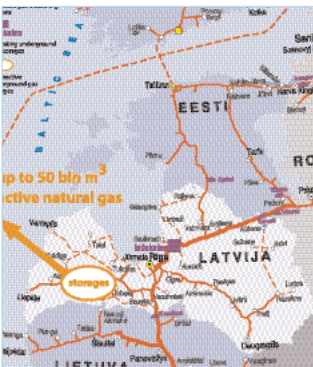




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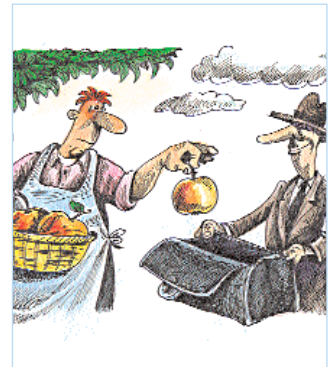
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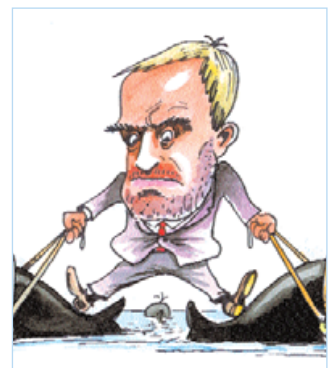
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INTERNATIONAL MAGAZINE  
FOR DECISION MAKERS

**The  
BAL TIC  
COURSE**

Published quarterly since 1996  
Autumn 2006 (No. 23)

Our readers are in Latvia, Lithuania, Estonia, the CIS countries,  
Western, Central and North Europe, the US, Canada,  
Latin America, Israel, etc.

*The Baltic Course* was registered in the Republic of Latvia  
Company Register on March 1, 1996.

Registration number 000701928

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**Chief Designer:** Peter Vladimirov

**Photo:** A. Jermolinskij, J. Upitis, I. Dimenstein's archive,  
press-photo

Printed by Veiters  
No fixed price

The editorial board is in no way responsible for the content or  
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It seems that a good tradition is being established in organising *BC's* together with the Baltic International Academy's "round tables" on contemporary European and Baltic States issues. For the second time the "round-table" was devoted to workers' mobility problems in the European Union. With the aim of developing a better understanding of mobility opportunities, the *BC's* initiative provided solid exchange of information about the European Year of Workers' Mobility in the EU and the Baltic States, and the European Job Fair. The round table participants' opinion is published in the magazine showing specific problem's resolutions in the Baltics, where migration has caused serious employment drawbacks.

The following two review themes have been chosen for this issue, i.e. first, the new industrial and business-parks development prospects in the Baltics and, second, contemporary situation in the Baltic resorts with an additional attention to Spa-resorts. As to the EU energy issues, we publish the second article in our set of articles, this time on some approaches to modern critical energy situation in the EU.

Our traditional autumn review of the banking-financial sector is devoted in this issue to active expansion from the Northern Scandinavian banking groups towards the Baltic States.

We publish a report on the events at 10<sup>th</sup> St. Petersburg International forum, where our magazine got a commemorative prize delivered to the *BC's* editor-in-chief by the Russian Minister for Economic Development.

We'd like to attract our readers' attention to the second article on modern Latvian economic history, which is published in this *BC's* issue. This time it is devoted to "specific" privatization patterns in a group of *Ave Lat* companies; the magazine's editor-in-chief, Dr. **Olga Pavuk**, writes the set of articles on these historic issues.

**Eugene Eteris,**  
**The BC's International Editor**

### ASIA MUST NOT BE FORGOTTEN



Speaking at the Asia-Europe (ASEM) meeting in Helsinki in September, Lithuanian President **Valdas Adamkus** underlined the importance of Asian region for his country. The theme of the 2006 ASEM summit was *Global Challenges — Joint Responses*. Heads of state and government from 25 EU member states and 13 Asian nations as well as the European Commission's President, **Hose Manuel Barroso** attended the summit.

"Even though Lithuania's foreign policy is oriented towards Eastern Europe, we must not forget about other world regions. Insufficient knowledge about developments in other regions can isolate us from global processes and then we would be completely isolated," said Adamkus.

Currently there isn't much economic cooperation between Lithuania and Asia: only 6% of the total foreign trade. Asian countries' investments in Lithuania make up for 0.7% of all foreign investments in the country.

### ESTONIA ANNULS RAILWAY PRIVATIZATION

Estonian government decided to begin negotiations about terminating the agreement on privatization of *Eesti Raudtee* and buying back all of the railway company's shares. Estonian Prime Minister **Andrus Ansip** said that the government's intention was to terminate the agreement on privatization of the controlling shares' stake in *Eesti Raudtee* upon mutual consent by the parties. The costs related to termination of the agreement would be covered from the supplementary part of the state budget.

### BALTIC TRADE UNIONS SET UP THE COUNCIL

The Baltic Trade Union Coordinating Council has been founded in Riga. The Council will be coordinating activities of the Secretariat of the Public Services and their trade unions, which belong to the European Federation of Public Service Unions. The Baltic Trade Union Coordinating Council unites 9 trade union organizations from Lithuania, Latvia and Estonia.

### YOUNGEST PRESIDENT IN THE EU

Three rounds of presidential elections were held in Estonian parliament in August 28-29, though none of the two candidates won the required majority of votes. Then an electoral college, consisted of 101 lawmakers and 246 municipal leaders, voted on the two presidential



candidates in September and, surprisingly, the Social Democrat's candidate, the MEP **Toomas Hendrik Ilves**, scored a victory over the incumbent Estonian president **Arnold Ruutel**. The president in Estonia is elected for a five-year term. Ruutel's term in the office expired on the 8<sup>th</sup> of October. Mr. Ilves, born in 1953 in Stockholm in the family of Estonian refugees was educated in the US. He has worked as a journalist for Radio Free Europe. After restoration of Estonia's independence in 1991 he became the Estonian ambassador to the US. Later he served as the Estonian foreign minister and was elected to the European Parliament. Ilves speaks Estonian, Swedish and English. Mr. Ilves is known also for his controversial comments on the Baltic's unity. He thinks that Estonia and Latvia should belong to the Nordic region while Lithuania should stick to the coalition with Poland. It seems, presently, that English will finally become a working language among all three Baltic States' presidents. Lithuanian President **Valdas Adamkus** has remained the only one to speak Russian. Even though president Ilves in recent years demonstrated a balanced approach to relations with Russia, the Russian lawmakers commenting on election of a new Estonian president pointed out that it will be more difficult to reach an agreement with him.

### HIGH GUEST FROM CHINA



A delegation from China's Council for the Promotion of International Trade (CCPIT) headed by its chairman **Wan Jifei** visited Latvia in September. The CCPIT is the largest Chinese organization representing local business interests. It was the first visit of such high-ranking Chinese representatives to the Baltic States.

The six Chinese delegates visited Latvia at the invitation of the Latvian Chamber of Commerce and Industry (LTRK) and Wan Jifei had talks with LTRK director-general **Janis Leja**. It was decided to organize an annual forum for business people of both countries. The likely participants would represent port management, shipping business, stevedores and industrialists.

The Chinese delegation also met with Latvian Prime Minister **Aigars Kalvitis** and the Economics Ministry's State secretary **Kaspars Gerhards** and discussed Latvian-Chinese economic partnership, as well as prospects for further cooperation.

When asked about China's interest in Latvia, the CCPIT's chairman answered: "Our business people regard Riga port as one of the most attractive places in the Baltics, especially on the way to the Northern Europe."

Representatives of both countries pointed out that it was only the first meeting. Latvian business delegation will make a return visit to China in November and meet with local business representatives there.

### USA WILL HELP LATVIA WITH PORT SECURITY

Latvia will receive from the US a grant worth 390,700 dollars for improving security at the Latvian ports. The ultimate purpose of the project is to increase the US exports to the Baltic region. The US Trade and Development Agency proposed the grant's idea and a study on security issues in Latvian ports. A similar security improvement project has been carried out in Lithuania port of Klaipeda worth 415,000 dollars.

### AN AWARD FINDS THE RECIPIENT



Latvian President **Vaira Vike-Freiberga** on the 22<sup>nd</sup> of August presented **Boris Yeltsin**, the first Russian Federation president with Latvia's top national award, the Tri-Star Order, Class I. Speaking at the award ceremony, Latvian president said that the events in August 1991 in which Yeltsin took an active part changed the course of history and future generations will be grateful to him for that.

Former Russian president said that dozens of problems in Latvian-Russian relations have already been solved and only two were left: the problem of Russian-speaking people living in Latvia and the problem of delimitating national borders between Latvia and Russia.

