cigarettes and punished by the local police. In April 2003 he was caught in Rostock, Germany, together with drivers of two other trailer trucks and sentenced to two years and three months (he spent in the jail 1.5 years). Having returned to Latvia, he again lapsed into his old habit and again was detained by the police; this time with a shipment of illegal fuel on the way from Latvia to some European country.

X transported cigarettes in trailer trucks that at a first glance seemed to be filled with timber. In fact the wooden planks served only as a shell for contraband cigarettes. Indeed, smugglers possess amazing ingenuity: they hide cigarettes in pipe casings, blocks of peat, etc. And all the time they come up with new hiding places. One can take as much as 638 cartons or 6.5 million cigarettes on one trip, and usually contraband cargo goes to Germany, the Netherlands or Belgium.

According to Mr. Jekabsons, tough competition often makes carriers to take just any assignment. "I doubt that the driver does not know what kind of cargo he is carrying. On the other hand, the driver is unlikely to keep from his boss information about contraband cargo: if illegal cargo is discovered, they will lose everything — the stuff and the truck that gets impounded as physical evidence. Some of the fake partitions and other hiding places found in the trucks could only be made at a truck fleet garage. Both the police and the customs know all the tricks, and risk from such business is growing every day. It is better to lose a client than a valuable truck," concludes the prosecutor. •





B.Kolesnikov, A.F.I.

**RIGA, NOVEMBER 2004:** Stradina hospital staff pickets Latvian parliament.

### By Olga Pavuk

Last fall for medical staff in Latvia turned into a struggle for better working conditions and higher pay. Anesthesiologists were the first to state their demands; they refused to participate in any scheduled surgeries as of November 1. They said they will quit public hospitals and organize private medical business, if their demands are not met. After anesthesiologists, surgeons and medical nurses also took the warpath.

Medical trade union is one of those unions that have survived since the Soviet era. It was a quiet time for all trade unions as their main tasks back then was to make sure that everybody paid their membership fees and to provide medical staff in Latvia with vouchers for all-paid trips to health resorts. Today Latvian Health and Social Care Workers' Trade Union has become an organizer of strikes, pickets and street demonstrations in which doctors and nurses demand pay rise from the government, threatening to stop work and start a general strike. The leader of the "rebellious union" for last several years, Mrs. **Ruta Viksna** explained to the *BC* the main problems facing Latvian health care system.

#### **Mrs. Viksna, how many people belong to your trade union?**

There are about 20,100 members in our trade union — doctors, all sorts of medical nurses, laboratory assistants, those working in public and municipal medical institutions, too. About 58% of all doctors and 64.8% of all nurses working in such institutions in Latvia are members of the union. Nowadays it's not that everyone wants to join the union, and the underpaid

workers prevail among the trade union members. When salaries to doctors were raised by 50 lats in 2003, some of them just left the union.

#### **Are there any other trade unions in Latvia for medical staff?**

A medical nurses' trade union with some 1,000 members was organized in 1994; the union's membership has hardly changed in the last ten years.

Private practitioners do not need a trade union; they prefer to join professional associations: these associations have the solemn right to issue professional medical certificates they need to practice their trade. Our trade union cooperates with such professional associations of doctors and medical nurses formed in Latvia.

#### **What is so critical in the present Latvian health care situation?**

The reform in 1993 introduced market economy principles in health care system, i.e. the state buys medical services and pays for them on a fee-for-service basis. The state also sets the price for services depending on the approved health care budget. During last ten years Latvian health care budget has been around 3.1-3.5% of GDP

which is the lowest rate in Europe with average figures at 7-8% of GDP.

Budget deficit is partly compensated by patients' charges, currently the highest among EU member states. Nevertheless, funding is still insufficient, and payments for medical services cover only 60-70% of their actual cost. Prices have been set, taking into account only salaries to medics and costs for maintaining medical institutions (utility charges, medicines, meals to in-patients, etc.) but are not being adjusted for inflation.

As a result, crisis has grown deeper with every year. Patients do not like ever-growing costs for medical tests and treatment; they have constant problems getting medical consultations in due time, they are fed-up with long queues to family physicians and scheduled treatment, limits on state refunded medicines, etc.

The amount of services that medical institutions can provide is limited, for example, even emergency medical service is not refunded. As a result, we have hospitals with multi-million debts and the bankruptcy threat is real. Medical personnel are dissatisfied with low pay and excessive work load they have to face due to shortage of staff.

There are two factors underlying low salaries to medics. First, the buyer of medical services, i.e. the Health Ministry has planned monthly average salary at 150 lats in 2003 and 190 lats in 2004-2005. It means that the average monthly salary is 203 lats for doctors and 118 lats for other medical staff; but these figures are below the average country level. Second, the allocated

money is not always used for payment of salaries. Medical institutions receive the funding in bulk as payments for services. In 2004 institutions which previously had the status of a public or municipal entity were transformed into competing profit-gaining corporate enterprises. Heads of these enterprises can spend their funds at their own discretion — either on wages, payment of utility bills, purchase of technologies or other purposes. Therefore additional allocations that trade unions have won in hard battle never reached pockets of the staff. Opinion polls show that 90% of medical personnel support radical changes in the present payment system.

**Why the protests were initiated by anesthesiologists, and what are their demands?**

Anesthesiology represents a scaled-down model of our medicine in general. Today Latvia is short of 6,000 medical nurses and 1,000 doctors. The situation with anesthesiologists is particularly bad as hospitals need about 100 such specialists. Existing anesthesiologists have to work 1.5-2 shifts or look for some job on the side. They are not paid double for overtime as they should be. Anesthesiologist's average monthly salary is about 300-350 lats, made up of a 200-230 lats basic wage plus premiums for night work, extra hours and hazardous work. In view of the ageing trend among anesthesiologists, in 3-4 years Latvia will have only half the number of anesthesiologists required; remember that training of such specialists takes 14 years.

Faced with tough demands by anesthesiologists, outgoing Latvian government had to make some concessions. The Health Ministry found in its reserved funds 700,000 lats for higher salaries to medics until the end of 2004 and promised further gradual increase in the coming years. But it was only "a paint-over" because specific features of the health care funding require that the state should raise average pay to all medics.

**Medical nurses are ready to take up arms and follow anesthesiologists. What are their demands to the government?**

At present a medical nurse receives only 118 lats monthly (before taxes). In such situation, most of them are just forced to work extra hours. As it is, any medical nurse could sue the employer for non-compliance with the labor law as regards payment for overtime. Because of low wages, men do not want to enter this profession, and currently 99% of all nurses in Latvia are women. It can be said that medical nursing has become a femi-

nine profession, and it is being discriminated despite the labor law prohibiting any wage discrimination. The deficit of nurses is not going to reduce in future as medical schools are half-empty. Upon graduation nurses often find work in other sectors because the training programs meet the European standards and anyone, who can speak English, takes foreign jobs where the pay is 10-20 times higher than in Latvia.

In November 2004 our trade union called on medical nurses to follow the suit of anesthesiologists and get ready for actions of protest that had to be put off because of the government resignation.

**What are the main demands of the medical trade union to the government?**

The trade union has declared as standing demands of the strike in 2002: to make health care a priority, to increase health care budget to 7% of GDP, to approve a timetable for measures aimed at achieving planned payment for medical services equal to their cost. We think that it is urgent to adopt a law on health care organization and funding that would specify the sources of financing and define which services will be paid for by the state and which will be provided at full or partial cost of the patient.

Medical funding shall not be subject to changes each time a new government takes office; such situation creates unforeseeable consequences for both providers and beneficiaries of health care. Money required for salaries to medics also needs to be defined in the law, connecting its average wage to national statistical average, i.e. average wage in the public sector multiplied by a certain coefficient based on the intellectual qualities required by one's work. In order to make each lat accounted for in health care, kept under control and spent to the maximum benefit of medics, the salary funds have to be separated from the bulk funding. The state must also fix the minimum salary for medical specialists depending on their education and qualification.

Salaries have to be increased for all medics, not only anesthesiologists. The government is now looking for ways to raise the average monthly wage from 190 lats to 320 lats in two years so that doctors would receive 500 lats and medical nurses 300 lats on average. While putting into order financing arrangements and implementing structural plans, the Health Ministry also needs to develop a program for replenishing the required human resources. Existing medics grow old, young



T. Strakhova

**RUTA VIKSNA:** Life has made us to be more active than other trade unions.

specialists leave but the number of sick people and deaths is growing.

**Do you believe that the government would meet demands by the trade union?**

Past experience has shown that we cannot trust the government. The Finance Ministry is trying to convince us that it is impossible to increase the health care budget to 7% of GDP. But it is exactly the amount promised by all parties and put down in their election programs.

**What would you do if your efforts remain just on paper?**

We will continue the dialogue with the government, political parties and the lawmakers. We will report our problems to the World Health Organization, the International Labor Organization, etc. We will keep up our actions of protest within limits permitted by the law. In foreign countries, a strike is the most effective method to reach a deal. The Latvian law bans strikes by medics providing emergency medical assistance. It's true that in this country about 90% of our patients need urgent care. It means that we would hold strikes in small groups of few people, who are off duty on the day of the strike, or else go on strike on Sundays.

Life has forced us to be more active than other trade unions. On the other hand, we are supported by pensioners, disabled people and patients. The fight for the health care budget increase is not the fight only for larger salaries to medics but also for accessibility and quality of medical services. •

# Latvian trade unions find strength in unity

By Anzhela Rzhishcheva

Regardless of the fact that the trade union membership in Latvia has reduced nearly three times since the early 1990s, the organization continues to work actively, focusing its efforts on labor safety, legal defense, and also conducts social dialogue with the government and employers.

“The Latvian Confederation of Free Trade Unions (LBAS) was founded in 1990 and currently is one of the largest non-governmental organizations in Latvia,” says LBAS chairman **Peteris Krigers**. The LBAS is a non-political movement, he continues, one of our main objectives is to develop and improve wage payment and labor safety systems at companies and institutions as well as to exercise public control in line with the Labor Law. The LBAS is a member of the International Confederation of Free Trade Unions, the European Trade Union Confederation, the Baltic Trade Union Council; it also cooperates with the International Labor Organization. In 2004 the LBAS with the support from the EU Social Fund launched a two-year project aimed at strengthening trade union activities”

## DYNAMIC GROWTH

The LBAS currently has 24 professional member organizations representing a total of 175,106 people working in 3,000 public, municipal and private companies in Latvia. About 74% of these professional unions have been organized at companies with less than 50 employees. Trade union members include also 6,202 university and college students, 7,065 non-working pensioners and 942 jobless persons. The LBAS is represented in 17 Latvian regions, and the strongest of these regional branches is the Trade Union Center in south-western Latvian city of Liepaja.

The LBAS has 2,712 trustees with special training to control labor safety conditions in Latvian companies. Over years the LBAS has made 30 general agreements with employer confederations, 55 agreements with local councils, 2,419 collective agreements with employees in various companies.

It should be mentioned that apart from the LBAS there are several other independent trade unions in Latvia but they do not have such vast membership and therefore can hardly influence social processes in the country.

## STRENGTH IN UNITY

According to Mr. Krigers, the Trade Union of Education and Science Workers representing 50,000 people is the most active of all LBAS members. Trade unions of medics, communications workers, merchant sailors, railway workers and energy industry workers, employees of trade and services sectors also have quite large number of members.

“The more workers join the trade union, the more weight their voice carries in relations with the government, he continued. Back in 1994 when the LBAS organized its first major strike with participation of thousands of people and street demonstrations of school and university teachers, their salaries were raised immediately. In a more recent example, demands by anesthesiologists were fulfilled too. The Trade Union of Railway Workers is a rather influential and consolidated organization that has concluded a collective employment agreement on good terms and a general agreement with employers in the railway sector. The same can be said also about the communications workers. For example, telephone company *Lattелеkom* employees have a well-defined collective employment agreement. Merchant sailors also have a strong trade union. They even have managed to sue the shipping company *Latvijas Kugnieciba* over delay in signing of the collective employment agreement. The company is stalling and wants sailors to agree to very tough terms. So far, the Trade Union of Merchant Sailors has won the case in the court of first instance”

## In which industry sectors the LBAS does not have trade unions?

There are no trade unions in the banking sector and in IT industry. First of all it can be explained by the fact that salaries in these industries are several times higher than the average in Latvia. On other hand, we've got signals about serious Labor Law violations in those companies. Even in large banks a part of salary is paid unofficially in cash to avoid taxes; workers do not get premiums for work on holidays or vacation



T. Strahkova

**PETERIS KRIGERS:** The LBAS is a non-political movement.

benefits as required by the law. But we cannot interfere until a trade union is organized in the company.

The policemen wanted to organize a trade union but the law does not permit this. We think it's a violation of human rights and have already organized a campaign to make the parliament approve necessary amendments to the Law on Police.

## What steps the LBAS is taking for social protection of trade union members?

There are dozens of examples, said Mr. Krigers, citing most illustrative cases: in 1999 the LBAS organized a street procession against amendments to the Pension Law raising the pension age. In 2000, based on results of the referendum initiated through the LBAS efforts, the electricity utility *Latvenergo* remained in the state ownership. We also participated in the discussion of the Labor Law. After a long debate with the government, the LBAS and employers reached an agreement about increasing the minimum non-taxable income as of January 1, 2005, by 5 lats to 26 lats for workers and by 7.5 lats to 18 lats for their dependants. A number of demands have been made to the Cabinet of Ministers to raise the minimum wage to 90 lats and the non-taxable minimum to 40 lats as well as to continue regulation of apartment rent in denationalized houses. •

## Lithuanian trade unions: active but not popular

By Tatyana Komorskaya  
from Lithuania

In presence of high unemployment, low wages and fear of losing job, people try to keep at least “a bird in the hand” and would not risk entering negotiations with the employers for better working conditions. Therefore they prefer to do without trade unions. On the other hand, many employers balance on the fine line between survival and bankruptcy; any financial pressure, even in the form of a minimal wage raise, can become fatal to them. It seems that there is no demand for trade unions in the given situation, even if the government and other state institutions do not refuse to cooperate with such mandatory indicator of democracy in the country as trade unions.

There are presently three active independent trade union centers in Lithuania: the Lithuanian Trade Union Confederation (LPSK), the Lithuanian Labor Federation (LDF) and *Solidarumas* (Solidarity). All three organizations take active part in drafting legislation and trilateral negotiations, propose legislative amendments and represent Lithuanian trade unions at various international events.

### LITHUANIAN TRADE UNION CONFEDERATION (LPSK)

It is the largest trade union organization in the country and keeps growing. Recently, the LPSK spent half a million litas on “a trade union image-making campaign”; using partly its own money raised from the LPSK property sales, partly funds from an international support center for trade union education.

According to the LPSK secretary general **Janina Matuiziene**, whatever problem they have to solve, they always try to negotiate instead of going on strike. This policy can be explained not only by preference of peaceful methods. Until recently, the LPSK had valid cooperation agreements with the ruling Social Democratic Party; this arrangement has helped improving the organization’s local and international image to a much greater



**ALDONA BALSIENE:** The leader of the Solidarity trade union has been elected to the parliament from the party headed by former Lithuanian president Rolandas Paksas.

degree than the above-mentioned half-a-million campaign.