Yeltsin also apologized for turning down the Tri-Star Order, when Latvia first awarded it to him in February 2000. He said it was a sort of misunderstanding for which the diplomats were to be blamed for, but this misunderstanding was corrected in May 2005 when Latvian president met B. Yeltsin in Moscow.

### GLOBALIZATION BRINGS TOGETHER LITHUANIA AND CHINA

After concluding his working visit to the USA in September, Lithuanian President, **Valdas Adamkus** went to China with the official visit. Lithuanian president discussed in Shanghai the cooperation possibilities with the city vice-mayor, **Tang Dengjie**. Addressing the business forum "Discover Lithuania: the Gate to Europe" in Beijing president Adamkus said that economic globalization had brought closer distant countries and formed strong links between them. China is becoming a very important EU partner in various fields of economics, politics and culture. "Lithuania as the new EU member and China which has influenced economic dynamics across the world must discover each other anew," said Lithuanian president.

China and Lithuania are ready to strengthen friendly contacts and expand mutually fruitful cooperation, Chinese President **Hu Jintao** and Lithuanian President **Valdas Adamkus** announced at the meeting in Beijing.

### BALTIC RUSSIAN INSTITUTE TURNED INTO AN ACADEMY

The Latvian Cabinet of Ministers in August approved the Constitution of the Baltic International Academy (BIA). The decision about renaming the Baltic Russian Institute (BRI) was made at the Institute's constitutional assembly in



October 2005. The name's change was due to the fact that 500 out of 9,000 students are foreigners from 15 countries. The higher education establishment employs over 700 lecturers; the *BC's* editor-in-chief is among them.

### BALTIC STATES CONSTRUCT MORE

The Baltic states rank among the top three EU member states in terms of construction growth. According to the *Eurostat* figures, Estonia showed the largest growth increase in construction during first quarter of 2006, i.e. by 23.8% as compared to the same period last year. Lithuania was not far behind with a 22% growth and Latvia was on the third place with 17% growth.

Construction has increased in 14 out of 25 EU member states while there was a decline in six member states. Construction output fell mostly in Spain (by 4%), Germany (by 4.3%) and in Portugal (by 3.8%). In the EU-25, the construction volumes reduced by 0.8% in the first quarter of 2006, and fell by 1.3% in the euro-area.

### NUCLEAR REACTOR REPLACED BY CYCLOTRON CENTER

Latvian Cabinet of Ministers' committee has upheld the idea of organizing a cyclotron center in the territory of the former Salaspils nuclear reactor. The equipment for making medicines enriched with iodine-123 heavy substances will be used in cancer diagnostics and therapy. The International Atomic Energy Agency (IAEA) has approved the construction of the cyclotron center.

### LATVIAN FASHION DESIGNER'S AGAIN IN PARIS



The annual fashion show "Salon du Pret-a-Porter, Paris 2006" featured for a week in September a collection by Latvian fashion designer **Anna Osmushkina**. Mrs. A. Osmushkina was the only Baltic representative at this show. Her first collection was presented in Paris already in 1999.

The fashion show was organized on 25,000 sq.m floor-space and attracted over 1,000 participants from 40 world countries representing 1,500 brands. About 43,000 people visited the show, including buyers and clients from different parts of the world such as the US, Japan, Russia, the United Arab Emirates, China, etc.

Unexpectedly, Russian buyers took interest in the A. Osmushkina's collection, which suggested that the Latvian fashion designer has won wide recognition. Cautious Japanese, apparently having had enough of the French fashion, also found in the Latvian fashion designer some creative aspect being attractive for the Rising Sun's Land.

Once A. Osmushkina had won recognition abroad, the Latvian authorities also became interested in her work. Thus, Riga City Council assisted in covering some of her travel costs; therefore *Anna Osmushkina Fashion House (AOFH)* stand was virtually overflowing with informative materials about Latvian capital. On the first day of the fashion show **Diana Lappuke**, wife of the Latvian Ambassador in France, visited the AOFH stand. Latvian ambassador, **Ronalds Lappuke**, offered moral support to the Latvian fashion designer.

### ADVANCING LIBERTY PRIZE

Estonian ex-premier **Mart Laar** has won the Milton Friedman Prize for Advancing Liberty awarded by the Cato Institute on biannual basis. Mr. Laar received the prize with the accompanying 500,000 dollars cash award during a ceremony in Chicago.


 BALTIJAS  
STARPTAUTISKĀ  
AKADEMIJA

## Labour market: economic, legal, psychological and social aspects

By **Olga Pavuk**,  
Professor, BIA

The Riga-based Baltic International Academy (BIA) hosted a round-table of lecturers and master students from European universities, as well as businessmen to discuss vital labour market issues. The meeting was held to commemorate the European Year of Workers' Mobility organized by the European Commission, and the first European Job Fair which was to take place on 29-30 September 2006 in more than 200 cities across the EU.

The *Baltic Course* magazine was the round-table's co-organizer together with the BIA, its moderator, by tradition, was **Olga Pavuk**, the BIA's professor, (see previous round-table's account in the *BC-22*).

### FROM UNEMPLOYMENT TO LABOUR DEFICIT

Until recently unemployment in the Baltic States as well as labour migration have been the main labour market problems. Today the national statistics shows a certain increase in employment, while businessmen complain about serious labour shortage not only in construction but also in production, transport industry and service sectors.

For example, over half of the offers for unemployed people on the Lithuanian Labour Exchange are vacancies in the manufacturing and service sectors. The range of offers in the two sectors in the first half of 2006 has increased by 6 per cent compared to the same period in 2005. The labour demand has remained the lowest in agriculture with the number of vacancies having reduced by 21 per cent on a year-by-year basis. Lithuanian Labour Exchange has registered about 18,000 vacancies in the ten most demanded professions, but only 10,000 applications were received.

Employers in the Latvian capital, Riga mostly need shop assistants, according to a survey carried out by Riga regional branch in the National Employ-

ment Agency. Currently there are 153 sales assistant vacancies registered on the labour market. Unskilled workers (1107 vacancies) are the next category, followed by plasterers (77 vacancies). In addition, in Riga there is a shortage of at least 57 concrete workers, 55 truck drivers, 51 carpenters, 50 train stewards, 50 cooks, 46 security guards, 45 construc-



tion workers, 43 stone masons, 41 processing industry workers, 40 seamstresses, 39 painting specialists, 37 road building workers, 34 bartenders, etc. In general, there are 2,196 vacancies in 225 workers' professions in Riga.

A great labour deficit is witnessed among Latvian mechanical engineers and metalworkers' sector, which currently employs about 32,600 people, but there is a shortage of 3,000 specialists. *Liepajas*

*metalurģis* metalworking plant has 70 vacancies, all involving heavy labour force, such as furnace operators, crane operators, steel-makers, fitters, etc. The *Liepajas metalurģis*' administration has turned to the National Employment Agency with a request to optimize procedures for bringing guest workers to Latvia.

Estonian Economic Minister, **Edgar Savisaar** said that it was mostly ship-building companies and construction firms, which addressed the ministry with the labour force imports' inquiry. "Most urgent is an issue of qualified labour-force and specialist workers," said Savisaar addressing national parliament. He named three shipyards, which needed imported labour, i.e. Dutch-owned *Baltic Ship Repairers (BLRT)*, *Loksa Shipyard* and *SRC Uusehitused*, these are the shipyards which construct tankers for Scandinavian companies.

Experts expect the labour force crisis to last for at least the next five years. Universities are not in a position to ensure maximum inflow of graduate specialists for these sectors. Even though higher education institutions in Latvia provided the market with 419 graduates in the above-mentioned sectors in 2005 and about 500 in 2006, not many young people are willing to enter studies in metalworking and mechanical engineering.

Experts think that it would be better to address young energetic people currently leaving Latvia for a better life and work abroad than to immigrants and guest workers.

The Polish government has reached an interesting solution in order to substitute for losses on the labour market caused by migration. Now many industries will be able to employ convicts in unskilled labour at an hourly rate of 0.5 dollar.

### WAGES BELOW SUBSISTENCE MINIMUM

A typical trend occurred in the Baltics' labour market, i.e. employers often offer wages below the subsistence minimum. For example, according to the analysis of job vacancies commissioned by the National Employment Agency in Riga, this picture is typical in 29 per cent of companies.

According to the Latvian Central Statistics Office, the monthly subsistence minimum in Latvia was 118.27 lats in July, which means that the gross wage should be 161.57 lats. Yet, 29 per cent of employers in Riga offer gross wages below 200 lats, including 5 per cent companies that

offer wages below 100 lats. Monthly wages of 200-300 lats are offered by 34 per cent of employers, 300-400 lats are offered by 16 per cent of companies, while only 6 per cent offer 400-500 lats and 5 per cent — more than 500 lats.