When asked about achievements of the trade union, Mrs. Matuiziene mentioned increase of the minimum wage. Participation in the work of world and European trade union confederations is also an important part of the organization’s activities. As a member of the EU committee for free movement of workers, she mentioned some statistics about Lithuanians taking legal jobs abroad. For example, recently 23,000 Lithuanian citizens have left the country to work in Ireland and 17,000 went to the United Kingdom. But local trade unions in other countries are successfully protecting their markets from cheap labor. Mrs. Matuiziene recalled the incident involving Lithuanian construction workers, who had agreed to a contract for building houses in Denmark at Lithuanian wage prices. Danish trade unions staged protests and did not permit dumping; they threatened that nobody would buy those houses. After several months of delay, the construction was stopped and the Danish client suffered considerable losses.

### LITHUANIAN LABOR FEDERATION (LDF)

The Lithuanian Labor Federation secretary general and board chairwoman

**Janina Svediene** said that they had made a draft agreement with Cypriot trade unions but the project had “stalled”. With massive migration to foreign countries, many people literally “dive headlong into the unknown” lacking fundamental human guarantees. Cypriots had suggested that upon arrival to Cyprus members of the Lithuanian trade unions should automatically receive membership of local trade unions. They would help newcomers with learning language, finding jobs or avoiding any trouble at work.

Mrs. Svediene underlines the non-partisan and Christian orientation of the LDF. With financial support from Belgian trade unions, the LDF recently carried out a large project to increase its activities. Contrary to other trade union centers, the LDF did not inherit any trade union assets as it was created anew. Foreign aid helped to set the organization on its feet. The LDF Education Center now holds about 15 seminars a year. A seminar last November tried to identify reasons for inefficiency of collective agreements.

Mrs. Svediene thinks that participation of trade unions in making collective agreements will be beneficial to both employees and employers. So far employers do not want either agreements or trade unions, or any headache they might give them. The LDF chairwoman

acknowledged that there were hardly any trade unions in private sector. Could it be that foreigners bringing investments to Lithuania would introduce in local companies also the trade union culture? However, the answer is no. Foreign employers do not look for cheap labor and move their production to another country to have trade unions getting in their hair. With few exceptions, trade unions in Lithuania are active in those public and state institutions where the employer cannot actually be considered a true employer. In some of those institutions, all three national trade union organizations are represented.

### LABOR COUNCILS — AN ALTERNATIVE TO TRADE UNIONS

Lithuanian parliament recently adopted the law on labor councils to be created at the companies on a voluntary

basis. With the adoption of this law, labor councils have become an alternative to trade unions. An employer is most likely to initiate such labor councils in order to gain control over this body and have it agree to certain employment conditions, e.g. workers' shifts and schedules, which would suit his interests. Or, it may be enough to hold a meeting of "representatives of the personnel" whom it won't be too hard to convince to take his side.

Solidarity leaders assess this novelty is the following way: "The authorities have entered into a criminal conspiracy against workers, who create national wealth, and trade unions, which represent this labor force. There is no social dialogue on the company level, most companies do not have collective agreements, trade union membership is reducing and presently accounts for less than 10% of

the labor force. About 90% of workers were not represented upon signing of the employment agreements. Most companies set working hours and output requirements unilaterally. Most employers are not going to live with trade unions".

The Lithuanian Solidarity takes pride in the fact that they organized first protests at the parliament. It was with support of their trade union that the road transport workers organized the first ever strike in Lithuania after restoration of country's independence, demanding timely payment of wages and development of passenger transport.

**Mrs. Aldona Balsiene**, the Solidarity leader and spokeswoman, a dedicated participant of many protest demonstrations, was recently elected to the parliament from the list of the party headed by former Lithuanian president **Rolandas Paksas**. •

## Estonian trade unions v. government

By **Valentin Zvyagintsev**  
from *Estonia*

The trade union life in Estonia has been bubbling with excitement in 2004. Strikes and pickets were organized, and demands made to the government and employer organizations. In this modern-day fight for survival both parties perform with alternating success.



V. Salupuu

**FALL 2004:** Most important strike of the year organized by the Estonian trade union of public sector workers (TALO).

According to the Confederation of Estonian Trade Unions (EAKL), there are about 25 trade union organizations in the country representing nearly 100,000 people. The main trade union activities proceed in two directions: first, they are fighting with the Estonian parliament against adoption of a new law on employment agreements as it would result in workers losing certain benefits. Second, trade unions constantly negotiate with the Estonian Employers' Confederation over pay rises and retention of benefits. We will tell you what the Estonian trade unions are about. The EAKL representative **Sander Vaikmaa** said that almost all of them dated back to Soviet times but "have underwent numerous changes since then in relation to change of company ownership and replacement of local leaders".

### TRADE UNION STRONGMEN

The strongest trade unions in the country are situated in the country's north-eastern region, in cities such as Narva, Sillamae, and Kohtla-Jarve. "The union at the Kreenholm textile plant is one of the strongest in Estonia today", said Mr. Vaikmaa. However, this fact has not kept the owners of the plant from continuous layoffs. Analysts believe that the strength of trade unions in the north-east is mostly due to the large Russian-speak-

ing population in the region. New trade unions have also sprung up lately, predominantly in food industry, but so far they have not developed the strength and skills of “old-timers”

### TO ESTONIA FOR EXPERIENCE

The EAKL can be proud of its work as delegations from other countries have begun visiting Estonia to take over their experience in fighting the government for the workers’ rights. The EAKL chairman **Harri Taliga** explained that colleagues from Hungary during their visit to Estonia had mostly inquired about main directions in local trade union activities and functioning of labor and social insurance laws. They were particularly interested in experience of Estonian trade unions in organization of various protest actions. “Hungarians were delighted with our skills of organizing strikes and rallies. They said they would have use for them as social and economic problems in Hungary are similar to those in Estonia. Moreover, they have also joined the EU recently, just like us”, said Mr. Taliga.

The possibility of mutually fruitful cooperation between trade unions of the

two countries in the EU context was also discussed. Mr. Taliga said that Hungarians were slightly behind Estonians as far as the trade union work was concerned. It is because the Hungarian confederation of trade unions also serves as the umbrella organization for a great number of auxiliary bodies which often cause confusion and make complicated any joint action. “In principle we have nothing to learn from Hungarians therefore we assumed the role of teachers”, said Mr. Taliga. He added that, upon comparison of trade union systems in the EU, Denmark would stand out as the strongest because not a single amendment to labor law can be passed there without first discussing it with trade unions.

### NEVER-ENDING BATTLE

Estonian trade unions staged several major protest actions last year, notably the strike by teachers, actors and the public sector workers, and the strike by train drivers in the fall of 2004.

**Toivo Roosimaa**, the chairman of the Estonian trade union of public sector workers (TALO) said that the nation-

wide strike when no classes were held at schools and no shows were played in theaters had been successful but only for the duration of the strike.

“We took this action to remind our government that it must not forget about people. Our wages are too low but the government pretends that it isn’t aware of the problem. As a result of the strike, the government agreed to start negotiations”, said Mr. Roosimaa. As a matter of fact, the talks came to a dead-end after a while and now trade unions think of holding another strike.

The second mass strike lasted nearly two weeks: train drivers insisted on a higher hourly wage but the railway company’s board at first strongly refused to comply with this demand; in the end the parties managed to find a compromise.

However, on both occasions vengeance was swift to come: 12 people were fired from the Russian Drama Theatre, and 35 train drivers have also received layoff notices. Officially, economic reasons were cited as the reason behind the staff cuts but rumors are that those people were fired as revenge for the strike. •

## The BC comments

# Globalizing solidarity

By Eugene Eteris

International trade movement presently follows global trends, e.g. as long as transnational firms extend their reach and jump over national barriers, so must the unions, going global too. The issue is far from being rhetoric: in recent years trade unions often looked outdated and sluggish, unable to respond to contemporary challenges (such as free movement of workers in the EU, or free capital movement) which can force further reduction of unions’ membership. Therefore the unions have chosen to be in favor of globalization. So to say, the workers of the world must still be uniting! The unions want to consolidate resources and their position in the face of declining membership and threats of outsourcing. Some positive things do happen anyway: thus, global supermarket chains were dragged to negotiating tables around the world by UNI, the global trade union federation for workers in private sector. Nothing like this has happened before!

Present international trade union problems go back to the Cold War area divide when the union movement was split (after the Second World War) as the WFTU (World Federation of Trade Unions) was taken over by the Communist bloc with the USSR as its leader. The WFTU ideas are still strong in countries like Syria and India.

Western world then created its own major “free” labor federation, the ICFTU (International Congress of Free

Trade Unions — presently with 250 affiliates in 152 countries and about 148 million members), and a smaller one — the Christian-based World Confederation of Labor (WLC). The latter is quite influential in Western Europe and some African states.

Both ICFTU and WLC would like to merge and create a united body that would be more efficient to cope with global issues. This united body, which could be estab-

lished by 2006, would have 174 million members; non-affiliated unions such as CGT in France would be invited to join. “This is very significant, said **Owen Tudor**, international secretary of the British Trade Union Congress, as the world trade union movement would be united for the first time in 50 years”.

The logic of globalization suggests that international actions should become a much bigger part of national unions’ way of thinking; this is where main instruments to answers could be found.

The ICFTU world congress which was held in Japan in December 2004 took a decisive step towards consolidation and discussed an epoch-making strategy in trade union movement called “Globalizing Solidarity”. Global unions’ bureaucracy should be abandoned, old committee structures and paperwork must go. In their place must appear ability to target key companies and economic sectors, to gain influence within world companies and firms. The way to champion union members’ interests lies in operating internationally. •

# Viktor Uspaskich: “We have to work,

By Tatyana Komorskaya  
from Lithuania

**Viktor Uspaskich** is a successful Lithuanian businessman and far from being a newcomer in politics. He was a member of the previous Lithuanian parliament where he once chaired the economic committee. The Labor Party founded by Uspaskich won the latest parliament elections in Lithuania. The party program is notable for the large social package aimed at bringing welfare to people. Addressing regional needs and micro-economic issues is expected to further serve this purpose. The party leader did not want to take any top positions in the parliament or in the government and claimed the post of the economy minister. Mr. Uspaskich agreed to answer questions by the BC.

*From Mr. Uspaskich's CV. Viktor Uspaskich was born in 1959 in a small town in Arkhangelsk region in Russia's North. He worked on many gas pipeline construction projects and in 1985 moved to Panevezys, Lithuania. In 1987 he was put in charge of construction of a gas pipeline to Kedainiai. In 1990 he registered in Kedainiai the first company of his future concern. The agricultural concern Vikonda organized by Uspaskich now employs 4,000 people. Uspaskich has a degree in economy. In 1993 he graduated the Russian Plekhanov Academy of Economics, and is currently working on a Doctoral degree in Kaunas University of Technology. He is the founder of the Lithuanian Business Employers Confederation. Together with his wife in 2003 their declared assets amounted to about 160 million litas.*

**Why did you decide to form a new party on the eve of parliamentary elections?**

The party was organized because it was necessary to create such kind of political structure. As an MP I used to fight for my principles and realized that this was not a one-man's job. Just look what is happening in small and medium-size business, in micro economy, look at existing corruption and smuggling! Isn't it enough? Any attempts to appeal to the government came to nothing. Now our party has won the parliament elections and we will influence all present and future decisions, or so I hope.

*Following the Lithuanian parliament elections in October 2004, four political forces formed a right-wing majority. By prior coalition arrangement, Algirdas Brazauskas of the Social Democrat Party retained the prime minister's post. The Labor Party received five out of 13 ministerial posts, as well as chairmanship of seven parliament committees and vice-chairmanship of two committees.*

**What about your party members? At first glance they seem to be new in politics.**

We do not have among our party members a lot of those who have previously been in the politics or belonged to other parties. Out of 1,000 people, who gathered for the founding congress, only four have had some political affiliation before. Afterwards our ranks grew but we have been watching carefully what kind of people take our membership. We do not have either “star people” or anyone



with negative publicity in our party. We invite competent people, those known and respected in the country's regions for their deeds. We have never held any protest actions or demonstrations. I am pleased with my team and would not single out any individual party member; I urge them to work as a team: everybody in its place, either working in the regions, as a committee chairman, or as leaders of local party offices. A party can't have dozens of leaders; everyone in the team does his/her work.

**Some called you populist; even now some still cry out loud and even angrily that “populists” and their leader should not be allowed to take power!**

These cries belong to those, who are always displeased with something, e.g. radical conservatives, who do not have much influence or public support. In 2004 they were supported by 6% of Lithuanian citizens with voting rights. Of course, they do have their own electorate which enjoys negativism as much as they do. Earlier they were against Paulauskas, then they were against Brazauskas and now they are against Uspaskich. That's their method and style.

*From the BC file. Kedainiai is a special city in Lithuania, if only for having the lowest unemployment rate among regional cities. Even those who do not like Mr. Uspaskich can't help seeing connection with jobs created by his companies. Uspaskich has a rather wide range of*



# to create and prosper together”



*business interests. Several years ago grocery shops started selling unusually delicious pickled cucumbers with the label saying that they were made “by an old family recipe” and featuring Uspaskich’s photo. The pickles are still on sale but, following interference by the Competition Council, “the Lord of Kedainiai” portrait has been replaced by the photo of his double from a popular TV parody-show.*

## **The new Lithuanian parliament has 20 “officially declared” millionaires among its members. How do you feel about it?**

I find it quite normal. This is the picture all around the world. One should not sit and wait for somebody to do all the things. One has to go and do it. Especially because dilettantes won’t get anything done anyway. Our main objective is related to small and medium-sized enterprises, to micro economy which has been so far neglected in the country. Moreover, we have become capitalists together with our workers, and we do understand social problems ahead of us. Our party is for socially oriented economy; and we do not want to be ashamed to look people in the eye. Many issues can be solved on micro-economic level; this is where people’s income is generated. But first we have to create conditions for that: maybe some revisions are to be made both in investments and national programs. We are socially oriented but before we start distributing wealth, a lot of things must be created first.

*From the Labor Party program. — To increase the GDP share which is distributed through the national budget... — To provide support to young families and families with many children... — To raise*

ELTA



ELTA

*pensions... – To pass the law on applying a reduced VAT rate on essential goods and medicines... – To increase budget health care allocations... – To raise salaries for those involved in health care service, teachers, law enforcement officers.*

**What do you want to accomplish and prove as the economy minister, what objectives have you set for yourself?**

The present Economy Ministry has combined four former ministries responsible for trade, industry, economic development and energy. What we have to do is to make regional policy, to create better conditions for investments in the regions, to make sure that European funds are properly used and distributed. I do not want these funds to be used for entertainment programs; neither do I want “to eat them up.” All foreign financial assistance must be invested in production, industry, business in order to increase turnover and generate gross domestic product. In 2004 our contribution share to the EU reached 700,000 litas. In three years this amount will reach one billion litas. We have to earn all this money!

**Isn't it too late to revise the projects from the European Union?**

There's nothing dramatic about it. It is never too late to take the right decision, especially where this is about our internal affairs. We need new production sites. But instead quite many administrative buildings are being constructed mainly for decorative purposes, and they require money not only for construction but also for maintenance.

**We have heard recently some menacing warnings over radio and TV programs against the “populist” party, your personal records and those millionaires, who have “usurped” the parliament. These are some of the most diplomatic of those statements: “We don't like that some future ministers may try to use their power to promote personal interests?” “we hope that our President will follow principles as regards Uspaskich's candidacy?” “Where did you get the stamina and great energy required during both the pre-election period and formation of the new government?”**

Our aims were noble. Heart and nerves can always be loaded to pursue good deeds; and vice versa — when a person in power tries to cheat, to steal, he has two or three faces and it needs very much extra energy to keep up each of those faces.

*From the Labor Party program. The party unites honest, hard-working and active people, who have no doubt in their future and future of the Lithuanian state, those who are not afraid to assume responsibility for their words and deeds. The party's obligations in the 2004-2008 period include: reduction of personal income tax by 6% for those with minimum wage level, and by 3% for all others; approval of new legislation aimed to support small and medium-size enterprises through differentiated taxes and annulment of legislative acts that hamper business activity.*

**What will be your first steps in the chair of the economy minister?**

I never tend to rush things. One needs to get acquainted with the staff, see how competent they are, how efficient every individual is. We have to solve a basic problem, i.e. I want to make investors more interested in the Lithuanian market. The solution depends on many factors. Let's take, for example, the recent confirmation to shut down Ignalina nuclear power station and the thunderous announcement that this may cause disruptions in national power supply. What kind of investor will venture in this country after that? They would most likely wait until everything clears up here and the energy issue “settles down.” Or, let's take the issue of dependency on Russian energy supplies. We need “a bridge to the West” and I will make it in order to guarantee our energy independence.



ELTA

**BRUSSELS, DECEMBER 10, 2004:** The European Democratic Party inaugural congress elected Viktor Uspaskich as the vice-chairman and council chairman of the party.

**The problem concerning power transmission lines to Poland has been handled with a varying degree of activity for a number of years, occasionally with a lot of fuss, but the issue nevertheless remains at a standstill...**

Maybe somebody stood to gain from this kind of situation? Take *Mazeikiu nafta* oil refinery which is completely dependent on Russia's supply. But there is an alternative in this case and that kind of dependency can be reduced significantly.

**There have been rumors about deterioration of Lithuanian-Russian relations. What would you say about it?**

Lithuania must make use of its geographical advantages: cooperation with Russia needs to be improved. It is very profitable to work on the Russian market. Our relationship with Russia is normal; probably some radicals make too much noise now and again but it is not genuine Lithuanian opinion. Being born in Russia, I ran in the elections for the second time from the district where 90% of population are ethnic Lithuanians and won in the first round with 70% of votes. It is solid proof that people do not think the way radicals do. •

## Corporate cream in Latvia, Lithuania

By Alla Petrova

Latvian and Lithuanian business newspapers recently published lists of the largest companies in these two countries. The most noticeable trend is that retailers occupy solid second place after prominent energy giant corporations; no such data has been yet published in Estonia.

### LITHUANIA: CONCERNS TAKE THE LEAD

According to the *Verslo ziniuos* newspaper, first on the list of Lithuania's Top 10 largest companies last year in terms of 2003 revenues is the oil concern *Mazeikiu nafta*, which increased sales by more than 10% to 5.3 billion litas. The runner-up is *VP Market*, the biggest Baltic retail chain which achieved about 19% growth of sales to 3.1 billion litas revenues. *Achemos grupe* concern (994.5 million litas) has risen to the third place which formerly was held by the energy company *Lietuvos energija* (919.6 million litas). *Palink*, the operator of *Iki* retail chain, with 982 million litas and the trading company *Sanitex* with 950 million litas have remained fourth and fifth, respectively. Further down the list are *Lietuvos energija*, the railway company *Lietuvos gelezinkeliai* and telecommunications groups *Lietuvos telekomas* and *Omnitel*. *MG Baltic* concern with 742.8 million litas in revenues closes the Top 10, having displaced Ignalina Nuclear Power Plant. It is the first time when information about revenues of the Ignalina plant was not included in the list of 500 largest Lithuanian companies.

The companies are rated by 2003 revenues that they have announced voluntarily. The prevailing trend is to publish results of groups sharing the same shareholder or group of shareholders and not revenues of separate companies. The 2004 list includes over 35 such groups while there was none on the 1999 list.

Groups themselves have grown bigger: thus, *Achemos grupe* numbered 38 companies in 2003 and 40 in 2004, and *MG Baltic* has expanded from 28 to 31 companies. **Alge Budryte**, analyst at the largest Lithuanian commercial bank *Vilniaus bankas*, is certain that the process of corporate mergers and takeovers is only starting to gain momentum. "This process is fostered by growing competition — we have become a part of EU, one of the world's largest markets, and here revenues of our retail giant *VP Market* do not seem so impressive com-

pared to the world retail chains," she said. Real difference between *Mazeikiu nafta* and *VP Market* revenues could have been even smaller, if the latter had reported consolidated figures, including revenues from electricity sales and the drugstore chain income. *NDX Energija* founded by *VP Market* shareholders and associated persons is the owner and operator of the electric power distribution company *Vakaru skirstomieji tinklai* which in 2003 generated a turnover of 674.3 million litas. *VP Market* owners hold also a drugstore chain *Eurofarmacijos vaistines* which had 166 million litas in sales in 2003.

Analysts conclude that retail trade in 2003 grew mostly over increased purchasing ability which, among other things, was based on the growth of loans. Expansion of big companies at the expense of small businesses was another reason behind the growth.

### LATVIA: COMPANIES GROW FASTER THAN ECONOMY

The *Dienas Bizness* newspaper has published annual list of the largest Latvian companies. Total turnover of companies on this Top 500 reached 722 billion lats in 2003, growing about 10% from the year before. Latvian gross domestic product (GDP) increased by 75% in 2003; so it can be said that big Latvian companies have been growing at a faster rate than the national economy in general.

The state-owned electricity utility *Latvenergo* continues to lead the Top 500 list with a turnover of 201.12 million lats in 2003, up about 9% from 2002. The company strengthened its market position and earned a profit of 10.8 million lats in 2003. However, many experts have pointed out that the energy monopoly derives its profits mostly by collecting money from Latvian households and businesses for services that they need on a daily basis.

Computer hardware wholesaler *ELKO grupa* takes the second place with a turnover of 194.15 million lats in 2003 (+36.3% on a year-by-year basis), and



The BC archives

**MAZEIKIU NAFTA:** Constant leader in the Baltic economy.

*Lattelekom* fixed-line telecommunications operator ranks third with 137.95 million lats in sales (-4.1%). The state-owned railway company *Latvijas Dzelzceļš* is fourth with 131.02 million lats (+16.9%), followed by *Latvijas Mobilais telefons (LMT)* mobile telecommunications operator which achieved a turnover of 130.18 million lats (+13.2%) and also became the most profitable company in Latvia in 2003, having earned 42.3 million lats in profits.

Other entries to the Top 10 list include the Latvian subsidiary of Lithuania's *VP Market* retail chain with 127.08 million lats in sales (+92.7%), natural gas utility *Latvijas Gaze* with 112.94 million lats (+13.3%), fuel supplier *Kurzemes degviela* with 111.03 million lats (-12.7%), retail chain *RIMI Latvia* with 109.29 million lats (+28.0%) and metallurgy company *Liepājas metalurģis* with 2.66 million lats (+26.9%).

Transportation company *LSF Trans* made the steepest ascent within the Top 500 list, rising from 461<sup>st</sup> to 65<sup>th</sup> place. *LSF Trans* is a subsidiary of *LSF Holdings*; Latvian Company Register lists as its owners **Aivars Lembergs**, the mayor of Ventpils city, and **Oleg Stepanov**, who is in transit business.

There have been 80 new entries to the Top 500 list. Some have been organized only recently, others were not rated in previous years because their financial reports had not been computerized. It should be mentioned that the Top 500 list includes companies with annual turnover over 4.57 million lats. •

# Business alliances and strategic mergers

By Jurgita Balaisyte,  
Vilma Lisauskaite

*Prime Investment, Lithuania*

Baltic IT companies embark on strategic M&A business alliances to secure opportunities in the expanded EU market and to strengthen their local positions. This is one of the main conclusions from the latest survey by *Prime Investment*.

In the first half of 2004, the Baltic IT companies included in our survey had a generally better period as they shook off the sluggishness of 2003 and reported an increase in their combined revenues by 3.6%. According to the data presented by the largest Baltic IT companies, the revenues from IT services comprised 44% of their total income and remained at the same level as in the first half of 2003.

Although *Microlink Group* retained its overall leadership in the Baltic IT services market, its sales decreased compared to the first half of 2003 and its competitors were able to gain on *Microlink's* market share.

*Informacines technologijos* had the fastest growth rate in IT service revenues among the Baltic peers and made it to the Top 3 list. *Webmedia*, an Estonian IT company, and



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*Compservis Atvirosios sistemas*, a Lithuanian company owned by Swedish *Proact Group*, also showed 70% growth rates during the first half of year 2004 and announced promising outlooks for the full year results.

*Sonex Holding*, which after its renounced business swap with *Alna* declared its intentions to increase its focus on IT services, realized a 27% growth in its IT service sales. Meanwhile, due to an ongoing restructuring, *Alna Group* saw a 4% contraction in IT services revenue.

Following the acquisition of *Dati Group* by *Exigen Group* in June, 2004,

their combined IT service revenues would place *Exigen* at the top of our ranking. However, for the purpose of this semi-annual rating we rated *Dati Group* and *Exigen* as two separate companies, which still put them both among the top five IT service companies.

In their search for a competitive edge, an increasing number of Baltic IT companies began to embark on business alliances and strategic mergers with established international players as well as with their Baltic counterparts. *Dati Group* combined its forces with *Exigen*

## IT news

### COOPERATION AGREEMENT

In September 2004, the representatives of Latvian, Lithuanian and Belarus ICT Associations signed a Cooperation Agreement for creating Baltic IS clusters. The purpose of establishing Baltic IS Cluster among the leading Baltic ICT associations was to enhance competitiveness and improve export rates of Baltic IS products and services in international markets.

### INTERNET PENETRATION

According to *TNS Emor* survey announced in June 2004, the number of Internet users in the Baltic states exceeded 1.6 million people. The Internet penetration level remained the highest in Estonia with 46% of population. The Internet penetration in Lithuania reached 38% or 870,000 users. The slowest development of Internet usage was in Latvia, where only 24% of population uses Internet.

### HIGH PIRACY LEVEL

According to the study by *BSA* and *IDC Global Software*, Baltic states are still considered to be the regions

with high piracy level. In Lithuania the share of illegal software was estimated at 58% of all software used in the country, while it was 57% and 54% in Latvia and Estonia respectively.

### ESTONIA LEADS E-GOVERNMENT CREATION

According to the Economist Intelligence Unit research, Estonia is the leading country in Central and Eastern Europe in e-government services, while Lithuania ranks 7<sup>th</sup> and Latvia is in the 8<sup>th</sup> place. Lithuania and Latvia are still lacking a clear and actionable policy towards a coordinated use of electronic data services within the government and public services institutions.

### INTERNET ADVERTISING TAKES OFF

In cooperation with *Delfi* news portal and Internet advertising network *Adnet*, *TNS Gallup* monitored the activity of Internet advertising in the Baltic countries. The first studies showed that more than 160 companies used Internet advertising during January-July of 2004. The most active advertisers were the mobile communication operators and companies providing financial services.

Group and opened more opportunities to provide large scale near-shore programming services in the Baltic countries. *Alna Business Solutions Centre* is joining *Watermark Global Alliance* with the hope to increase competitiveness among business system providers. *Informacines technologijos* entered Estonia by acquiring a

minority stake in *Icefire*, which it plans to fully integrate into its group of companies in the nearest future. It has also recently announced its merger with *AffectoGenimap*, a Finnish IT company, to establish a stronger position of information system development and business intelligence and location based services

in the North European IT services market. We expect that this trend is bound to accelerate in the near future as more Baltic companies will consider consolidation as an effective way for securing business opportunities in the expanded EU market and strengthening their local positions. •

#### LEADERS OF BALTIC IT SERVICES SECTOR IN H1 2004. EUR '000

	IT services revenue		Change in IT services rev.	Services as % of total rev.	Total revenue		Change in total revenue
	H1 2004	H1 2003	04/03	2004	H1 2004	H1 2003	04/03
MicroLink Group (Estonia) <sup>1</sup>	7540.0	8960.0	-16%	37%	20220.0	25700.0	-21%
Sonex Holding (Lithuania) <sup>2</sup>	5502.8	4344.3	27%	23%	24038.5	17956.4	34%
Informacines Technologijos Group (Lithuania) <sup>3</sup>	4676.5	2657.7	76%	93%	5029.3	3229.5	56%
Dati Group (Latvia) <sup>4</sup>	4388.0	5437.9	-16%	100%	4388.0	5437.9	-16%
Exigen Latvia (Latvia)	4360.4	4539.5	0%	100%	4376.0	4558.1	0%
Alna Group (Lithuania) <sup>5</sup>	3111.1	3251.8	-4%	39%	8006.0	7492.9	7%
IT Alise (Latvia)	2726.2	2668.4	6%	77%	3555.9	2018.9	18%
Elsis Group (Lithuania) <sup>6</sup>	2290.3	n.a.	n.a.	39%	5801.4	n.a.	n.a.
Tilde SIA (Latvia)	1235.7	987.0	30%	100%	1235.7	987.0	30%
Blue Bridge (Lithuania)	1057.1	1181.9	-11%	14%	7790.8	6168.9	26%
Sintagma Group (Lithuania) <sup>7</sup>	955.7	666.1	43%	35%	2693.5	3156.9	-15%
New Vision Baltija Group (Lithuania) <sup>8</sup>	868.9	n.a.	n.a.	21%	4083.6	n.a.	n.a.
Algoritmu sistemas (Lithuania)	755.6	622.1	21%	100%	755.6	622.1	21%
Prototechnika Group (Lithuania) <sup>9</sup>	632.4	471.9	34%	85%	740.3	555.4	33%
Webmedia (Estonia)	541.9	314.9	72%	97%	560.2	399.3	40%
Compservis atvirosios sistemas (Lithuania)	463.7	274.3	69%	54%	857.0	4246.7	-80%
Edrana (Lithuania)	393.6	366.1	8%	93%	421.1	398.8	6%
HNIT-Baltic Geoinfoservas (Lithuania)	346.4	260.4	33%	52%	665.0	567.1	17%
NRD (Lithuania)	344.4	333.4	3%	91%	379.4	333.4	14%
Elva-Baltic (Latvia)	205.8	233.3	-8%	63%	328.3	651.5	-3%
Helmes (Estonia)	181.9	359.7	-49%	4%	5143.6	2946.2	75%
Regio (Estonia)	119.6	248.3	-52%	62%	192.2	294.5	-35%
<b>Total</b>			<b>3.6%</b>	<b>44.2%</b>			<b>3.3%</b>

Source: Prime Investment.

<sup>1</sup> Approximate results. Consolidated companies: in January-June 2003: MicroLink AS, MicroLink Estonia AS, MicroLink Arvutid AS, Delfi AS, Free40 AS, SAF International AS, SIA MicroLink Latvia, SIA Baltijas Datoru Akademija, SIA MicroLink Netcoms, SIA Delfi, SIA SAF Tehnika, SIA MicroLink Datori, UAB MicroLink Data, UAB MicroLink Netcoms, UAB Fortek IT, UAB Delfi, UAB Doclogiskas.