Only 28 per cent of employers pay health insurance contributions, 36 per cent provide for additional training facilities, 5 per cent suggest payments for mobile phones, 11 per cent of companies offer additional holidays and 16 per cent some other bonuses.

### WAGE INCREASE AND LAYOFFS

Another trend has appeared in Estonia. Steeply rising wages make local production costly for foreign businesses, therefore manufacturing industries in Estonia often face layoffs. First indications of this trend were observed in sewing shops' closure in Mustvea and oil shale mines in Ida-Virumaa, reported Estonian daily *Eesti Päevaleht*.

Press secretary, **Erko Vanatalu** in Estonian Labour Market Agency argued that in the miners' case we could acknowledge a good cooperation between the employer and the labour exchange, i.e. miners were re-trained quickly; there were some examples when former miners' were successfully trained as cooks.

The sewing shop's closure in Mustvea is an opposite example when hundreds of women have been laid off; it can serve as a warning that such situations can be repeated somewhere else in future. In that case the explanation was simple, the Norwegian sewing shop's owner decided to stop production because of the high costs.

"There is a problem in Estonia: labour costs are increasing in certain sectors while productivity does not. First of all this trend can be seen in sewing industry and furniture production", said **Urmas Varblane**, lecturer at Economy Faculty in Tarty University. He added: "we have to raise wages in these sectors but it can't be done because productivity has not grown adequately. Thus, it is easier for a foreign investor to leave Estonia and move production to another country."

### GUEST WORKERS: URGENTLY WANTED

"The issue of eradicating "black wages"; i.e. cash wages in envelopes to avoid paying taxes, which Latvian government is presently leading, is less urgent than the shortage of labour force. If we loose qualified labour, there simply

won't be anybody to fight with. We are waiting for an urgent and quick government's decision on working visas for immigrant workers of various qualifications", said *MONO ITC Latvija's* director, **Lembit Korp**. "Even today our truckers are forced to take their cars to perform repair works in Estonia, Lithuania or Poland because of three-week's queues at our service shops (for Mercedes-Benz repairs, for example). There are not enough people to work in two shifts; therefore we have to switch to one-and-a-half shift service. During 3-4 years that we have been listed on the labour exchange, not a single serviceman, welder or repairman has turned up here", he concluded.

It is well known that many companies invite workers for a three-month period using tourist visas. More and more frequently this practice is being used in trucking business. Then comes the question: why do businessmen have to wriggle around, trying to find loopholes in the law instead of going the straight way?

### TIME TO SET UP TRADE UNIONS

A growing number of businessmen making legitimate deals are reaching the conclusion that there is a need to revive trade unions. Labour shortage enables those in urgent and needed qualifications to dictate their terms in employment and payment. For example, there are no trade unions in Latvian auto-carriers' market with about 700 private companies and enormous drivers' deficiency. Professional long-distance drivers have not been trained in Latvia since 1990. Transport companies say that in five years' time there will be simply no one to sit behind the wheel of a truck. There are plenty of contracts in this sector but companies have to reduce the trucks' fleet because of shortage of drivers. Truckers see a way out in establishing trade unions, which in collective agreements can specify wage payments for a given period of time.

### AGAINST GENDER DISCRIMINATION

In the meantime, Latvian parliament has upheld amendments to the Labour Law, which prohibit gender discrimination in employment. The 100-members parliament passed the bill with 46 votes for and 35 votes against with three abstentions.

These and other problems on the labour market and their likely solutions were the themes for discussion at the round-table. The round-table participants' short reviews are published in the present *BC's* issue. •

### Comment



By **Vladimir Gurov**,  
Professor, BIA

In the growing EU-25 labour market the migration issues of highly qualified labour, i.e. people with university degrees, has become particularly vital. On one hand, "brain-drain" is a negative impulse for national economic growth for any country. On another hand, this process can indirectly signify the quality of Latvian post-graduate education on the European market, facilitate qualitative changes in the employment structures and increase efficiency in the use of labour resources.

At present, the so-called "workers" and "servicemen" professions dominate Latvian labour export. To my mind, it is a sign of lacking adequate competitive abilities in the national higher education field.

Several reasons stay behind it. One of the main reason is insufficient number of study modules and programs in Latvian universities delivered in the leading European business languages, e.g. English, German, Russian and Spanish. Relatively weak and often formal "internationalization" of Latvian university education often prevents graduated specialists to become an important export item in national economy.

Although such "commodity" can easily become a solid source of budget revenues.

In addition, the state support for the Latvian higher education export (on a national program level) could also provide an impetus in establishing direct private business contacts contributing to influx of direct investments into the national economy. •

## An “old Europe’s” opinion

By Eugene Eteris,  
*European Integration Institute, Denmark*

Labour market regulations, although with profound European states’ peculiarities, are definitely having certain common features. The latter’s interdependence is defined by a chain of integral interconnections. Opponents of migration are gaining strength; this time they turn to economics to argue that migrants make natives worse off. But the EU realities do not match these claims.

The free movement of people and workers is one of the four fundamental freedoms provided for in the EU acqui; it comes alongside the free movement of goods, services and capital. The recent much discussed Service Directive was aimed at resolving the problems in the field of freedom of people’s movement. It’s has become apparent that the EU members were not at all unanimous about the problem’s resolution. It seems although that the states have agreed on the EU various funds’ role in this regard, in particular the EU Social Fund. Another important instrument, i.e. the priorities each country put forward in formulating its models for economic development.

### WORKERS MIGRATION: ECONOMIC ASPECTS

Opponents of migration are gaining strength turning to economics to argue that migrants make natives worse off. Thus the rhetoric is less concentrated on history, race and cultural aspects of migration as soon as the EU realities do not match these claims. Academic studies suggest that countries, which opened the borders for migrants, have lower unemployment levels. The migrants do not necessarily cut wages for locals, though there are examples of the opposite.

An age-old argument that immigrants come for health benefits and social security is not true. The British Home Office, according to *The Financial*

*Times*, discovered that migrants pay 2.5 bln pounds more in taxes than the benefits they receive. Migrants are also net contributors to pension funds being of working age and supporting creaky public pension systems in western aging economies. The real economic value of migrants, concluded the British daily, lies in the dynamism, innovation and drive they bring to the host countries (the migration trends in the UK are seen in the table below).

There is another side of the problem: the number of East Europeans in British prison has more than trebled since June 2004; most of the criminals in Denmark are foreigners.

Possible solution for cooling the overheated growth in the Baltic states, in particular in Estonia and Latvia, could be opening their labour market to migrants. But neither governments nor politicians have the vision or grit to push that through. Deeper reforms are needed if the Baltics are to stay ahead as their labour costs rise, as well as emphasis is needed on quality, flexibility and innovation. Education is mediocre even by the dire standards of continental Europe.

### TO MAKE A DEAL

The mentioned Service Directive, the final decision on it is expected at the end of the year, is greatly regarded by most as a serious instrument in resolving labour market problems.

### NUMBER OF OVERSEAS NATIONALS ENTERING THE UK AND ALLOCATED A NATIONAL INSURANCE NUMBER, TH

2002-2003		2005-2006	
India	25.0	Poland	171.0
Australia	18.9	India	46.0
South Africa	18.6	Lithuania	30.5
Pakistan	16.8	Slovakia	26.4
France	13.8	South Africa	24.0
Iraq	10.1	Latvia	14.2
Portugal	9.8	Germany	13.3

Source: DWP & *The Financial Times*, July 23, 2006.



But the “old EU states”, at least some of them, impose their own restrictions. Most restrictive seems to be the Danish ones, i.e. “eastern agreements” concluded among main political parties and trade unions about workers migration. This “agreement” is in fact a law adopted by the Danish Parliament in 2004 and requires that all workers from the “new eastern states” be employed in the country on the rules similar to those for locals. Of course, the working permit is required for entering the country. During the last two years these agreements changed a bit in order to relax the strict requirements and opening up the economy sectors most in need for new workforce.

More than a dozen “old” EU states have adopted employment curbs to avoid being overwhelmed by cheaper workers, denying new EU members the basic right of freedom of movement across the continent. The new EU states wanted to change the patterns of the classic employment guide (*Freedom of movement of persons: a practitioner’s handbook*. Ed. Joanna Apap. — Kluwer Law Internat., Martinus Nijhoff Pub. The Netherlands, 2002).