In January-June 2004: MicroLink AS, MicroLink Estonia AS, SAF International AS, SIA MicroLink Latvia, SIA Baltijas Datoru Akademija, SIA MicroLink Netcoms, SIA SAF Tehnika, UAB MicroLink Data, UAB MicroLink Netcoms, UAB Fortek IT, UAB Doclogiskas.

<sup>2</sup> Consolidated companies: UAB Sonex Kompiuteriai, UAB Sonex Sistemose, UAB Sonex Identifikaciniai Duomenys, UAB Informaciniutechnologiju techninis centras, UAB Ars Computandi, UAB Sonex Lizingas, SIA Sonex Riga, SIA Softex Latvija, Sonex Computers AS, ZAO Sonex, ZAO Xorex-Service (the last two are both based in Belarus).

<sup>3</sup> Consolidated companies: UAB Informacines Technologijos, SIA Mebius IT, UAB Mebius IT Vilnius.

<sup>4</sup> Dati Group is a part of Exigen Group since June, 2004. Consolidated companies: in January-June 2003: SIA Dati, SIA Rigas Informacijas tehnologijas instituts, SIA HePa, DATI Deutschland, DATI Sweden, SIA DATI Management Consulting. In January-June 2004: SIA Dati, SIA Rigas Informacijas tehnologijas instituts, SIA HePa, DATI Deutschland, DATI Sweden.

<sup>5</sup> Consolidated companies: UAB Alnos techninis centras, UAB Alnos mokymo centras, UAB Infovita (now renamed as UAB Alnos infrastrukturos sprendimai), UAB Tesauras, UAB Doclogiskas.

<sup>6</sup> Consolidated companies: UAB Elsis, UAB Elsis-Biuro sistemas, UAB Elsis-TS, UAB Elsis-Verslo sprendimai.

<sup>7</sup> Consolidated companies: in January-June 2003: UAB Sintagma sistemas, UAB Sintagma technika. In January-June 2004: UAB Sintagma sistemas, UAB Sintagma technika, UAB Sintagma.

<sup>8</sup> The results of New Vision Baltija Group are announced separately from Varos Group since the end of year 2003. Consolidated companies: UAB New Vision Baltija, SIA New Vision, New Vision AS.

<sup>9</sup> Consolidated companies: UAB Prototechnika, UAB Prototechnikos iranga, UAB Prototechnikos kompiuteriai.

In this list IT service revenues include software development, programming, system integration, maintenance, software and system implementation, training, consulting services and sales of software products developed in-house. These revenues do not include any sales of hardware, resold software, office equipment or other products. The table does not include results of foreign companies' subsidiaries and affiliates.

## Baltic national debts: good demand, yield could be better

**Leonid Alshansky**

*Dr. Math, Head of the Analysis Unit of Assets Management Department,  
Rietumu Banka*

In next few years the Baltic states, having successfully attained the EU membership, will be preparing themselves for joining also the European Monetary Union (EMU). More so, Latvia, Lithuania and Estonia already comply with criteria of the national debt established by the EMU and also have high investment rating. Therefore their government securities enjoy steady demand regardless of a rather low yield rate.

In order to join the EMU and introduce the euro, a country must satisfy a number of macro economic requirements defined in the Stability and Growth Pact adopted in Maastricht in 1997. In particular, the document lists five main restrictions as regards macro economic indicators such as inflation, interest rates, national budget deficit, national debt and the national currency to euro exchange rate.

One of the main restrictions under the Stability and Growth Pact requires that the national debt should not exceed 60% of GDP. At present all three Baltic nations fit within this limit easily with lots of room to spare. In Latvia the national debt to GDP ratio is 13.5%, in Lithuania 23.5% and in Estonia just 6%.

### POSITIVE DYNAMICS

In recent years Latvia, Lithuania and Estonia have also demonstrated positive dynamics of change in their respective national debt to GDP ratio (see Tables). Moreover, as the governments of these countries traditionally exercise strict fiscal policy, there are no grounds to believe that the ratio would take a turn for the worse in the nearest future. Due to the small national debt and stable economies, the leading international investment rating agencies have given all three Baltic states high investment ratings (see Table), which are much higher than those given to other countries formed after the collapse of the Soviet Union.

We would like to note that such positive situation with the government debt is not typical for all the countries, which joined the EU in May 2004. For example, in Poland national debt to GDP ratio is close to 50%, and in Cyprus national debt is equivalent to some 70% of the GDP. Thus, Cyprus cannot join the EMU at the moment and will have to

decrease its national debt drastically in next few years, which is going to be a very complicated task.

### HIGH DEMAND

Small internal and external debts of the Baltic states is the reason for rather high demand for government securities of those countries and, consequently, for their low yield. The yield on Baltic eurobonds, denominated in euros and forming the bulk of external debt of these countries, currently is as follows: from 2% to 3.8% for Lithuanian government securities depending on the maturity period; around 3.9% for Latvian papers and about 2.6% for Estonian papers. Internal debts of Baltic states carry a slightly higher yield rate: 2-4.5% in Lithuania, 3.5-4.7% in Latvia and 2.6-2.7% in Estonia. Domestic debt securities are traditionally bought mostly by residents of the given



Rietumu Banka

countries while external debt securities are kept in portfolios of many foreign banks and investment companies.

### MAIN DRAWBACK

However, from our point of view all this does not make the securities of the Baltic States undeniably attractive to any investor. Their key disadvantage is

DYNAMICS OF THE CHANGES OF LATVIAN GDP AND NATIONAL DEBT						
	1998	1999	2000	2001	2002	2003
GDP, mln LVL	3902.9	4224.2	4685.7	5168.3	5689.4	6322.5
Total debt, mln LVL	372.6	510.7	570.9	712.9	756.1	846.3
External	231.6	359	348	456.9	464.5	419.6
Internal	141	151.7	222.9	256	291.6	426.7
Total debt,%	9.55	12.09	12.18	13.79	13.29	13.39
External	5.93	8.50	7.43	8.84	8.16	6.64
Internal	3.61	3.59	4.76	4.95	5.13	6.75
Kypc EUR/LVL		0.63	0.56	0.56	0.58	0.64

Source: Rietumu Banka.

DYNAMICS OF THE CHANGES OF ESTONIAN GDP AND NATIONAL DEBT					
	1998	1999	2000	2001	2002
GDP, mln EEK	78341.2	81639.7	92717.1	104338	116869
Total debt, mln EEK	4622.13	5306.58	4635.86	4799.53	6778.4
External	2898.62	3428.87	2966.95	2817.12	1986.77
Internal	1723.51	1877.71	1668.91	1982.42	4791.63
Total debt, %	5.90	6.50	5.00	4.60	5.80
External	3.70	4.20	3.20	2.70	1.70
Internal	2.20	2.30	1.80	1.90	4.10
EUR/EEK rate		15.645	15.645	15.645	15.645

Source: Rietumu Banka.

**DYNAMICS OF THE CHANGES OF LITHUANIAN GDP AND NATIONAL DEBT**

	1998	1999	2000	2001	2002	2003
GDP, mln LTL	44377	43359	45526	48379	51643	56179
Total debt, mln LTL	9613.6	12069.5	12724.7	12903.6	13161.5	13137.3
External	2876.2	2354.2	2827.4	3047.3	3983.7	4267
Internal	6737.4	9715.3	9897.3	9856.2	9177.8	8870.3
Total debt,%	21.66	27.84	27.95	26.67	25.49	23.38
External	6.48	5.43	6.21	6.30	7.71	7.60
Internal	15.18	22.41	21.74	20.37	17.77	15.79
EUR/LTL rate		4.4	3.9	3.6	3.65	3.45

Source: Rietumu Banka.

the low yield which basically makes them equal to securities of the “old” EU member states. For example, at present Rietumu Banka’s securities portfolio does not contain either external or internal debts of the Baltic states, although they were present in the bank’s portfolio at the end of the 1990s. And this can be explained, first of all, by the decreasing profitability of these securities during last few years. Eurobonds issued by Latvia, Lithuania and Estonia give basically the same yield as German securities (which make up a considerable part of the bank’s portfolio), but they have less liquidity and higher risk. •

**SOVEREIGN RATING OF THE BALTIC STATES BY STANDART & POOR'S**

S&P	Foreign currency rating	Local currency rating
Lithuania	A -	A
Latvia	A -	A
Estonia	A	AA -

Source: Rietumu Banka.

**News**

**BUDGET DEFICITS OF EU MEMBERS**

In 2003 the budget deficit of the 25 EU member states increased to 2.8% of GDP from 2.3% in 2002. The twelve euro-zone countries had total budget deficit at 2.7% of GDP in 2003, up from 2.4% in 2002.

National debts of the EU member states also increased in 2003. National debts of 25 EU member states totaled 63.3 percent of GDP in 2002 as opposed to 61.6% of GDP in 2002. National debt of the euro-zone countries increased from 69.4% to 70.7% of GDP.

Nine EU member states had national debt in excess of the maximum limit of 60% of GDP in 2003. National debt in Greece stood at 109.9% of GDP, in Italy at 106.2%, in Belgium at 100.7%, in Malta at 71.1%, in Cyprus at 70.9%, in Austria at 65.1%, in Germany at 64.2%, in France at 63.7% and in Portugal at 60.3% of GDP.

Estonia had the smallest national debt at 5.3% of GDP, Luxembourg followed with 5.4% of GDP, Latvian national debt accounted for 14.4% of GDP and Lithuanian for 21.6% of GDP.

(Eurostat)

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## Latvia–Netherlands: first official visit

Latvian President **Vaira Vike-Freiberga** made a state visit to the Netherlands on January 18-19, 2005. The president was accompanied by a delegation of 55 Latvian businessmen representing banking, IT, ports, agriculture and other industries. See the previous *BC* issue (No. 15) for details of Latvian-Dutch relations. Some of the Latvian business delegates shared with the *BC* their impressions of the trip.



**ANDRIS OZOLINS,**  
NORD/LB Latvia, CEO:

“The visit to Netherlands was successful. The interest of Dutch business people in participation in Economic Forum and meeting the Latvian delegation was even higher than expected.

The most fruitful was participation in round table discussion with the Central bank of Netherlands and the largest Dutch banks. Exchange of information on bank monitoring principles was especially interesting for *NORD/LB Latvia* as the daughter company of German bank – in Europe cross-border approach to the process dominates, so the banking sector in Latvia will be influenced by the tendency as well. Also as a result of this meeting *NORD/LB Latvia* has started to discuss practical cooperation with two Dutch banks?”



**ELITA MOISEJA,** Marketing Director,  
Nordic Industrial Park and Nordic  
Technology Park:

“The officials of the leading Latvian industrial parks *Nordic Industrial Park* and *Nordic Technology Park* met with real estate developers from different Dutch towns, and the two delegations shared their experience in organization and management of industrial parks.

Latvia’s good geographical position is often one of the reasons why companies choose to use industrial parks in this country. They make here products or components to be sold in Eastern Europe or Russia. Latvia is an ideal place for development of logistics and distribution centers that would serve those regions, especially Russia. Last year several large companies inquired about opportunities to locate their distribution centers in our industrial parks.”



**IGORS UDODOVS,** Marketing and  
Development Manager, Ventspils  
free port:

“In two days we managed to visit the Rotterdam and Amsterdam port authorities and also several terminals in these ports. The meetings with Dutch businessmen were very useful for establishment of contacts. We also had several business meetings with our potential partners in the Netherlands. The Ventspils free port management is mostly interested in stepping up cooperation as regards transportation of various cargos, first of all containers, through our port. It was a business trip, one of the many such trips that does not yield immediate result but later contributes to growing cargo turnover at the Ventspils port and opening of new maritime routes”



**ILZE KRESLINA,** Managing Director,  
and **MARTINS PUCE,** Project  
Manager, M.L. International Ltd.:

“*M.L. International Ltd.* is a group of companies based in Riga and specializing in business and management training, language training, business advice and consultancy, project management, construction and building development, UK and US commodity trading. It was very important to meet business people from the Netherlands and discuss further possible opportunities. At the same time, communication among Latvian business people will bring success in the future. We enjoyed the trip to the Aalsmeer Flower Auction. When we buy flowers in Latvia, we hardly think about how those flowers got here. It was great!” •



# For benefit of business people

By Olga Pavuk

Latvian Investment and Development Agency (LIDA) director **Andris Ozols** shared with the *BC* his impressions from the visit to the Netherlands. This was the 14<sup>th</sup> trip organized by the agency for Latvian business people as part of official foreign visits by Latvian President **Vaira Vike-Freiberga**.

## Mr. Ozols, how would you evaluate results of the trip?

I believe that organization of business delegations accompanying the Latvian president on her official foreign visits is regarded by the agency as a very successful arrangement. That way, doors to foreign companies open more easily and business meetings gain additional importance.

Speaking about the trip to the Netherlands, I would note a great interest of Latvian businesses in that country: out of 60 business people, who initially wanted to go, 55 actually joined our delegation. All in all, 45 Latvian companies were represented in the delegation. In two days our businessmen visited three Dutch cities — the Hague, Amsterdam and Rotterdam. Apart from general events meant for all delegates, individual programs were also prepared for business people.

The minister of economics, the minister of science and education as well as the president of the Bank of Latvia participated in the work of the delegation. These are people who have good idea about economy, its priorities and needs.

It is premature to speak about any specific results, more so because many business people agreed on further contacts. Every such trip is prepared by the LIDA staff, and the first exchange of information takes place ahead of the visit.

## Who helped LIDA in organization of this visit?

Our representation office in the Netherlands and its head **Katarina Hartgers** did a very good job. The representation started working in Amsterdam in March 2004 but officially opened its doors on June 18.

The Latvian Embassy to the Netherlands as well as Dutch government authorities like the Economics Ministry helped us with organization of business contacts.

## Representatives of which industries showed interest in this visit?

First of all, it was ports and logistics, finances, IT and telecommunications as well as metal working, construction business, agriculture and food industry. For example, the Latvian national postal company *Latvijas pasts* was interested in the Dutch *Postbank's* experience in logistics and financial management. Representatives of Latvian banks organized presentations, mostly the president of the Bank of Latvia **Ilmars Rimsevics** brought with him vast information about the financial market and macroeconomic situation in Latvia.

## What is your idea of the LIDA mission in organization of such visits?

The LIDA promotes Latvia as an outsourcing country, offering Dutch businesses to organize production in Latvia as a region with numerous advantages. In this aspect, we are competitors of Dutch companies. We have not only cheaper labor but also relatively cheap highly-qualified specialists. Many European businesses



**THE NETHERLANDS, JANUARY 19:** The Latvian delegation (A.Ozols in the center) meets management of VP Heineken.

make use of this advantage. Latvia as a EU member can offer their Dutch partners much more flexibility than such major outsourcing countries as China or India. We can react to changes in design, technologies, small-scale production more swiftly. We also have the advantage of being in the same or almost the same time zone. There are many factors that put us in a better position, and it is the LIDA task to keep pointing out these advantages.

Furthermore we promote Latvia as an attractive country for setting up a production plant or doing business. Here, the key factors are not only strategical geographic location and low-cost labour, but favorable business climate and taxation regulations. We also have free economic zones enjoying special support from the state.

## Recently the press has frequently reported about the EU negative attitude to free zones.

It is not quite true. For example, European trade unions may voice negative attitude to special economic zones in Latvia or other new member states. But according to the official EU position, it has been agreed with Latvia that special economic zones will remain functional until 2017. The EU accepted the argument that less developed member states need the EU support — either in the form of direct aid, i.e. the money allocated from the structural funds, or as tax reductions to separate territories or types of business. Total amount of this kind of aid must not exceed limits specified by the EU. Companies working in a special economic zone can choose between the two forms of assistance — either support from structural funds or fiscal benefits.

## What business trips has LIDA planned for this year?

The Latvian president will make an official visit to Switzerland on March 31 and April 1. She will be visiting Turkey on April 19-20 and is scheduled to go to Italy in late June. A visit to Uzbekistan is planned in late September or early October. The LIDA will take care of the economic part of those visits, following the principle: fewer excursions, more business meetings for the benefit of business people. •

# Relations between Latvia and Sweden

Latvian President **Vaira Vīke-Freiberga** will make a state visit to Sweden on March 31 and April 1, 2005. As part of this visit, the Latvian Investment and Development Agency (LIDA) will organize for Latvian businessmen a trip to the Latvian-Swedish business forum that will be attended by the King of Sweden, **Karl Gustaf**, and the Latvian President.

The cornerstone of cooperation between Latvia and Sweden is the common commitment to develop the Baltic Sea region into a stable, economically active and secure region. Up to now, both countries have mainly focused on fields related to Latvia's integration into Europe, the development of internal and external security, sovereignty and democratization, and the improvement of the state administration system.

Sweden has always actively supported membership of Latvia and other Baltic states in the EU. It is testified by Sweden's consistent position in the discussions about the EU enlargement and the fact that integration of the Baltic states into the EU was declared by Sweden as one of its foreign policy priorities. Sweden's experience gained during its accession to the EU at the beginning of the 1990-ies (Sweden is a EU member state from January

1995) has been useful in Latvia's EU integration process.

In addition to the regular political dialogue among senior officials of both countries, a comprehensive cooperation and development of informal contacts between parliaments, municipalities, non-governmental organizations, political parties, schools and individuals takes place.

## ECONOMIC COOPERATION

Sweden is a major trade partner of Latvia. In 2003, Sweden was the third largest export market for Latvian products worth USD 305 million (10.5% of total exports), while Swedish imports to Latvia reached USD 328 million (6.3% of total volume, ranking 6<sup>th</sup>).

Latvia exports mainly timber and wooden articles, textiles, machinery and mechanical appliances, whereas the principal imports include machinery and mechanical appliances, electrical equipment, vehicles, textiles, paper and cardboard.

Sweden's investment in Latvia has tripled over the past five years and at the end of the 3<sup>rd</sup> quarter of 2003 it was the biggest foreign investor with USD 273.8 million.

As of February 26, 2004, as many as 537 Swedish-Latvian joint ventures were registered in the Latvian Business Register. Sweden has mostly invested in the field of telecommunications (*Tele 2, Telia*), banking sector (*SEB*), civil aviation (*SAS*), construction (*Skanska*), food production, trade and forest industry.

## SWEDEN'S ASSISTANCE TO LATVIA

Sweden's assistance to Latvia is administered by the Swedish International Development Agency (SIDA) on the



**RIGA:** Stockholm School of Economics (SSE).

The BC archives

basis of the cooperation program approved for a period of two years.

The strategy for cooperation with Latvia for 2002-2004 is directed toward facilitation of implementation of the EU requirements in Latvia and development of relations with Sweden. It identifies six cooperation fields — security, strengthening of democracy, economics, social security issues, environment protection, education and science.

As Latvia acceded to the EU on May 1, 2004, Sweden ceased to provide bilateral assistance to Latvia. To mark the closure of the assistance program, the Baltic Week was held in Sweden on April 19-23, 2004, including a row of seminars and cultural events as well as presentation of a book on SIDA's activities in the Baltics. From now on, the cooperation of both countries will continue mainly within cooperation programs of the Baltic Sea region, the EU structural funds, the EU initiatives (INTERREG) and the Northern Dimension, as well as on the sectoral level on the basis of the already existing contacts. A foundation



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for short-term technical assistance by Swedish consultants has been formed, aimed to provide short-term consultative support to strengthen the institutional structure. Sweden has allocated SEK 3 million to activities of the foundation; the amount of financing could be increased depending on the needs.

## COOPERATION IN EDUCATION

Owing to the high level of decentralization in the Swedish education system, the Latvian-Swedish cooperation in education and science is happening mainly between separate educational establishments, organizations, and experts, and through district and town school-boards.

Grants for students, teaching staff and scientists are allocated via the Swedish Institute. Sweden supports Latvia's involvement in the EU educational programs, in particular in *Leonardo da Vinci* program.

Sweden's largest contribution towards development of education in Latvia and the Baltic states, and facilitation of the European integration is the establishment of the Stockholm School of Economics (SSE) in Riga and the Riga Graduate School of Law.

## WELFARE, SOCIAL SECURITY AND HEALTH CARE

Sweden is among the countries that have provided the largest financial support for the implementation of the Latvian Welfare Ministry projects. Sweden was the biggest donor state (14%) in the implementation of the "Reform of Welfare System" project; SEK 16 million have been allocated to the implementation of the "Health Care Reform" project; the Latvian State Labor Inspectorate (LSLI), in cooperation with the Swedish National Board of Occupational Health and Safety has implemented several projects on labor hygiene and

safety, as well as the harmonization of legislation with the EU requirements.

In 1994, the agreement on exchange of trainees was signed, under which 300 young people from Latvia can go to Sweden for practical training every year.

Sweden provides financial support to the project called "Joy of Living," which is a place of residence and a professional training center for orphans or young people from disadvantaged families. These young people can receive professional education in such professions as plumber, construction worker, IT specialist, welder and cook. Sweden allocates SEK 250 thousand per year for maintenance of the centre. The centre is supported also by Latvian-Swedish joint ventures.

With the help of Sweden, a social care, educational and cultural centre has been established in the historical manor complex "Skangale" for children from socially disadvantaged or very poor families from the Cesis district. Children study and live in the social centre and visit their families once in two weeks on weekends.

## ENVIRONMENTAL PROTECTION AND REGIONAL DEVELOPMENT

The agreement concluded between the two countries in 1992 has helped Sweden to emerge as Latvia's main cooperation partner in the field of environmental protection. Cooperation is taking place at all levels — with the Swedish Ministry of Environment, as well as with SIDA, the Environmental Protection Agency, the Radiation Security Institute of Sweden, the Inspection of Chemical Substances, and with several consulting firms. Sweden's contribution to the fields of water supply and sewerage and waste management is also of great importance. •

## DIRECT INVESTMENTS BY SWEDISH RESIDENTS IN REGISTERED CAPITAL OF LATVIAN COMPANIES

Year	Number of investments	Total
1991	34	629,520.47
1992	152	2,665,450.32
1993	273	5,355,120.53
1994	369	7,638,053.28
1995	427	10,980,972.20
1996	450	21,978,184.25
1997	435	30,817,007.48
1998	426	44,694,362.79
1999	466	53,126,163.89
2000	496	59,795,708.10
2001	513	149,776,302.63
2002	524	153,125,977.06
2003	536	155,662,207.36
2004	564	164,049,687.75
2005 <sup>1</sup>	565	163,964,807.75

<sup>1</sup> Data as of January 24, 2005.

Source: Lursoft.

## LARGEST FOREIGN INVESTORS IN REGISTERED CAPITAL OF LATVIAN COMPANIES

1. Tilts Communications A/s	Denmark	71,581,000.00
2. Tele2 Sverige Ab	Sweden	50,002,000.00
3. Hansapank As	Estonia	46,006,873.00
4. Deutsche Bank Trust Company Americas	US	39,655,500.00
5. Skandinaviska Enskilda Banken Ab	Sweden	36,623,280.00

Source: Lursoft.

## FOREIGN COUNTRIES AND NUMBER OF JOINT VENTURES IN LATVIA

Russia	1,820
US	1,591
Estonia	1,035
Germany	953
Lithuania	872
Sweden	566
UK	521
Denmark	453
Finland	352
Ukraine	278

Source: Lursoft.

## DIPLOMATIC RELATIONS CHRONOLOGY

Sweden recognized the independence of Latvia on August 27, 1991. The diplomatic relations between Latvia and Sweden were renewed on August 28, 1991. The Embassy of Sweden was opened in Riga on August 29, 1991.

The present Ambassador of the Kingdom of Sweden to Latvia is **Goran Hakansson**. Latvia is represented in Sweden by Ambassador **Artis Bertulis**.

There are five honorary Latvian consuls in Sweden: **Ingemar Nilsson** in Skone, **Robert Rydingstam** in Geteborg, **Stig Thorsson** in Stockholm, **Andris Nolendorfs** in Kalmar county and **Ulf Schenkmanis** in Vermland.

## Innovations in Europe: focal policy and business issues

By Eugene Eteris  
from Stuttgart, Germany

Innovation is one of the cornerstones of the Lisbon strategy; therefore present EU innovation policy, guided by the Directorate-General (DG) for Enterprises and Industry, is being in the limelight of the Union's development. According to major actions listed in the present 6th Framework Program for Research & Development (R&D), innovation is a priority of all EU member states. Today the Scandinavian countries are the EU leaders in innovation; in these countries innovative capacities have been turned into economic advantages in the most fruitful way.

The EU task is to assist member states in building up efficient and well-performed innovation systems. In order to reach this aim the EU needs a common framework that identifies member states' challenges and sets clear objectives for implementation of the Lisbon strategy. The European Commission assists member states in this process through its Directorate-General for Enterprises and Industry (in particular, through its innovation policy activities). Another important EU objective is optimal enterprises' involvement in innovations. Presently, most big firms in the EU innovate without public support: one-third of those that received such assistance for innovation hardly considered that crucial.

The DG officials claim that innovations could be found everywhere; it is not only about high-tech, it could be as well in improving production of goods and services, or in administration and management. "Innovation is about turning ideas into new products, services and new business processes"; **Dr. Horst Reichenbach**, the DG Director-General, said once.

The recent 4<sup>th</sup> European Forum for Innovative Enterprises that took place in December in Stuttgart, Germany, under the ambitious heading: "Key Challenges for Policy and Business"; analyzed latest trends in creation and development of

innovative start-ups and looked at new concepts for innovation policy. It was co-organized by the European Commission and two German regions – Stuttgart and Karlsruhe, as well as PAXIS (Pilot Actions of Excellence on Innovative Start-ups). PAXIS has already designed 22 European cities and regions as European Regions of Excellence for their outstanding track records in supporting the creation and growth of innovative start-ups, and in transfer of innovation. Among them were five regions on the Baltic Sea: Stockholm, Helsinki, Greater Copenhagen, Southern Sweden region and city of Hamburg.

Preparatory and organization work for Forum was done by CORDIS (Community Research & Development Information Service) which generally assists and encourages transfer of technology and knowledge in the EU ([www.cordis.lu](http://www.cordis.lu)).

### MAJOR SUBJECTS IN THE EU DISCUSSION ON INNOVATION

Topics covered during discussions included:

- financing innovation,
- boosting innovative clusters,
- regulatory issues within innovative activities,
- generating new entrepreneurial activities, and
- shaping EU innovation policy.

### WHAT WE LEARNED AT THE FORUM

- Innovation is not only a specific feature of human nature, but a best way for solution of our present regional and global economic problems.

- Innovation process could be regarded as a global phenomenon within which different states would contribute to it in their own ways. Thus, "capabilities" of individual states or societies would provide certain models with their specific impetus, such as liberal labor market in Denmark or coordinated market economy in Germany, etc.

- Very often it is presumed that innovation can take place anywhere; and it is true to a certain degree. The pace of innovation depends on such factors as corporate (as well as cultural) structures in the society, e.g. influence of big companies or dominance of the small ones. In the former case, there are better chances for innovations than in the latter where the R&D investments into business sector could be rather modest. On the other hand, each state has already acquired a certain position in the global market with its small niche, e.g. medicine, cars, renewable energy, design, engineering logistics and marketing.

- The most promising approach to improving European innovation performance goes through "learning-from-the-best" model.

Innovation drives competitiveness, underlined **Heinz Zourek**, Deputy Director-General, DG for Enterprises & Industry. The EU innovation policy will be framed within a new Community Program for Competitiveness and Innovation. Together with the 7<sup>th</sup> Framework Program for Research & Development it will be finalized in the first half of 2005, and will become operational in 2007.

### INNOVATION AWARDS

At the Forum closing ceremony the winners of the Excellence in Innovation Transfer awards were honored. The awards went to six regions: Emilia-Romagna, Rhone-Alps, Karlsruhe, Helsinki, Oxfordshire and Stuttgart. The Emilia-Romagna region was honored with a special distinction for its outstanding performance in innovations. •



**STUTTGART, DECEMBER 7, 2004:** The winners of the Excellence in Innovation Transfer awards were honored.

Press photo

## Industry can stimulate regional development

**Mr. David White**, Enterprise Policy Director in the European Commission, shared with the *BC* his views about the Forum's importance for the Baltic states.

Innovations — that's the key word for solving present European and world problems. The Baltic states have made gigantic adaptations on their way to the EU, e.g. from planned economy to free market economy, from totalitarian consciousness to entrepreneurial way of thinking; that's already a good way to get through. The Baltic states have all the incentives to be innovative. This is where their future would be, as innovation brings a "win-win" situation both to business and to society.

But Baltic states would proceed in innovations in their own way, of course; what is important here, you learn how to innovate from innovators and entrepreneurs across Europe. These opportunities are open to all countries and our experience is for all to gain.

Although governments can't tell firms and companies how to innovate, they can provide for adequate entrepreneurial climate, make "the floor" for future innovation activities. The companies then can copy the good examples and successive stories, and improve them in their own way. The European Commission can't show "how"! But we can, so to say, show the way. This is a major function for our cooperation with the PAXIS network and CORDIS. PAXIS work, for example, is based on calls for proposals from the member states that want to share their experience. Then the rest is for the countries to experiment and apply the results.

Sometimes I can hear from Baltic states that they are too poor economically to implement Western innovative strategies. I cannot agree with that. Innovation, generally, can be found anywhere; in short, it can be found in all sectors of economy and business, because it's about how to find a better way, e.g. in marketing and productivity, in business organization and administration, etc. These are all innovations... There could be simple things, such as improving company's administration, and more complicated ones, such as producing differently... Important thing is that they all contribute both to the company's economic performance and national progress.

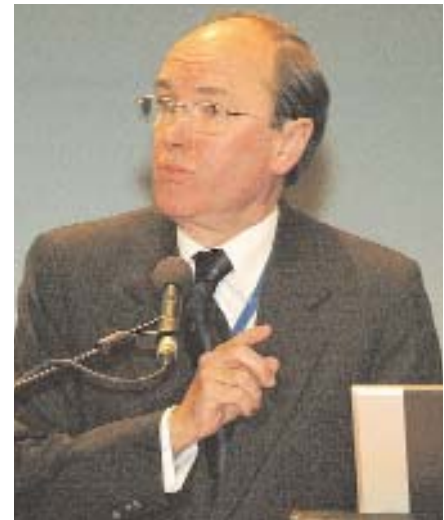
There is something else: recent economic history in the Baltics has

shown that it's not that transition to the market system has ruined their industrial base. That was done by the previous COMECON system, which killed the initiative and prospective business development. And if you want to know where the Baltic states would proceed, the answer is clear enough — along the line of creative entrepreneurial activity, taking risks, innovating! The Baltic states have already done a lot, but it's not enough. I believe, these states have a high level of educated people, but to my mind they are more socially, humanitarian-science oriented. It's not bad in itself, but applied science is much more vital at present for the Baltic economies.