### MODELS FOR ECONOMICS AND LABOUR

Some experts argue that labour market problems, both in separate countries and the EU in general, have become the functions of the main economic development directions. Therefore several factors shall be taken into consideration, such as



taxation, structural changes in economy, innovation strategy, etc. Presently, very influential are the so-called social aspects of the welfare state, for example, working time reduction in the old EU states. Thus, compared to the beginning of 1990s yearly working time presently has reduced in Germany and France by 10 per cent, in the UK, Portugal and Italy — by 4-5%. If we take an average 35-weekly working time with about 52 weeks a year, than the maximum “work-burden” would be 1820 hours, without holidays. Therefore the most working people in the world are those working about 1800 hours per year in such countries as Italy and Spain in the EU; and USA, Japan, New Zealand and Australia in the rest of the world.

As to the “working models”, the most attractive has become the Danish one, which was called flexicurity, i.e. the system of flexible and mobile employment supported by an adequate social security system. Several countries in Europe were tempted to emulate this model, but exploring formally some of the system’s aspects either could not materialize (as in Germany) or has led to drastic social disturbances (as recently in France). •

## Comment

**By Alexander Gaponenko,**  
*Chairman, Russian Businessmen Union  
in Latvia*

What was the reason that the EU leaders wanted so much to pull us into it? Did it want to expand sales’ markets and distribution, as we were told? Of course, not! The EU, even without our membership in that organization, has both long ago and firmly taken over the Latvian market. The true reason why the rich EU needed poor Latvia was its labour resources. The current massive outflow of people to other EU member states has been the logical consequence of the process planned by the EU in advance.

The growth of capital does not automatically ensure population’s reproduction. The statistics show that prosperous nations produce fewer children. The rich people have another priorities. The Old World’s countries have experienced demographic crisis for more than a decade, their population is quickly aging and there are fewer people to work...

This is why the rich EU countries first started to invite people from the North African countries, afterwards came the turn for the Turkish citizens... This mass inflow of people



with a different mentality, different values, different religion has lead to serious social disturbances. Politicians in the EU have come to a conclusion that the best way to attract labour force is immigrants from the Eastern European countries. I may be wrong, but it seems to me, that Latvians and Russians are not Algerians, they will not follow recent examples of burning and blowing up cars in Paris’ suburbs. This is why each year more and more EU countries lift restrictions on free movement of labour from the new EU member states. •

## Latvian unemployment: “individual portrait”



Latvia is one of the few EU member states where such survey has been carried out. The survey’s novelty lies in the fact that having measured (apart from qualification, work experience and unemployed peoples’ future plans) the psychological traits of an job-seekers in order to develop useful methods assisting in returning the unemployed back to the labor market. During

**By Mikhail Khazan,**  
*Professor, University of Latvia, Head of the project “Unemployed person’s regional studies: social and psychological portrait”*

Up to 40 per cent of unemployed people can be brought back to the labor market in the medium-term, according to the results of the regional studies in social and psychological aspects of the country’s unemployed person commissioned by the Latvian National Agency for Employment in 2006. It is true, though, that to do so employers have at least to start offering adequate wages and set reasonable requirements for employee’s qualification. The survey was conducted as part of the national program for labor market research financed from the EU structural funds.

the survey 10,000 unemployed people were questioned in all Latvian regions.

Motivation, sense of responsibility, training potential and risk of alcohol addiction were the key indicators measured in the survey.

### MAIN CONCLUSIONS

Almost one-third of the currently registered unemployed persons (27%) does not plan to change their status in the nearest future. Moreover, they were not ready to start working, even if they were offered jobs appropriate to their profes-

sion and personal requirements. Another 10 per cent were satisfied with their current situation and had no intention to work at all (20% in the eastern Latvian region of Latgale). About 27 per cent of respondents said they would like to leave Latvia to earn for leaving abroad, including 5% who said they were ready to leave the country for good. But still up to 40 per cent of the unemployed people can be brought back to the labor market in the medium-term. If potential emigrants were given jobs, this figure would increase to 56 per cent.

## ALCOHOL AND DRUGS ARE MAIN PROBLEMS

Among unemployed people in Latvia, i.e. 38% of men and 15% of women (or almost every fourth jobless person) belong to the risk group of alcohol or drug addiction. In the Latgale, which is the country's disadvantaged region, every second unemployed man has alcohol abuse problem. This is often the reason why employers refuse to hire such people. In order to solve the problem the National Employment Agency plans to encourage closer cooperation with narco-treatment clinics where free treatments are offered.

## PROSPECTIVE GROUP

The most prospective group to be brought back to the labor market is the unemployed persons with low self-esteem or insufficient motivation. They make up, correspondingly, 42% and 12% of all the registered out-of-work people. Interesting that the lack of proper motivation is usually more often among either young unemployed (under 25 years) or people over 55 years of age.

The survey showed that often people refused to take an occupation or were not looking for one just because, having read employment announce, they thought they won't be able to cope with the responsibilities, or that they did not possess required qualification; often that was not, in fact, really true. It would be appropriate to quote Seneca: "It is not that we do take the risk because things are difficult, often it is because we do not dare and things become difficult."

It is planned to provide psychological counseling to people in this category in order to increase their motivation for work and self-confidence.

## RELUCTANCE TO RETURN TO LABOUR MARKET

The survey showed that unemployed persons with low motivation as well as women with children receiving childcare support or family allowances do not rush back to work. Unemployed persons without work experience are reluctant to start working right away too. People over 55 and those with poor Latvian language skills are less active in seeking jobs. It is very difficult to bring back to the labor market rural population because often there aren't any jobs available near their homes and they are either unwilling or simply unable to travel to more distant locations using public transport means.

## EMPLOYERS SHOULD BE BLAMED TOO

There were 14,000 unemployed persons registered in Riga during spring 2006 when the survey was carried out. At the same time there were 20,000 vacant positions in the employment service's database. In most cases the jobless refused the offered position because of too low wages, too long distance from their homes, poor working conditions and unacceptable working hours. And those refusing to take occupation were not only residents in Riga. The survey revealed significant differences between regions, as well as among them, regarding both typical signs pertinent to unemployed persons and employers' behavior.

One of the main problems here lies in employers themselves who having imposed very high requirements to the candidates while offering them low wages. Moreover, employers often turn down potential employees sent to them with elementary or general secondary education and without working experience. Unemployed persons from alcohol dependence risk group are more frequently rejected.

The survey showed that only 3% of the unemployed people (6% in the Latgale region) are willing to work for a net monthly wage under 100 lats, and 25% would work for 175 lats. The average monthly wage that would satisfy the job seekers is 250 lats (360 euros) after taxes and travel costs.

Contrary to the commonly perceived stereotype about reluctance to be employed in industrial production, 85% of job-seekers with decent wages were willing to work in industrial sector, e.g. as equipment operators in wood-processing, in metal-working or textile plants, at fish canneries or as construction workers, drivers and auxiliary workers. The same was true for the services sector: sales or advertising managers, sales assistants, cashiers, cooks, pastry cooks, waiters, customer service operators, hairdressers, advertising or sales agents, etc.

On average, about 70 per cent of unemployed people in Latvia have quite useful on the labor market qualification, and 60% of others are willing to take vocational training and additional knowledge and skills in order to get a job. The researchers have identified the most problematic age group, i.e. people at 45 and older.

The bottom-line was quite simple: employers shall offer more frequently part-time jobs as almost every sixth of the respondents, especially women, noted such option as the most acceptable to them. •

## Comment



By Elina Egle,  
*Director General,  
Latvian Confederation of Employers*

Speaking on behalf of the Latvian Confederation of Employers, I would like to underline that long-term economic growth and people's well-being are determined by the number of employees on the labour market and growth of labour productivity. In order to solve problems related to unfavorable demographic situation in future, such as aging labor force and low birth rate, low education level and the education failure to meet requirements of the labor market, a short-, medium- and long-term migration strategy covering migration, emigration and integration aspects shall be elaborated.

Considering the functions of the Welfare and Interior Ministries, our confederation calls on the Economics Ministry to assume the leading role in the employment policy and start working out such strategy. Low unemployment rate and great shortage of labor bear is a sign of evidence that local population is unable to fill the vacancies required by businessmen. Slow growth in labour productivity in Latvia suggests that immigration programs have a significant potential for long-term economic development.

Latvia's population must realize that most of the industrially developed countries face similar demographic problems and that a serious battle is going on over the limited number of available and qualified workers.

There is a growing demand in Latvia for training programs aimed at attracting qualified workers and keeping them on the labour market in order to ensure competition, economic growth and social stability. •

# Efficiency in the Latvian manager's administrative activity

By Irina Plotka, Professor, Psychology High School, Riga  
Tatyana Andreeva, 2<sup>nd</sup> year master student, Psychology High School

With Latvia joining the European Union the administrative staff activity is constantly clashing with the objective growth of social demands, the difficulty and responsibility of taken decisions. The necessity arises to form the "managers corps" which would be able to work successfully under the new conditions for the country's development. Present realities of life in Latvia provide the means for managers' social selection.