At the same time we have to distinguish between some essential elements in creating innovative society: first, entrepreneurial spirit in the society as progress is just impossible without entrepreneurs; second, people willing to invest (to provide, so to say, risk capital); third, education and training. Often we see that countries and companies are not very active and efficient in innovations. And this is because they don't have right skills, adequate education and training which is all so vital. In this regard Irish example and experience is a good model to emulate.

What is vital that governments create conditions, so to say, "the space" where business innovates, where public regulations are favorable and provide stimuli for innovators. Governments can, in fact, do both, i.e. create obstacles but they can make the entrepreneurial climate better. They can kill initiative, or they can introduce supportive mechanisms. Thus, some governments make "incubators"; i.e. providing space, legal advice, and other conditions to experiment. This is very important for innovators. All countries do it in one way or other. Therefore, it's clear enough — nothing can ever stop personal initiative, self-confidence to success, taking risk of trying...

The Baltic states often ask what are the DG recommendations? On one hand, DG does not provide direct loans or grants for research or innovation; on the other hand, we provide all possible means to assist member states in developing and improving



Press photo

**DAVID WHITE:** Innovations can be found anywhere.

their national innovation policies. In summer 2004 a new Innovation Action Plan was adopted by the Commission with significant impact on interaction between research and innovation. It is based on increased combined public and private research spending of 3% GDP. ([http://euroa.eu.int/comm/enterprise/index\\_en.htm](http://euroa.eu.int/comm/enterprise/index_en.htm)).

Another important remark. We, both in the EU and in America, are at the industrial level of economic development; and value added produced in the industry is increasing. Let me give you just one example: out of 30 industrial sectors in the EU, only 5 have shown a decline in their activities; these are shipbuilding, mining, coke production, textile and footwear. As to industry-service "contradiction"; we have to remember that GDP share produced in the service sector is just lower than that in the industrial sector. As soon as efficiency in industry increases, the "released" employment is to be shifted from production to service. Another recent development is a drive for increase in economy from manufacturing to services. So the value added part in GDP is transferred from the manufacturing sector to the service sector without a change in GDP value; so it's rather a change in structure than in the substance of the process.

And I would like to remind you that in the year 2000 we introduced the term "enterprise" in the title of our DG; it's an ambiguous term — DG for Enterprise & Industry — but it allows for dynamism, and it's a good title. Industry's contributing impetus into regional economic development is crucial and vital. •

## Commission's draft proposal: EU economic reform

By Eugene Eteris

At the present Union's agenda there are three main aims: more and better jobs; boosting knowledge and innovation, and ensuring that the EU is attractive to undertakings.

That means that the European Commission during Luxembourg EU Presidency will call for a simplification of the previously stated Union's commitment to become "the world most competitive economy by 2010" in Lisbon program that had been envisaged 5 years ago.

The Commission wants the Union to focus on such main economic targets as jobs, research & development, infrastructure and better regulations. It is to be mentioned that Lisbon program, instead, followed the web of ever expanding economic, social and environmental targets.

Certain additional EU growth's downgrading stemmed, among other things, from the failure to tackle structural reforms in the member states.

All these priorities have been included into the present Commission's draft proposal for the Union's economic reform. The draft report consists of *three main aims* (mentioned above) and 10 *second-order goals*. Among the latter are such goals as:

- to make workers and enterprises more adaptable, and labour markets more flexible;
- to modernize social protection;
- to enhance investments in R&D;
- to strengthen the industrial base of national economies;
- to augment the EU infrastructure;
- to improve the EU and member states' regulations in economic spheres.

On top of this, the EU wants individual EU countries to take these reforms seriously. With this in mind, the Commission

has set forth "recommended national actions on which member states should make firm commitments regarding concrete measures to boost economy". Each year in an annual review the Commission would assess national actions and their progress.

In addition, each member state would be recommended to appoint a governmental position "to coordinate national reforms". And the division of competences shall be observed, the report mentioned, as the states would channel their efforts chiefly into innovation, R&D and risk capital, without softening existing allocations for EU subsidies.

The report prepared by the staff of EU Commissioner G. Verheugen, finally focused that "productivity growth and employing more people is needed to secure Europe's social cohesion and to make further progress towards environmental sustainability". •

## German example in the light of Union's competitive initiative

It might seem that the EU industry commissioner **Gunter Verheugen** (a German himself) tries somehow to serve German economy. Well, to a certain degree it's right, on another hand, it just can't be done the other way around at his position, as speeding up German industry means to foster the EU economy as a whole, i.e. Germany is a well-known euro-zone locomotive. So, to support any of its industry sectors means to add to the Union's development and further regional economic integration, the ideas expressed in the Lisbon strategy.

At the end of last year, in the middle of December, the commissioner launched a campaign to boost competitiveness of European car industry as a sign of pro-industry approach for the whole Union. This automotive sector of European industry is, in fact, crucial for growth and employment in the European Union. Thus, this sector provides job for more than two million Europeans; every third car in the world is produced in Europe. But the problems facing car industry are as numerous as

the sector's productivity and overcapacity are to be tackled with. Labor costs are most worrying and give a real headache: thus, Asian qualified car workers receive about USD 13 per hour (in South Korea) or USD 29 (in Japan), but about USD 40 in the US or about USD 37 in Germany; even average EU hourly payroll is about USD 32.7. So, Asian workers can do the same job 3 times cheaper! No doubt their cars are so competitive in the world market...

High-level working group will define within this year the main controversy in the sector which is concerned with regulatory gridlock. There are too many rules and regulations that are to be abolished. Regulatory approach simplification would not although violate EU competition standards.

The group will include such leaders as **Bernd Pischetsrieder**, the head of *Volkswagen*, **Wolfgang Clement**, the German minister of economy, and **Margaret Beckett**, the UK minister of environment, as well as other representatives of car manufacturers.

Another group's aim is to make the set of rules for approval of new car models in line with the UN regulatory and technical requirements. The idea here is to help car spare parts producers to get rid of design protection used by main manufacturers.

Another big difficulty lies in existing strict environmental standards that are more severe in the EU than in other regions. One of the proposals is to make cleaner diesel engines and to reduce vehicle pollution; tax breaks is regarded as a key instrument to reduce pollution. Thus, tax breaks would apply to diesel cars with maximum of 5 milligram of exhaust particles emissions per kilometer (present level is about 5 times higher!).

Besides car industry, the EU Commission would make adequate changes in chemical sector, and would start with Germany too. Regardless of the sectors to modernize, experts say, the best way is more cooperative approach in the EU-wide research programs as an instrument in innovations. •

# Scandinavian business law — concept and structure

By Eugene Eteris

*European Integration Institute, Denmark*

Recent interest within the Baltic public in the European Union business regulations has been heated by the countries' accession to the Union. No doubt, it was rather difficult for non-professionals to grasp both the contents and sectoral composition of business laws. Major part of the difficulties arose from the divergences between national and international "rules of the trade".

It is to be noticed, somehow, that these difficulties are overestimated, as there are, in fact, more common grounds in regulations among countries in some European sub-regions, e.g. among Scandinavian states. With these things in mind, we would like to provide our readers with an introductory article on Scandinavian business law and regulations.

## SCOPE & CONTENTS

Focus on Scandinavian business law (SBL) is justified by several objectives. First, most of the Baltic states' trade and business activities occur with Scandinavian countries and the Northern Europe; second, due to historic cultural ties, there are good reasons to believe that the Baltic states would follow regulatory Scandinavian schemes, and therefore it is important to be acquainted with them.

SBL is composed of two major "components"; first, purely national laws and second, those international rules that can affect SBL. During last decades, the latter input into the system has greatly increased both in size and in importance. These facts deserve some explanation and clarification.

First, treatment of business and trade rules becomes identical (both, in part and in full with the laws of separate countries) as more states join international regulatory framework for business. Some of the main such instruments are, e.g. the UN Convention for International Sale of Goods (CISG) and the Convention on intellectual property and rights.

Second, during last 30 years there has been a comprehensive process within the European Union to make uniform laws — *acquis* — involving various sectors of business and economy. Very often this legal condominium is called "the EU Business Law" as the process resulted in the so-called approximation of laws of the member states.

Third, companies operating on foreign markets to a considerable extent apply

internationally recognized models for drafting contracts, using the so-called Incoterms.

Fourth, due to various common ties among North European states, there is a growing similarity in the SBL development. Very often the structure and substantive content of business regulations apply to the rest of Scandinavian countries, as prominent Danish business lawyers thought was quite logic (See: Danish Business Law, 3<sup>rd</sup> ed., DJOF Publ., Copenhagen, 2004, p.28).

Fifth, although Nordic countries generally belong in the European legal family to the so-called continental (or civil law) system, there are important differences among them. Thus, court practice does not influence legal thought; Scandinavian countries never experience full-scale codification of private laws, as it happened in France and Germany (suffice it to say that French Code Civil consists of more than thousand articles). Therefore, there is not even a clear divide in Nordic countries between civil law itself and commercial law. The consequential effect of this phenomenon was such that contract and property laws have been developed in much more detailed fashion than in the continental European states.

Sixth, the court decisions, in the form of precedent powers, hold weaker positions in SBL than in Anglo-Saxon legal order. Judges in Scandinavia refer very rarely to previous court decisions in their practical work.

## SBL STRUCTURE AND SECTORS

In the Northern states business law does not represent a specific sector of legal regulation; as a rule, business law terminology denotes those regulations that pertain to various "business undertakings" performance (except e.g. for taxation, employment and environmental laws). Therefore, the scope of BSL structure might be as wide as business activity itself. This, the so-called functional view on BSL is only one and rather limited

approach to the subject. There are *private* (e.g. property law and real estate) and *public "interests"* (e.g. competition, credit and financial policy and law) in business development, and there are as well "sectoral" approaches to BSL, e.g. contract law and insurance, sales of goods and property rights.

Public interest in business performances is reflected in creating public tools for *civil and criminal liabilities*, which in its turn has its imprint on the structure of national court systems.

There could be singled out several SBL sectors, depending on which factors of business arrangements are given a priority. Although, the following major SBL sectors can be mentioned that are present in almost all Nordic countries (See Table).

## PRINCIPLE SBL SECTORS

- *Company law* and rules concerning various aspects of business organizations;
- rules concerning *formation of contract*, including such issues as invalidity of contract, its interpretation and violations, formation of a contract via agents, etc.;
- domestic and international (CISG) rules concerning *sales of goods*;
- *insurance and credit agreements*;
- rules regulating *intellectual property rights*;
- *marketing and competition laws*;
- *financial laws*, including payment regulations and enforcement; transfer of claims and negotiable instruments;
- *real estate and mortgage regulations*, including security rights over chattels;
- rules concerning *liquidation and reconstruction* of undertakings;
- *employment laws*, establishing legal relationships between employers and employees.

There are, of course, other regulatory sectors, such as guarantee regulations and compensations, liquidation and reconstruction of undertakings, etc.

## SBL AND EU LAW

While the present draft EU Constitution is being discussed among 25 member states, for the time being the Treaty on the European Union (TEU) with amendments from the Nice Treaty (in force from February 2003) is valid for business and economic regulations.

**The law of the Union is unique in its character:**

- it creates a special legal order as member states “*surrendered*” some of their *sovereignty* to the EU institutions;
- some of the laws created by the EU institutions are *directly applicable* to the member states and may be enforced by national courts; this mainly concerns regulations;
- in cases of conflict between national and the EU regulations, *the EU law takes precedence*.

There are some other EU law principles applicable to business regulations, such as direct effect, supremacy and subsidiarity, which have a guiding effect for SBL development.

**CONCLUSION**

It is seen that rules and regulations concerning business performance are both complex and complicated. In some states the weight allocated to laws in activities by various business sectors might be different. The

rules pertaining to company activities could be summed up in some categories: those aimed at regulating *inner activity* (e.g. company law, formation of contracts, liquidation and reorganization of firms, employment laws) and *external activity* (e.g. marketing and competition laws, real estate and mortgage, insurance and credit). Nevertheless, complexity in SBL cannot be denied; although in perspective, the EU business law is aimed at making the SBL changes into better and simpler regulations. •

## The EU new Presidency’s economic agenda

By Eugene Eteris

During first six months in 2005 the Grand Duchy of Luxembourg takes on the rotating presidency of the European Union (Internet address — [www.eu2005.lu](http://www.eu2005.lu)).

The Presidency priorities include several economic issues, probably more than any other recent EU presidencies:

- review of the Lisbon process,
- examination of the Stability and Growth Pact,
- discussion of the EU financial perspectives for 2007-2013,
- analysis of the EU internal market’s economic and social affairs,
- agricultural and fisheries, as well as food safety issues,
- sustainable development.

The Grand Duchy is one of the six founding members of the Communities and has plenty of experience in that kind of assignments; this will be the 11<sup>th</sup> time since the founding treaties were signed that this responsibility lies with Luxembourg. After the major event of the last years has been completed, e.g. the biggest in the EU history enlargement to 25 members, the new Presidency decided to concentrate on the European integration. To reinforce the integration means providing new impetus to knowledge-based society and re-launching the Lisbon



**THE CHAMBER OF DEPUTIES:** The Luxembourg Parliament.

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strategy coordinated around three pillars — economic, social and environmental.

Completion of the EU internal market remains an essential driving force in the European economic growth. In this regard, it is necessary to make additional efforts to speed up and improve transposition of the EU directives; to ensure that instruments of European integration (aimed to benefit citizens, consumers, economic operators and social partners).

The EU progress requires adequate financial resources and the new Presidency intends to reach a political agreement on the three-year program for 2004–2006 and financial perspectives for 2007–2013.

We have all possible ground to believe that the Grand Duchy could show the EU members the way to prosperity. It’s the richest EU member state; its per capita equals to about 50,000 euros, or 10 times that of Poland and almost double the per capita level in Germany or France. •



# How to talk European, but act national?

By Eugene Eteris

Two extremely rich and wealthy nations in Europe are the only two Western European states, which have resisted the temptation to join the EU. These states, Norway and Switzerland, have the highest income per capita in Europe, except the small Principality of Luxembourg. How is it that all other European nations are striving to enter the EU, and these two are not? The perspectives for the two states to join the EU are still quite unclear.

Some experts think that this wealth is the cause rather than a consequence of their abstaining from EU (e.g. The Economist, No. 8396, vol. 373, p.34). Moreover, these states can get along OK without joining “the club”; being completely independent at the same time.



The BC archives

How can it be so, one might ask? Leaders of these states have often voiced their intentions to join the Union, we have to remark in the first place. Thus, politicians in Norway tried twice to persuade its population to join the EU, although both times in vain. Instead, Norway opted to join the European Economic Area (EEA), which provided access to the EU internal market. In return, they were forced to follow the EU legislation – *acquis* – concerning free trade and competition rules. And what is more, they have to follow all the incoming EU regulations. They even provide a small contribution to the EU budget through taxation principles.

In many issues, Norway is still independent from the EU, e.g. they can opt out of the euro currency, they are free in their export and import policies, as well as along the lines of their foreign policy strands. They are free to explore their own fisheries policy, and stay within their 200 miles economic zone. A maritime nation on the European far west is

a natural outsider, never having strong ties with the continental Europe. The country’s huge oil and gas reserves provide foundation for national prosperity and generous welfare system.

Although these two states do not participate in the Union’s common agricultural

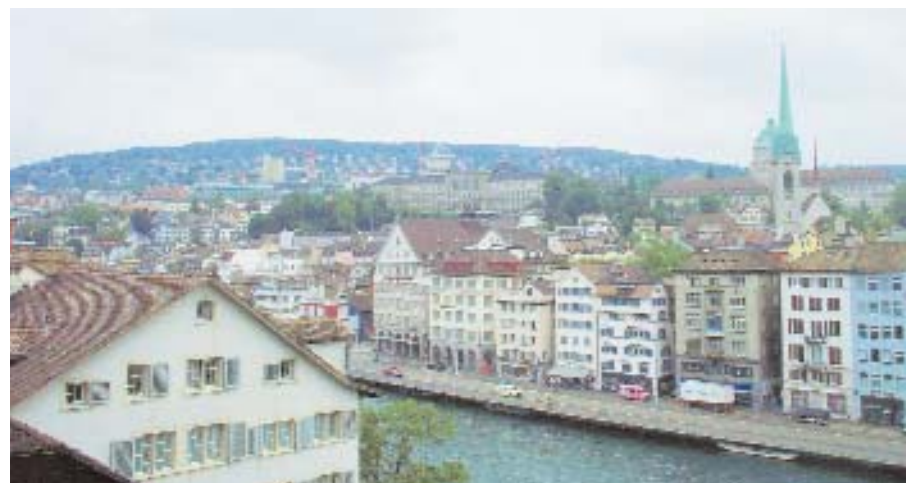
policy (CAP), they subsidize their farmers more heavily than the EU member states.

As for the Swiss, they kept their independence intact for long, i.e. a couple of years ago they joined the only international organization, the United Nations. The Swiss rejected membership in the EEA in a national referendum in 1992, which meant that the country would follow

“sector-by-sector” economic negotiations with other states. In 2001 about 76% voted against the European Union. However, Swiss politicians have successfully negotiated with the EU (since 2002) free living and working conditions in the Union for its citizens. Besides, multinational companies have made full access to the common European market. However, the Swiss can opt out of the EU legislation they do not like, e.g. limits on working hours, VAT minimum of 15%; they preserve their own financial regulations. Swiss farmers enjoy one of the world’s richest subsidies (which at the same time are transferred into higher prices for customers; on average Swiss food is 20% costlier than in France). So far, Switzerland has not suffered great consequences from resisting the EU membership; some experts think that it would not happen in the next 25 years. But, probably, exclusion does have a price: Swiss economy in recent years has grown slower than the EU average.

The perspectives for the “opposite” to the EU trade bloc – the European Free Trade Association (EFTA) consisting of 4 states (the two abovementioned plus Iceland and Liechtenstein; earlier it used to have about 10 states as members) are quite dim. What might have happened in a couple of years, if some of the 25 EU members would reject a constitutional draft, they might stay in the EU but under new kind of relationship. In addition, the EFTA possibilities could be of some value again.

Thus, the present living standards in these two countries are actually higher than the EU average; they might show the EU member states the way out of possible EU crisis. •



The BC archives

## Viktor Kalyuzhny: “We are ready to put aside

By Olga Pavuk

New Russian Ambassador in Latvia, Viktor Kalyuzhny, presented his credentials to Latvian President Vaira Vike-Freiberga on November 16, 2004. He confirmed Russian willingness to cooperate in forming mutually beneficial relations between the two countries. The BC interviewed Mr. Kalyuzhny about development of Russian-Latvian business relations.

**Mr. Ambassador, how important is the development of economic relations between our countries? Can we expect any qualitative changes from the Russian side following Latvia's accession the EU?**

It has been often declared from high rostrums in our countries that the state should serve interests of the common people. It seems to me that our peoples are interested in development of mutual trade more than anything else. We are not just partners, we are neighbors. In Russia as well as in Latvia people want first of all to lead a decent life, to feel confident about tomorrow and feel safe about future of their children. So let us work together for our peoples' interests and, finally, move from words and mutual accusations to real and good deeds and start a dialogue on the whole set of issues. I think that it could be Latvia's membership in the EU that may create a serious impetus for development of our relations. I hope that integration into such a powerful economic union will enable Latvia to take a new look at the world and Russia, in particular, and to apprehend Russia first of all as a vast consumer market for Latvian goods and also as a producer of various goods for which there is a demand in Latvia. On our part, we are ready to move ahead, ready to put aside historical resentments and build together with Latvia our common future.

**What are the priority directions in Russian-Latvian economic relations?**

I wouldn't single out any priorities in economic relations. To my mind, we need a complex systematic approach that would take into consideration interests of all parties involved. There was highly developed infrastructure for manufacturing, transit, agriculture and tourism in Latvia, even in the Soviet time. Moreover, Latvian industries have common technological background with Russia; besides, we can communicate and, most importantly, think in the same language. All this creates unique preconditions for economic integration of our countries and, consequently, foster well-being of our nations. So, let us explore our neighbor relations — on mutually profitable terms, of course.

**How the Embassy can help Russian businessmen, who want to work in Latvia?**

In market economy conditions it is impossible to dictate businessmen where to sell their products and to whom; for them economic interests stand above all. I think that the main role of the Embassy should be to create favorable entrepreneurial climate and to facilitate business contacts. We are working at present on a project to set up the Baltic Business Information Center in Riga in cooperation with the



G. Diezriņš, A.F.I.

**VIKTOR KALYUZHNY:** Born on April 18, 1947, in Sterlitamak, Bashkiria, Russia. Graduated from Ufa Oil Institute in 1970 and worked as oil engineer. Appointed first deputy minister for fuel and energy in Russian Federation in November 1998. From May 1999 – Russian fuel and energy minister. Afterwards Mr. Kalyuzhny worked as Russian deputy foreign minister and was Russian President's special representative in the Committee to settle the Caspian Sea status.

Russian Chamber of Commerce and Industry. The Center's experts would consult Russian businessmen about working conditions in Latvian market. In December 2004 we organized a meeting with the Association of Large Latvian Cities, and it was agreed that city councils in Riga, Liepaja, Daugavpils and other big cities will prepare lists of investment projects along with economic estimates for review by potential Russian investors. As an additional activity, we can talk about Embassy's diplomatic support concerning several major joint projects for implementation in Latvia. This kind of lobbying activity is a normal thing and practiced by diplomats throughout the world.

**What events the Embassy has planned for 2005 in order to promote economic relations between our countries?**

## historical resentments and move ahead”

There will be some events, of course. To my mind, the main thing here is not to tie them up in bureaucratic red tape. In 2005 we plan to organize a round-table discussion in Riga together with representatives from the Russian Union of Industrialists and Entrepreneurs, the Russian Chamber of Commerce and Industry, major companies and banks. The Embassy will also help to arrange bilateral contacts concerning specific projects, various conferences, fairs and presentations of Russian innovation achievements.

**What needs to be done by both parties to melt the ice of mutual accusations? What diplomatic “confidential tools” might be used?**

All we have to do is to rely on our common sense. I wouldn't try to find an answer to the question as to who shall be blamed for current situation in our relations. Clever men usually say that in such situations both parties share responsibility. Look! We stopped listening to and hearing each other; let's start doing something. We do not have to be afraid of discussing the most acute problems; neither do we have to fear taking steps towards each other.

Our task today is to find those sensitive spots which deter development of normal and good neighbor relations. We suggest a moratorium on mutual accusations; let's say, for at least a year, just to look at our bilateral relations from a perspective of building business-friendly environment. This is what authorities of all levels in Russia and Latvia should take as a priority. It is hard to explain why the whole Europe is

*“I hope that integration into such a powerful economic union will enable Latvia to take a new look at the world and Russia, in particular, and to apprehend Russia first of all as a vast consumer market for Latvian goods and also as a producer of various goods for which there is a demand in Latvia. On our part, we are ready to move ahead, ready to put aside historical resentments and build together with Latvia our common future.”*

willing to cooperate with Russia today, although some uncertainties still exist with a small country like Latvia. It's a kind of mystery, isn't it?

**How much time has to pass for Latvian and Russian businessmen to trade and do business together without glancing back at politicians?**

As an ambassador I probably should not say this, but Russian and Latvian businessmen have already long ceased to look at politicians, both ours and yours, and cooperate nicely. There are numerous examples to this. Our trade turnover is growing with every year, joint investment projects are being carried out. Latvian companies produce dairy products in Russia; we are ready to start assembling trucks at your production plants. Trade turnover volumes between our countries in 2004 reached USD 1.5 billion on a 25% growth. Considering the situation in our relations, stepping up bilateral economic relations is a matter of urgency as they will have greater positive effects on politics.

**At the Oil and Gas Summit in London about a year-and-a-half ago you suggested speeding up talks between Latvian and**

**Russian governments concerning Ventspils transit port issues. What is your position on this matter today?**

My position has not changed. I think that solutions to all questions must be based on principles of economic benefit. An oil refinery terminal is functioning in Lithuania's Butinge, Estonia's Tallinn port reloads more and more Russian cargos, including oil and oil products. It seems quite natural that Latvia would make use of its competitive advantages, i.e. existing oil-gas pipeline system and magnificent ports. Russian fuel and energy complex is completing the process of creating vertically integrated companies representing the whole technological chain from extraction of energy resources to their delivery, including world markets. I think that Latvia has good possibilities to take up her own niche in this process by negotiating participation of a large crude oil producer into corporate structure of her transit service companies.

*“Our task today is to find those sensitive spots which deter development of normal and good neighbor relations. We suggest a moratorium on mutual accusations; let's say, for at least a year, just to look at our bilateral relations from a perspective of building business-friendly environment. This is what authorities of all levels in Russia and Latvia should take as a priority.”*

**What is your vision of Russian-Latvian relations in transit business?**

We have to admit that Baltic states are generally a transit territory. That's a good position, considering that the Baltic Sea does not freeze. Business interests have always been present in the region. How much this interest has been supported politically and economically in the region, is a different matter. But the answer to the latter issue can give a clear picture of why Latvian-Russian transit is hardly functioning today. I think that causes for that lie in our bilateral relations and, regretfully, politics has become a hindering factor, not economics. I am deeply convinced, though, that economics and politics are two major components in any bilateral relations — they have to complement each other. It is a pity, but there is no dynamics in Latvian-Russian relations.

**What would you recommend Latvian businessmen willing to work in Russia?**

I am very much grateful to Latvian and Russian businessmen, who at these difficult times have managed to find a way to each other. I would advise Latvian businessmen to talk to their authorities the way Russian businessmen do at regular meetings with their country's President. Then, the next step would be the meetings between businessmen of two countries; I have to tell you, Russia is ready for it.

Openness and transparency are the main business objectives. The difference in Latvian-Russian business relations is that Russians work in Latvia through affiliated companies while Latvian businessmen do business in Russia without any intermediaries, openly. One should give some thought to find reasons for that. We have to remove these obstacles. •

# Cargo flows look for profitable routes

By Mikhail Iuzhikov

The fifth national trade fair “Belarus EXPO-2004” took place in the Latvian capital Riga in early November 2004. Over 110 Belarus companies representing mechanical engineering, metallurgy, electronics, oil refining, food, textile and other industries participated in the fair. The exhibition stand of *Belneftekhim* concern, the flagship of Belarus petrochemical industry, caught the eye of experts. The concern’s vice-president **Sergei Mishin** talked to the *BC* about his company.

## Mr. Mishin, could you tell us about oil and transit cargo transportation routes passing through Belarus territory?

For the ninth year in a row I have been entrusted with running the concern engaged in oil refining, supply of oil products to Belarus and oil transportation by pipelines, including the *Druzhba* pipeline known since Soviet times. During this time the distribution of cargo flows has changed dramatically. Russia chose to transport oil through its own territory and has developed own pipeline facilities. This has eliminated the issue of sending oil to Latvia’s Ventspils port; this route has been closed. Of course, this is not good for Latvia and not exactly good for us either. Nevertheless, we do understand Russia’s decision to take serious steps towards developing own pipeline transportation and the choice of directions.

Belarus which stands between oil producers and consumers has carefully watched general development trends in the oil industry, found its place on the energy market and successfully settled there. During last eight years the oil refining business in Belarus has seen significant changes: production has increased by 60% to 17.3 million tons a year, of which 1.8 million tons come from local oil fields and remaining 15.5 million tons are Russian oil sent to Belarus for refining.

In other words, everyone went its own way:

- Russia has chosen its own oil transport routes: to Primorsk, Murmansk, Caspian Sea region and China;
- Belarus has built its own pipeline system towards Poland (Adamova Zastava) with the capacity of 8 million tons crude oil a year and developed oil refining facilities inside the country.

Every year 72 million tons of Russian crude oil pass the Belarus territory in transit, moving in the following directions:

- 50 million tons go to Poland, Germany and other EU member states;

- about 4 million tons go to Lithuania;
- 18 million tons through the Ukrainian territory go to the Czech Republic, Slovakia, Hungary.

Thus, every year Belarus refines and transports 89.3 million tons of oil.

Belarus is surrounded by Russia, Latvia, Lithuania, Poland and Ukraine. That’s why Belarus is a transit country for Russia while Belarus transits pass through Latvia. Ukraine is less attractive for this purpose because the North-South direction is not popular today and main transportation routes for *Belneftekhim* products run in the East-West direction. This happened because European oil refineries in the Mediterranean region, using crude oil from North African coast, make end-products that surpass Belarus-made products by quality and therefore there are no economic grounds for Belarus to send its products to the South.

Baltic ports receive about 80% of Belarus export cargos, and some 30% percent of that goes through Latvia. The choice of the route is determined mostly by the following factors: economic interests, developed infrastructure and transportation costs. Until recently, we were sending cargos through Estonia but stopped doing this because the freight costs changed so much that we would gain more by switching to the Latvian direction and sending cargos to Ventspils and Riga. As for oil products, the best option is to send oil to Novopolotsk Oil Refinery through Vents-

*Belneftekhim* concern’s full name is *Belarus State Oil and Chemistry Concern*. It consists of more than 80 companies employing a total of 130,000 people; it contributes over 15% to Belarus GDP and makes up 20% of Belarus exports. Its products are sent to more than 170 countries. The concern’s foreign trade turnover exceeds USD 3.5 billion a year.



**SERGEI MISHIN:** Belneftekhim main transportation routes run in the East-West direction.

pils in Latvia and to Mozyr Oil Refinery through Klaipeda in Lithuania. Freight costs dictate optimum transportation routes. If Latvian transit operators, i.e. stevedores, traders and railwaymen, could create favorable conditions for producers to choose an advantageous route, cargo flows will grow. We keep working in the Lithuanian direction – through Butinge and Mazeikiai, where Russian interests are quite high.

## What kind of products does *Belneftekhim* make?

Products by Novopolotsk and Mozyr oil refineries are well-known in Europe. Diesel fuel made in Belarus is sold in the Baltic states, Poland, Germany, the United Kingdom and other European countries.