Latvian managers' administrative activity's efficiency, so far deprived of common traditions reflected in effective organization management in Latvian history, is generally set by the manager's communicative competence. That is by the abilities to make up with the partners' relationship both with businessmen, bankers, customers and other managers, but most of all with his/her subordinates.

Two blocks of professionally significant qualities can be distinguished, i.e. general or intellectual and special or communicative. The ability to adapt very much depends on the level of the communicative abilities' development. It is essential for a manager quickly orientates in a complicated obscure situation, which generally is characteristic for the state of affairs inside and outside the organization. It is important both to switch quickly from one activity to another and at the same time keep in mind the main aims, i.e. to be goal-orientated and persistent, the abilities combined with steadfastness, steadiness and polite attitude to people.

One can certify that manager's communicative competence is a basic, or as Mr. J. M. Zhukov said, "nuclear" (meaning that it constitutes the essence and the core of the issue) in the structure of the leader's professional competence, in general.

Future leaders' efficient management is set by the two factors: "can" and "want". In general, factor "want" in the structure of the person's potentials reflects his/her motivational ingredient. Factor "can", to a great extent, is set by personal abilities and experience (as a cumulative result of abilities expressed in specific conditions).



TATYANA ANDREEVA.

In our social-psychology research, in the factor "can" (abilities) we can see communicative competence and adaptive skills, while factor "want" (inclina-



IRINA PLOTKA.

tions) depicts person's professional preferences.

All above-mentioned defines the problem of our research, i.e. how the level of communicative competence and adaptive abilities of future managers is relevant to the chosen profession?

As a result of a comparative analysis made within the levels of communicative competence among people working as managers (which was not their original profession), we have come to the conclusion that amongst men and women under investigation and working as managers, there were more people with high level of communicative competence, than with lower ones.

Among those willing to work as managers there were more people with high level of communicative competence (among both men and women), than among those that did not wish to work or were hesitant.

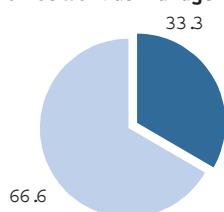
In the group of people that have doubts about working as a manager there are more people that do not work, rather than those working as managers.

From those who have made "entrepreneurial" professional choice, there wasn't a single person who didn't want to work as a manager.

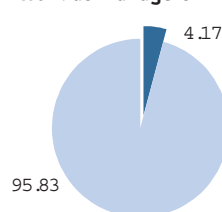
"Entrepreneurial" choice, i.e. the choice of someone's own profession was made by 43% of those taking part in the review; "social" choice was taken by 7%.

## DISTRIBUTION OF PEOPLE WILLING TO WORK AS MANAGERS, %

Do not work as managers



Work as managers



■ Willing to work as managers ■ Have doubts about working as managers

About 50% of reviewers have given their preference to professions they received after finishing their studies.

As a result of the conducted research the following conclusions were made:

- The higher the communicative competence, the greater probability that a person will prefer a profession that is connected to working with people. The lower the level of communicative competence, the bigger is the probability that a person will choose a profession not connected to active communication with people.
- The higher the person's adaptive qualities (socially and psychologically) the

bigger is the probability that he/she will prefer a profession, which is connected to active communication with people. Lower the level of ability to adapt, higher the probability that a person will choose professions that are not connected to work with people.

- The higher the level of adaptive abilities, bigger is the probability that a person has a higher level of communicative competence and professional drive towards working with people.
- The higher the communicative competence and adaptive abilities, bigger is the possibility that a person will chose a pro-

fession connected to working with people. People with a lower level of communicative competence and ability to adapt are very likely to choose professions that are not connected to communicating with people.

Additionally, there was a research investigating correlation of these qualities in relation to the reviewers' attitude to work as managers and take other employment. That was used as a supporting argument that confirms the thesis about correlation of professional choice with communicative competence and ability to adapt (see the graph). •

## Comment



**By Svetlana Budyashkina,**  
*Head of Astrogenetika international  
marketing-management center, Riga*

My sphere of business interest lies in innovation development for marketing-management sector. The concept of "marketing-management" has a much broader field of application than it is usually thought. It is not only that various goods, services and markets require such organizational and managerial regulatory processes (as marketing-management). It is needed also for an individual, his ideas, talents and skills; as well as for the whole geographical areas, human heritage and the entire centuries-old global multi-national human capital.

Yet, expanding application of the marketing-management fields do not necessarily mean that they are becoming more complicated and will require big investments for special application technologies' development. That requires creative mentality, though not only on the part of employees or students as future professionals in a certain field, but also on the part of lecturers, educational managers, civil servants in ministries and agencies, developers of standards and scientific research programs, including the EU programs.

According to official statistics the number of the unemployed people with higher education is growing in Latvia. Though, the employers are reluctant to

hire young specialists, as the latter do not have work experience. Young specialists need vocational training, which is expensive for employers, especially at small and medium enterprises. The reason is that young specialists do not know how to transform their already acquired knowledge into the new product's creation technology. As is seen from our experience in cooperation with young specialists and students, they are not taught the skills of "transformation technologies".

No one is willing to fill in this gap, i.e. neither employers, nor ministries nor the EU programs. The education standards are lagging behind the rapidly changing market requirements. The latter's main requirement, as we see it, is an understanding that the market is a set of changing variable systems and their combinations functioning at various levels, e.g. among employee-employer, employee and the future assignment, among highly creative potentials and future training programs. The latter are often inadequate to the creative potentials and unable to keep up with the pace of the potential's growth.

It follows from the above description that the EU's recognized education certificates would lose their importance and value on the labor market. At the same time the counter-flow of requirements and demands will grow, e.g. on one hand, from students and employers towards education flexibility and quality, on the other hand, towards existing talents and calculated costs involved in their reproduction. The importance of anti-entropic (and anti-chaotic) management would grow alongside with the price of such experts. Experience shows that people able to accustom the chaos on any market are multi-functional; today most of them are either natural talents or self-taught experts rather than professional specialists trained in an organized manner. •

## By Elina Egle

Education is a competitive advantage of national economy; therefore the new law on higher education could bring important and useful changes in education system aimed at quality improvement.

The new draft law on higher education has been prepared in view that universities would educate the specialists, which the employers really need. The new draft is an important step towards higher education system's development in Latvia which, in particular, will take into consideration country's economic situation and the employers' interests.

The new law lays down the foundation for improving the entire higher education system, creating fair competition between public and private high schools and colleges. Students will have more options for receiving a competitive education, taxpayers' money will be spent on more efficient measures, and employers would finally be able to contribute to development of the system, not just to consume its results.

The bill provides for a more flexible way of getting education and establishes closer cooperation with foreign universities. Employers must be aware of the fact that universities have become leaders in innovation and research, that they will supply the labour market with specialists, who by their practical work would contribute to development of knowledge-based economy.

Ideally, once the bill is adopted and the law enters into force, plenty of people with Bachelor's degrees but not requested on the real labour market would drastically reduce. •

## Work force migration in Latvia: legal aspects

By Alexander Baikov,

*Doctor of Laws, Docent in Daugavpils University and Law Department Chief at the JSC Severstallat*

Taking into account Latvia's membership in the EU, it is important to underline, that free movement of workers (and workers' migration) is proclaimed both as one of the social policy aims and one of the conditions of forming a united labour market. It is at the same time one of the leading principles of pan-European integration and formation of the EU employment law.

Repeated interest in the issue of working migration promotion brought up on the international level indicates its significance. In relation to this it is well worth mentioning: ILO's 97 Convention (1949) "On migrant-workers"; ILO's 143 Convention (1975) "On abuses in the field of migration and equality provisions concerning working migrants' movements"; and an act of universal significance, which, undoubtedly, is the UN Convention (18<sup>th</sup> December, 1990) "On the Protection of the Rights of Migrant Workers and Members of Their Families".

Migrant worker is understood as a working person taking employment and having another EU-member state's citizenship (art.1, the EU Council's Framework Regulations 1612/68, 15<sup>th</sup> October 1968 "On the free movement of workers inside the European Union"). The Court of Justice has formulated additional characteristics of migrant worker's legal status in the process of the EU primary and secondary legislation interpretations.

Thus, migrant worker is a person, who is employed during a definite period of time and receiving directly or indirectly an amount in reward; labour activity must be real regardless of wage conditions and working hours. Besides, this notion covers people that have received unemployment status, i.e. a person who has terminated his/her labour activity but have stayed on the territory of the EU-member state with a purpose of getting an occupation. Equal opportunities of being employed in other EU-member state, abolition of quotas for migrant workers from other member-states, as well as a free access to employment services in the host country exist in the EU member-states for migrant workers. Equal opportuni-

ties are secured in employment conditions for citizens of the host country and migrant EU workers. Infringement of migrant workers' rights regarding their wages, participation in enterprise's management and company's democracy, career development, an access to professional training and other social advantages. Therefore, legislative and other regulations as well as the practical member-state's government procedures (excluding the condition of language knowledge) providing different employment conditions for its own citizens and migrant workers from other member-states are forbidden on its territory.

In addition to the conditions and practices mentioned above some other shall be included: making compulsory in the EU member state special employment procedures for foreign labour force; limiting or restricting employment conditions which differ from those applied in national employers' associations using press and other means; putting employment options in line with registering requirements in the employment agencies, or creating obstacles for personnel enrolment for people living in other states.

Migrant workers must be given social and tax benefits in the same extent as to the citizens of the host state. At the same time, the right of access to professional education must be given on the same conditions as to citizens of the host country; the right for membership in the trade unions, including the right of occupying elected positions; the right for domicile as it is especially underlined that discrimination of migrant workers in this regard is forbidden.

The above mentioned requirements have been included into Latvian



Immigration law adopted on 21<sup>st</sup> of October 2002, and into the Council of Ministers' Regulation No. 297 adopted on the 13<sup>th</sup> of April 2004 "Rules concerning the European Union citizens and their family members' entering the Republic of Latvia"; taking into account EU directives and other legal regulations.

For the EU member states' free movement of workers they need only to be registered in the Citizenship and Migration Department and to receive a residence permit in case they plan to stay on Latvian territory for more than 90 days during half of the year. They do not need a work permit in Latvia. In some cases this permit is not necessary, even if a foreigner plans to stay more than 90 days during half of the year. For example, if the person is employed at seasonal work in Latvia, but lives in another EU member-state in which he returns at least once a week and is in Latvia at least six months a year. It is also the case if, the worker's aim is to establish legal labour relations by signing a labour contract or other employment contract.

For workers from the third countries, i.e. not the EU members, resident and working permits are necessary. The rules for work permits are included into the Council of Ministers Regulation No. 44 adopted on 20<sup>th</sup> of January 2004 "Rules regulating work permits for for-

eigners". Work permits based on visas, resident's permits or documents of the person seeking asylum, as well as for foreigners having written employment invitation from an employer are issued by the State Citizenship and Migration Department. Foreigner's invitation to

work is to be approved by the State Employment Agency according to the employer's legal address or to the place of actual work performance. Apart from registration of work permit the employer must provide wage remuneration for the invited workers in the

amount not less than the minimum settled down by the Council Regulation No. 515 adopted on the 12<sup>th</sup> July 2005, "Regulations on the amount of necessary financial remuneration for foreigners and rules for verification of available financial resources". •

### Comment

#### By Alexander Gaponenko

An interesting trend has emerged during the last year — if previously it was mostly unskilled labor force leaving Latvia, now it is engineers, qualified builders, etc., who go to work in Ireland, France, the United Kingdom and other EU member states. Such cities as Moscow, St. Petersburg and other megalopolises, which experience unprecedented economic growth, at the same time experience great deficit in qualified specialists. And large Russian companies will find be forces to pay such specialists from Latvia the EU-level salary. I am not exaggerating — megalopolises of our eastern neighbor would gladly accept Latvian specialists!

Alongside with waiters, odd-job men and engineers, Latvian construction workers have also moved to other countries. As a result, almost all construction companies feel a disastrous deficit of all kind of specialists. The company I

represent is not an exception. For this reason we had to invite guest workers. If you think that we invite Ukrainians or Belorussians, you are wrong! Ukrainians will hardly come to Latvia, they gladly go to work in neighboring Poland. Belorussians do not rush to leave their homeland in order to go to Latvia, either. Therefore the most active guest workers in our country would be citizens of former Soviet republics in the Central Asia!

I have interviewed potential construction workers sent by the Latvian Employment Service. Three of them were heavy drinkers, one was a professional builder but already in retirement. He simply was not physically fit to work full-time. We hired one of the candidates but, as you understand, it was not enough. Therefore we had to take on Uzbek worker. By the way, three of them have higher education degrees in construction! •

## 21<sup>st</sup> century talent's market



By Ludmila Selivanova,  
*Docent, BIA*

Contemporary scientists in the field of management marketing presently write about the "new economics" as a revolution approaching from the West... Some naively suggest that this is a trivial economics coped with the internet. It is not exactly so... World economics has entered the stage which can be characterized by the previously unseen tough level of competition, by the society's "commodisation" (or transformation of previously unique goods into the ordinary ones), by the swift character of all changes, by the fast obsolescence of technologies, by the new marketing ideas and professions on top of vicious internet penetration into our life.

The new economics has many definitions; most common is: "a world, where people work using mental capacities not hands, where communication technologies create global competition, innovations are more important than mass production, fast changes occur constantly. Present world has become as different from the industrial age as the latter was different from the previous, agrarian. This world is so different that its existence can be properly described by the only adequate word — "revolution".

### NEW REVOLUTIONARIES

Only the companies, teams, managers and employees that have acquired in

excess the qualities often called intangible assets, can be named the new revolutionaries. These qualities represent a company's intellectual capital, which is the main new economics' resource. Intangible assets have been already for a long time taken into account in company's capitalization evaluation, often valued higher than the "tangible" assets. Exactly because of these assets small, aggressive and quickly trained companies often have competitive advantage in the new economics when compared to the old-regime's sluggish "ironclad" big famous companies.

### INTELLECTUAL CAPITAL

Intellectual capital existed since the time immemorial, i.e. it appeared when first vagrant merchants established good relations with the consumers. At that time a specific notion occurred — "a good

name". During the last two decades a real breakthrough took place in the key science and technology spheres, including information technology, media and communications. The term intellectual capital is a term designating, first of all, non-material assets without which a modern company cannot survive. An enterprise's intellectual capital can be divided into four parts: market assets, intellectual property as the assets, human resources' assets and infrastructure assets.

### PEOPLE AS THE MOST PRECIOUS NON-MATERIAL ASSET

The success of the organization depends on what kind of people are employed there, are they the right people for this organization, what talents they possess, how their talents are used in the organization, how their potentials are developing.

Organizations are literally fighting for talented people. This battle has global rather than local nature.

**Talent** is traditionally linked to some subtle fields, though the word often appears when talking about opera, symphony, movies and sport. From the business point of view, talent is an ability to acquire exceptional outcomes acknowledged and rewarded by the owners, managers and consumers. "Talent" as a term is dissimilar to "employee"; and as dissimilar to "personnel" and "staff". One can be really proud to full extent hearing the word "talented"! Talent encloses all those that have a high grade on a "special" scale. The world will be standing in lines waiting for these really special people in order to get their services; it is well worth to remember in this regard famous sportsmen.

### THE MULTIPLE INTELLECTS' CONCEPT

Harvard University's professor, Howard Gardner has developed a concept of multiple intellects. He defines an "intellect" as a human capacity solve problems and create products valuable in the framework of a given or numerous cultures. The capacity to find and pose new problems as a background for acquiring new knowledge; he distinguishes the following types of intellects:

- **Linguistic**, as a masterful use of language, love for words and a drive to research words.
- **Logically mathematical**, as the capacity for considerations and evaluation of things

and notions through their interrelations and connections.

- **Musical**, as an ability both to create and perform music in different keys, rhythm and timbre, as well as to perceive them. This capacity can be connected to other types of intellect, e.g. linguistic, spatial and bodily-kinesthetic.
  - **Spatial**, as the ability to perceive visual objects with precision, to transform them and modify visual images and rebuild them even without physical stimuli.
  - **Bodily-kinesthetic**, as an absolute control over one's crop and skilful objects' manipulation.
  - **Intra-personal**, as skilled capacity to recognize one's own feelings and moods.
  - **Inter-personal**, as a skillful capacity to recognize other people's feelings, moods, state of mind, as well as use of this information for operating people's behavior.
  - **Naturalist's intellect**, as a capacity to recognize and classify natural objects.
  - **Existential intellect**, which covers human's tendencies to examine such fundamental issues as human existence, eternity, life and death.
- Multiple intellect's theory is based on two important, according to Mr. H. Gardner, statements, i.e. first, that all people possess all kinds of intellect, just the way we all have different appearances, unique features of temperament and personality; second, we have different intellectual profiles. Each type of intellect possesses unique values in structuring the world around.

### WHERE IS THE PROBLEM?

Practically, all our educational efforts, employment-hiring and advancement systems in companies concentrate on "logical-mathematical" intellect's concept, perhaps with some "linguistic" intellect's involvement. As a result, we reject seven out of nine intellectual types.