Apart from oil refining and transportation, our company makes chemical and petrochemical products, using oil refinery products as raw material. Suffice to list our main production companies in order to understand the whole range of products: *Polimer* makes high-pressure polyethylene and chemical fiber, *Grodnokhimvolokno* makes cord thread and fabrics for car industry, Grodno-based *Azot* produces nitrogen fertilizers from Russian gas, Mogilev-based *Khimvolokno* makes chemical fibers and *Minsklako-*



Belneftekhim

*kraska* makes paints and varnishes. In addition to petrochemical plants, there is a number of chemical plants: Gomel Chemical Plant which makes phosphorus fertilizers, *Belaruskali* which produces potassium fertilizers and nitrogen-phosphorus-potassium (NPK) fertilizers from local ore deposits.

Belarus exports ready-made products to the world market. During the Soviet rule the Belarus Republic was dubbed as “an assembly shop”, meaning that we were only an appendage to Russia in this sense. If we stick to the same metaphor, Russia has now become a raw-materials-supplying appendage to Belarus. The fact is that there is certain division of functions in the world, and Belarus has got the role of an assembly shop. For a long while our country was developed in a specific manner as regards production capacity and industrial potential, and this has helped us to boost oil refining by 60% in



Belneftekhim

the last eight years. But there's another side to this success — Russian oil producers had to be made interested in Belarus, in added value that their products acquire in our refineries; and our country has coped well with this task.

Belarus companies make products that meet the strict European standards. For example, *MAZ* trucks satisfy Euro-3 requirements, and *Belarus* tractor pre-



Belneftekhim

sented at the fair is much better than the Russian-made *Kirovets* in efficiency, power and economy. Let's take another example: Russia sells high-sulfur diesel fuel, which foreigners have nicknamed as “Russian gas-oil”; Belarus makes European-grade diesel even for its domestic market. These all are achievements by our “assembly shop”.

#### **Will the fair in Riga help increase trade with Baltic states?**

National fairs, as a rule, are held for the purpose of demonstrating potential of the country and presenting it as a producer and trade partner. Actually, it does not matter whether there is any demand on the market for the country hosting the fair or not. It is important to show one's products, promote it on the common European market and attract capital for developing national producers. On the other hand, Belarus is situated in the center of Europe and does not have direct access to the sea. This means that we are rather restricted in our freedom of transportation for our goods while our neighboring countries are not. But as we have

been brought together geographically, we must be friends and build mutually favorable relations, promoting our economic interests together. Therefore we are interested in Latvia not so much as a market but as a country with great transport and transit potential that offers cargo transportation opportunities at lower costs. But Latvia is not the only country through which Belarus sends its exports.

The Baltic region is a very small market with just a little over seven million people (for comparison, Belarus population is 9.8 million). Yet, although volatile, trade between Belarus and the three Baltic states shows a general upward trend. Truly, there have been cases when Latvian companies purchased Belarus goods allegedly for sale in Latvia but actually re-sold them to third countries. It cannot really be called speculative dealing; such cases rather rep-



Belneftekhim

resent deficiencies in our trade system. *Belneftekhim* trade with Latvia looks rather moderate at USD 109 million or just 0.03% of the concern's total exports in eight months of 2004.

#### **What are the concern's future plans?**

*Belneftekhim* has representation offices in Russia (Moscow), Latvia (Riga), Ukraine (Kiev) and Germany (Frankfurt am Main). We are now thinking about opening a representation in China which is interesting for its huge and developing market. Transportation of cargos to China is planned both by railway and sea, using the Trans-Siberian Railway and the Baltic ports. •

**Mozyr Oil Refinery** with annual capacity of 16 million tons a year is located in Gomel region in southern Belarus. There is a pipeline system to deliver products to European countries; refinery receives oil through two pipelines: Russian oil is supplied by *Druzhba* pipeline and local Belarus oil comes from deposits in Retchitsa.

**Novopolotsk oil transportation line *Druzhba*** transports oil through the *Druzhba* pipeline system from oil fields in Tyumen North, Tatarstan Republic in Russia, as well as from Trans-Volga and Bashkiria regions to consumers in North Europe, Latvia and Lithuania.

**Novopolotsk Oil Refinery** or *Naftan* refines 12 million tons of crude oil a year but its designed capacity is 24 million tons. The oil refinery receives oil from the *Druzhba* pipeline and distributes finished products by pipelines, railway and motor transport.

#### **From the BC files:**

In October 2004 the Belarus government passed a decision to raise export duties on oil and oil products, following a similar initiative by Russia. Now the Belarus tax on crude oil has more than doubled, i.e. to USD 878 per ton from previous USD 41.6 per ton. The oil product export tax was also increased to USD 37.5 per ton from the previous USD 30.5 per ton.

**GROSS DOMESTIC PRODUCT**

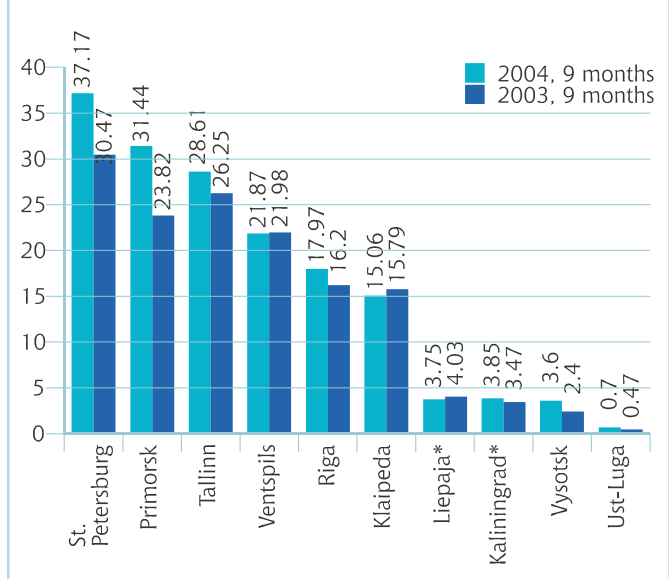
	Latvia	Lithuania	Estonia
GDP at current prices			
2003, mln EUR	9802.0	16271.0	7423.0
Q1 2004	2382.0	3812.0	2029.0
Q2 2004	2681.0	4470.0	2271.0
GDP at constant prices, %			
2003, mln EUR	107.5	109.7	105.1
over Q1 2004	108.8	107.1	106.8
over Q2 2004	107.7	107.3	105.9
GDP per capita, EUR			
2002	4174	4302	5082
2003	4216	4711	5942

Source: The Latvian Central Statistics Office.

**CONSUMER PRICE CHANGES, OCTOBER 2004**

	As % of September 2004	As % of October 2003
Latvia	0.4	7.2
Lithuania	0.1	3.3
Estonia	0.3	4.1

Source: The Latvian Central Statistics Office.

**CARGO TURNOVER AT PORTS ON THE BALTIC SEA NORTH-WESTERN COAST, MLN T**

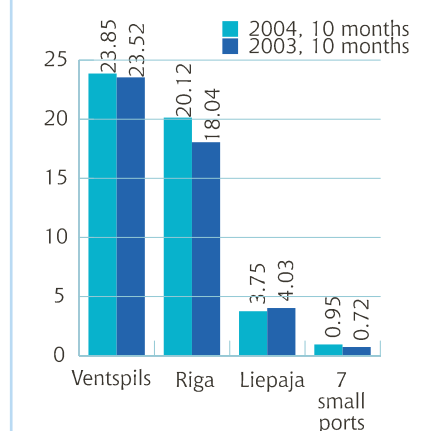
\*10 months.

Source: BNS, port information, SeaNews.

**AVERAGE PRICES FOR GOODS AND SERVICES, EUR PER KG, 2004**

	Latvia			Lithuania			Estonia		
	April	July	October	April	July	October	April	July	October
Beef	2.45	2.51	2.46	2.20	2.92	2.49	2.58	2.52	2.54
Pork	2.57	2.60	2.55	2.43	2.83	2.68	3.21	3.13	3.03
Butter	2.92	3.00	3.10	3.40	3.49	3.69	3.36	3.58	3.70
Milk, 2.5% of fat, 1l	0.46	0.47	0.45	0.47	0.47	0.45	0.45	0.44	0.44
Eggs, 10 pcs	0.93	0.90	0.89	0.76	0.64	0.63	0.91	0.88	0.87
Rye bread	0.67	0.68	0.68	0.62	0.66	0.65	0.80	0.81	0.82
Sugar	1.00	0.99	0.98	0.94	0.98	0.96	0.46	1.03	1.03
Potatoes	0.21	0.27	0.19	0.19	0.41	0.19	0.34	0.51	0.31
Vodka 40% alc. vol., 1l	7.98	7.75	7.66	6.96	6.97	7.13	8.36	8.34	8.79
Petrol A-95, 1l	0.64	0.69	0.73	0.73	0.78	0.80	0.62	0.69	0.71
Electricity, per 100 kWh	6.85	6.76	6.68	8.40	8.40	8.40	7.00	7.00	7.00

Source: The Latvian Central Statistics Office.

**CARGO TURNOVER IN PORTS, MLN T**

Source: BNS.

**INDUSTRIAL OUTPUT INDEX, AT CONSTANT PRICES, JANUARY-SEPTEMBER 2004**

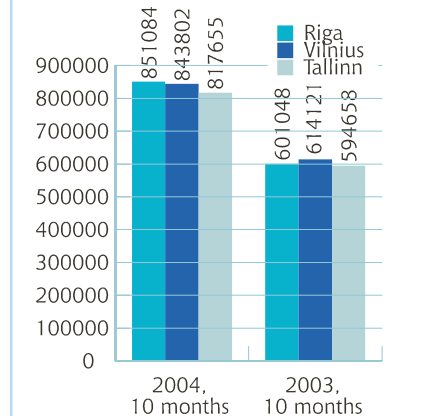
	Latvia	Lithuania	Estonia
% over the same period 2003	106.6	111.3	107.2

Source: The Latvian Central Statistics Office.

**BANK CARDS IN THE BALTIC STATES**

H1 2004	Latvia	Lithuania	Estonia
Cards issued, mln cards	1.237	2.36	1.245
Per capita, cards*	0.54	0.65	0.93
Number of POS-terminals	13582	13752	10308
Number of ATMs	865	1010	776
Number of transactions, mln	47.0	60.0	97.0
Number of transactions per card	36.15	83.62	31.58

\* In the EU — 1.15 cards.  
Source: BankServiss.

**BALTIC AIRPORTS, NUMBER OF PASSENGERS**

Source: BNS.

**NATO AND EU SUPPORTERS IN THE BALTIC STATES**

% of population	Latvia	Lithuania	Estonia
<b>Know about the EU</b>	95	90	99
Have positive attitude to the EU	37	64	49
Have neutral attitude to the EU	43	27	33
Have negative attitude to the EU	16	5	13
<b>Know about NATO</b>	92	90	97
Have positive attitude to NATO	38	51	44
Have neutral attitude to NATO	45	35	37
Have negative attitude to NATO	12	8	10

The UN is the most well-known international organization in the world. After polling over 50,000 people in different countries it was established that the UN was known to 84% of respondents, NATO to 72%, the EU to 67%, and the OSCE to 36%. The poll was conducted in July-August 2004 in 60 world countries.

Source: Voice of the People 2004/ Gallup International.

**CARGO TURNOVER IN BALTIC PORTS, THOU T**

	Latvia	Lithuania	Estonia
January-October 2004	48663.8	23337.5	38913.3
January-October 2003	46319.1	26567.4	47664.3

Source: The Latvian Central Statistics Office.

**NUMBER OF CAR FIRST REGISTRATION**

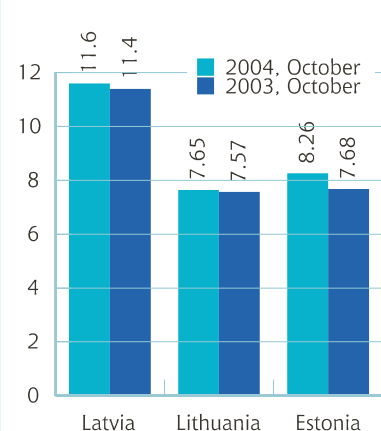
	Latvia	Lithuania	Estonia
January-October 2004	48559	114255	39752
January-October 2003	42224	99237	35908

Source: The Latvian Central Statistics Office.

**GENERAL GOVERNMENT DEBT**

at the end of quarter	Latvia	Lithuania	Estonia
<b>total, mln EUR</b>			
Q2 2004	1398.0	2366.0	258.0
Q2 2003	1272.0	2600.0	232.0
<b>Per capita, EUR</b>			
Q2 2004	605.0	688.0	-
Q2 2003	547.0	753.0	-

Source: The Latvian Central Statistics Office.

**BALTIC COMMERCIAL BANKS, ASSETS IN EUR B, OCTOBER 2004**

Source: Latvijas Unibanka.

**WAGES, EUR**

Monthly average, Q3 2004	Latvia	Lithuania	Estonia
<b>Gross wage</b>	318.0	365.0	449.0
% over Q3 2003	108.4	107.3	109.2
<b>Min. wage, October 2004</b>	120.0	145.0	159.0
% over October 2003	114.3	111.1	114.8
<b>Old-age pension, Q3 2004</b>	106.0	110.0	141.0
% over Q3 2003	109.7	110.0	101.1

Source: The Latvian Central Statistics Office.

**FOREIGN TRADE, MLN EUR**

Q3 2004	Latvia	Lithuania	Estonia
<b>Export (FOB):</b>			
Total	829.0	1930.0	1213.0
to EU-25	621.0	1342.0	936.0
% of total	75.0	70.0	77.0
<b>Import (CIF):</b>			
Total	1466.0	2508.0	1764.0
from EU-25	1136.0	1560.0	1312.0
% of total	78.0	62.0	74.0
Balance of foreign trade	-636.0	-578.0	-552.0

Source: The Latvian Central Statistics Office.

**FOREIGN DIRECT INVESTMENTS**

At the end of quarter	Latvia	Lithuania	Estonia
<b>FDI, stock, total, mln EUR</b>			
Q2 2004	3137.0	4245.0	5901.0
Q2 2003	2687.0	4068.0	4712.0
<b>Per capita, EUR</b>			
Q2 2004	1357.0	1235.0	4368.0
Q2 2003	1156.0	1178.0	3475.0
<b>FDI, flows, mln EUR</b>			
Q2 2004	154.0	196.0	228.0
Q2 2003	82.0	123.0	154.0
<b>% of GDP</b>			
Q2 2004	5.7	4.4	10.0
Q2 2003	3.4	3.0	8.0

Source: The Latvian Central Statistics Office.

**DEGREE OF CORRUPTION IN NATIONAL ORGANIZATIONS AND SECTORS\***

Country	Political parties	Parliament	Judiciary	Police	Private sector	Tax revenue	Customs	Media	Medical services	Education system	Registry and permit services	Utilities	Military	Non-governmental organizations	Religious bodies
Estonia	3.5	3.1	3.1	2.9	3.1	2.5	3.0	2.8	2.7	2.4	2.9	2.4	2.0	2.8	1.7
Latvia	4.2	4.0	4.1	4.0	3.7	3.5	4.1	3.1	3.6	3.0	3.1	2.3	2.5	2.4	2.0
Lithuania	4.2	4.2	4.2	4.1	3.5	3.5	4.3	3.2	3.8	3.0	2.9	2.7	2.4	2.8	2.3
Россия	3.8	3.7	3.7	4.0	3.6	3.4	3.5	3.4	3.4	3.5	3.2	2.7	3.4	2.7	2.1

\*5 — very corrupted, 1 — uncorrupted

Source: Transparency International.



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