On one hand, an outstanding talent can freely wander around the world choosing the best places and collecting the best financial rewards. On another side, enterprises that will manage to conquer the talents' market will succeed best. But in order to attract and hold the talent getting maximum profit out of it, the organizations will be forced to suggest quite unusual working conditions and places. Places where people would not only get wages according to "merits"; but where they'd have possibility to start and carry out their great intentions.

Management guru, **Tom Peters** in his book "Just Imagine! Business Excellence in a Disruptive Age" writes: "We live in the intellectual capital's age; during next ten years about 75 to 90% of all that we, highly educated white-collars have learned, will be usurped by the computer microprocessor worth 239 dollars. What do we do in order to become better and more valuable? Our education shouldn't be aimed only at our skills' perfection. The education's aim is to create a full-value entrepreneur's spirit in each and everyone's employee working for us. The rest we'll leave to the microprocessor!" •

### Comment



By **Boris Heimanis**,  
Professor, BIA

Speaking about the labour market and its productivity problems, one cannot distance from an overall macroeconomic situation in the country, as increased labour productivity will definitely have a solid impact on the over-supply of goods and services on the market.

The economic problems unsolved or neglected in the 1990s can in the negative mode fight back modern economy and business' situation in the general.

On one hand, Latvia has experienced an enormous GDP's growth during the last several years, reaching almost 13 per cent, which already runs off the scales leading to the shortage of various material and labour resources. But in fact, the entire growth is mainly based on the sufficient supply of credit resources. Of course, banks come out as winners in this situation, but what about the others? As a result, a vicious circle pattern has emerged. For example, the construction sector of industry is quickly developing due to credit resources; at the same time the wage growth is based on borrowed funds, too. The so-called "credit wages" have already reached the level of 1,000 or more lats per month. As a result, we are witnessing inflation growth in the country.

But most unpleasant thing for the national economy is that the resulting product is sold for credit resources too. Banks feeds both the producers and consumers, as a rule such situation happens in the same country, and banks receiving double rate of profit for the same "commodity" artificially heating up the demand and supply sides. Such policy makes impossible any efforts to combat inflation.

On another hand, it is no secret that Latvia has already exhausted the means for raising wages without a corresponding raise in the prices of goods. In many industrial sectors and spheres wages have reached 80 per cent of the total production costs, the situation, which is abnormal in principle. Therefore, accordingly, the path of raising prices leads to a dead-end, especially in the conditions of growing inflation. This only option is left, i.e. the path of looking for cheap labour, but this is more a political rather than an economic issue. •

# Green light for industrial parks in Latvia

By Anzhela Rzhishcheva,  
Latvia

It is planned to set up by the end of 2007 16 new industrial parks in Latvia. According to information from Latvian Association of Technology Parks, Centers and Business Incubators (LTPCBIA) only four of them will be situated in the Latvian capital, three in the Riga's county while the rest will be constructed in the large regional centers, including free economic zones (Ventspils free port, Riga free port, special economic zones in Rezekne and Liepaja).

"This trend is quite understandable, the Latvian Investment and Development Agency's (LIAA) director **Andris Ozols** told the *BC*. In view of growing land prices, restrictions on truck traffic through



**ANDRIS OZOLS:** The state has elaborated a program for 2007-2013, which envisaged funding for industrial parks' development in Latvian regions.

Riga and traffic congestions in the capital, business people are moving production as well as offices and warehouses outside

Riga. In doing this, both foreign and local companies are looking for modern facilities. They are no longer satisfied with former already obsolete production plants, factories and research institutes. Vacant floor space offered by industrial parks is planned to reach 125,000 m<sup>2</sup> by the beginning of 2007; this area will increase by another 11,000 m<sup>2</sup> during the second half of 2007. Considering the demand, new projects will be carried out mostly outside Riga," he concluded (see table).

This opinion is shared by specialists of a leading consulting company, *Colliers International*, **Aldis Duntavs**, director of company's Evaluation and Consulting Department. He told the *BC* that the demand for Class A and Class B warehouses in the last two years has been much higher than the supply and might reach 500,000 m<sup>2</sup> in next two years. The potential tenants are local companies and Scandinavian businessmen planning to move their production to Latvia. Industrial parks under *Colliers International* administration will be opened in 2007 and would mostly be situated outside Riga, e.g. in

Marupe, Kekava, Salaspils and Olaine. Yet, a few projects would be implemented also in the capital city.

There is another recent trend, i.e. stevedore companies are turning into realtors, leasing premises in the territory of the Riga free port for use as warehouses and offices. One of the examples is the *Magnat project*, a five-storey Class B building with



**ALDIS DUNTAVS:** Industrial parks in Latvia are being built recently not only for specific orders but also as a generally oriented offer.

total area of 4,000 m<sup>2</sup>, which is to be put into commission in July 2007.

## ACCORDING TO EUROPEAN STANDARDS

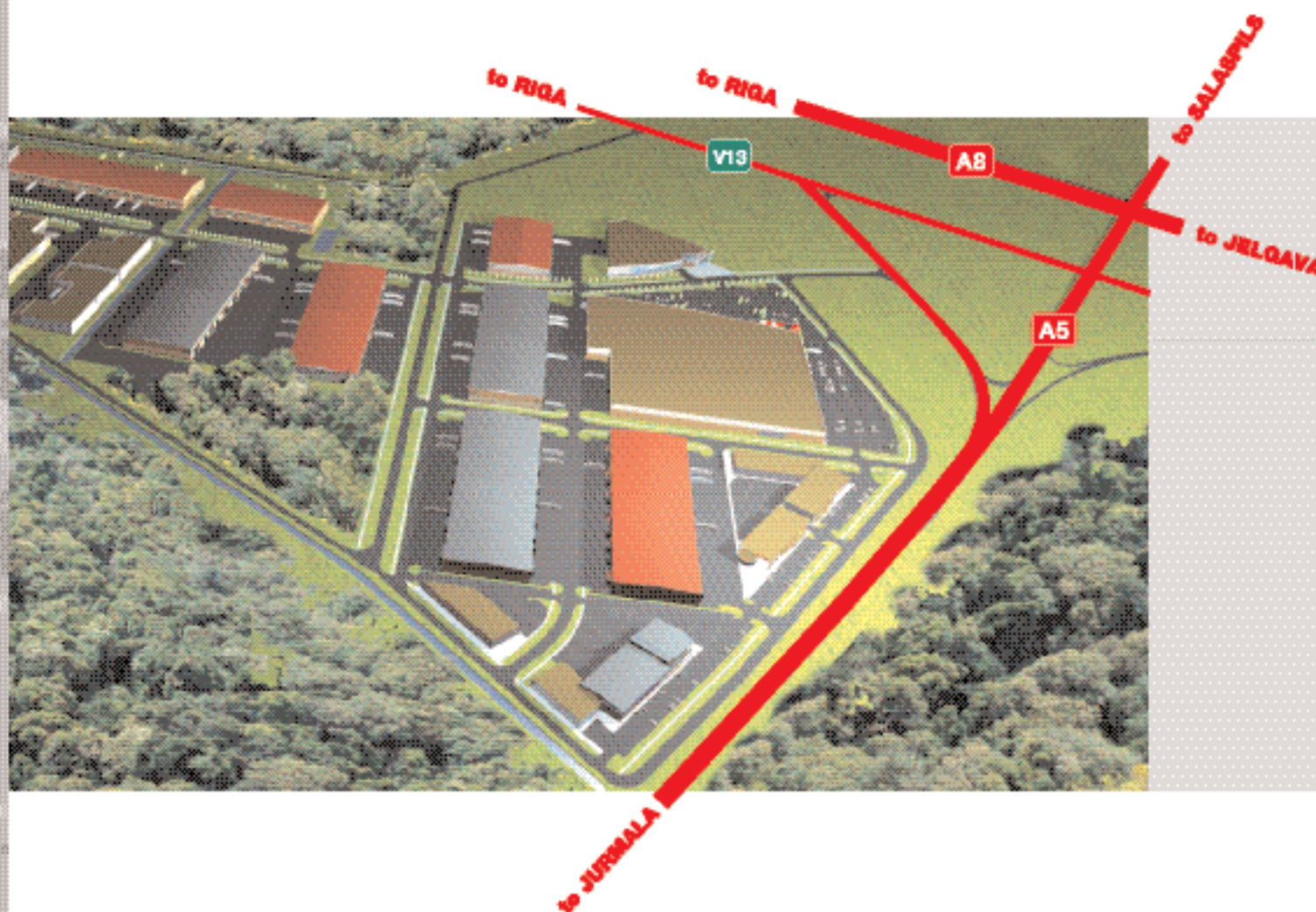
"First industrial parks were opened in Latvia already in the early 1990s," said Mr. Ozols. "But during last five years the idea about areas to be used as industrial parks has changed. Previously local companies offered foreign investors a "green

### NEW MAJOR INDUSTRIAL PARKS' PROJECTS

Name	Location	Total area, m <sup>2</sup>	Commissioning date	Profile
Dominante Park	Kekava, county of Riga	35,000	March 2007	First Class A industrial park in Latvia
ELIPSE	Riga	60,000	October 2007	Logistics center
Wellman Logistics Center	Salaspils, county of Riga	19,000	January 2007	Logistics center
Riga Airport	Marupe, county of Riga	2,260	December 2006	Office center
Logiparks	Riga	40,000	February 2007	Logistics center
Commercial Center	Marupe, county of Riga	6,000	Q1 2007	Logistics center
PBLC Business Center	Riga	9,000	March 2007	Business center
Dommo Bussiness Park	Olaine, county of Riga	11,190	Q3 2007	Business park
Saliena Real	Babite, county of Riga	50,000	n/a	Trade park
Ritausmas Logistics Center	Riga	14,000	Q1 2007	Logistics center
Magnat	Riga port	40,000	July 2007	Office complex
Latgale Apparatus-Making Technology Center (LATC)	Daugavpils	3,000	n/a	Technology center
Ventspils Free Port territory	Ventspils	over 10,000	n/a	High-tech park etc.

Sources: *Colliers International*; LIAA, own information.





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field” in the plain sense of the word with just a gas pipeline running nearby; today great attention is paid to infrastructure.”

As Mr. Duntavs noted, a new positive trend has appeared, i.e. modern industrial parks in Latvia are being built not only according to specific orders but also as a more generally formed offer. “It means that tenants are offered office, warehouse or production space with established infrastructure, which in general is typical for “old Europe”, he concluded.

In this case one cannot do without professional consultants. Any investor needs an analysis for the plots’ land use, for construction of industrial facilities, for the warehouse’ concept, logistics or production complexes, a cash flow estimate and selection of tenants. At present there are several companies in Latvia offering the mentioned range of services.

### TOP LEADERS

According to the LIAA information, five of the industrial parks in Latvia have been most successful.

*NP Properties* is a group of seven industrial parks with total area of 130 hectares, offering 350,000 m<sup>2</sup> of office and production space. Two of the parks are almost fully occupied and they are situated in Olaine and in Riga. The remaining five — located in Jelgava, Ventspils, Salaspils and Riga (two parks) are in the stage of development and still have vacant places.

*SIVA* business park (Ogre city) has total area of 3.1 hectares and offers production and office space. If there is a demand, the park can be expanded.

*VEGA STIVIDORS* (Riga free port territory) cooperates with stevedore com-

panies. Part of the space has been taken but 8,000 m<sup>2</sup> of production space on the 2nd floor are vacant and waiting for tenants.

*Granita Industrial Park, LE/ROM* (Riga) with the total area of 134,931 sq.m can offer 2,394 m<sup>2</sup> of office space and 7,173 m<sup>2</sup> of production and warehouse space. The main concept for the park development is to lease land for building offices, warehouses, etc. In September contracts have been signed with two big international companies for the construction of warehouses with total area over 10,000 m<sup>2</sup>.

*Baltic Industrial and Warehouse Centre* (Olaine) is situated on a territory of the former production plant with the area of 17 hectares. Production space in Olaine takes up 11 hectares, and there are 12,000 m<sup>2</sup> of warehouse space in Adazi.

In addition, there are still some industrial areas in Latvia available for rent, for example, on the premises of *Dambis, Ogre, Lauma* and other companies.

### REGIONS FOLLOW UP

“Speaking about development of industrial parks, it should be mentioned that in recent years they are being developed not only in Riga and the surrounding areas but also in other Latvian regions”, said Mr. Ozols. And continued: “the main motive of local governments is to attract investments, develop infrastructure, create new jobs in the regions. Municipalities are willing to make concessions to private initiative by offering land, building infrastructure, providing incentives, such as tax reliefs. It should also be said that the state has produced a program for 2007-2013, envisaging funding to developing industrial parks in Latvia’s regions.”

Industrial parks *Pumac, Pulvera and Karosta* in Liepaja, in southwestern Latvia,

can be mentioned among successful projects in the regions. In the eastern Latvian region of Latgale, there is the Latgale Apparatus-Making Technology Center (LATC), which occupies about 3 ha and ensures cooperation between academic and science institutes, the local government and businessmen as well as the Latgale Academic Park dealing with innovation projects.

The Jelgava Technology center in central Latvia is a joint project by the local government and the Latvian Agriculture University, intended to establish cooperation between the academic institution and food producers in order to increase the quality of their products.

In northwestern Latvia, Ventspils city council in cooperation with the Ventspils free port has allocated over 1,000 hectares for implementation of industrial projects. A number of land plots in the area from one hectare to 200 hectares have been prepared for construction works, allowing for further development in the future. Currently implementation of the Ventspils High-Tech Park project is planned but no details about the park’s area and completion date were available when this article was prepared for publication.

*Saliena Real Trade Park* in the Babite district has the total area of 50 hectares and sales area of 150-200 th m<sup>2</sup>. The construction will be performed in several stages. The implementation of the project is to begin in June 2007.

“The LIAA has an electronic database for existing and would-be industrial, science and business parks”, said Mr. Ozols. “The information is being updated constantly with data from the LTPCBIA and *Colliers International*. We are always happy to assist anyone”, he concluded. •

### Comment



**ELITA MOISEJA**, Member of the board of Latvian association of Technology parks, Centers and Business Incubators and CEO of NP Properties Ltd.

The Latvian association of Technology parks, Centers and Business Incubators recently performed research witnesses that of all the Baltic States the most highly developed segment of Industrial parks is in Latvia. In its turn Lithuania has the highest level of development in the segment of Technology parks, but Estonia in developing “green field” type Industrial parks.

Unlike Lithuania and Estonia where Industrial parks are located only near industrially developed cities like — Kaunas, Tallinn, Vilnius, Parnu, in Latvia Indus-

trial parks are located in different regions. Despite the fact that the number of Industrial parks in Estonia and Lithuania is fewer, the area of the parks is larger than average area of parks in Latvia.

According to research data there are 26 Industrial parks that offer to rent premises or land in Latvia, only 7 in Lithuania and 8 in Estonia. It is a true gratification that developers of Industrial parks in Latvia have acknowledged their main function and have begun to offer premises for rent with added value offers and services.

The medium rent price in the Baltic States: office rooms — 5.26 euro per m<sup>2</sup>; storage facilities — 3.83 euro per m<sup>2</sup>; industrial premises — 3.51 euro per m<sup>2</sup>.

In general the developers of industrial parks in the Baltic States are satisfied. Interesting is the fact about the problems they face — they are common for all of them. Inflation for constructive materials, the lack of manpower and enough qualified human resources in building sphere, delayed material supply and the lack of support from the state and self-governments. •

# Lithuania: logistics plus recreation

By Sergei Sergeev,  
*Verslo Labirintas, Lithuania*

Construction of *Baltic Logistic City*, the largest logistics campus in the Baltic states began last August in the county of Kaunas near the *Via Baltica* highway. Lithuanian project's developers are interested also in the coastal area of the country where construction of two major projects of recreation ports has begun or is about to begin.

## LARGEST IN THE BALTICS

Construction of *Baltic Logistic City*, the largest logistics campus in the Baltic states has began last August in the county of Kaunas near the *Via Baltica* highway.

Investments in this project are planned at 83 million litas (10.8 mln euro). The new logistics center is intended for the business-to-business sector. It is oriented towards medium-sized and large Lithuanian and foreign companies wishing to acquire good strategic positions for its business in central Lithuania with flexible opportunities for expanding business throughout Lithuania and the entire Baltics.

The project was commissioned by *Ogmina*, which also founded *Via Baltica Logistic*, a company with Lithuanian capital established in 2006. The founders have great experience in various business sectors, i.e. real estate and business management, construction, technical supervision of buildings and utility lines.

Real estate company *ISPS* will be following the development of the project. Partners in the project are the construction supervision agency *BSA* and engineering company *Dizaja*.

*Baltic Logistic City* will occupy an area of 56,000 m<sup>2</sup> and employ 400 people, said *Via Baltica Logistic's* person responsible for implementation of the project. *Via Baltica Logistic* director **Arunas Tamauskas** said that Lithuania was frequently referred to as a transit country while in fact there was not too much real action towards expanding this sector. This was confirmed also by a recent market analysis that revealed stagnation trends in the logistics industry. At the same time, researchers noted great prospects for developing this business sector.

The new logistics campus will have an extremely attractive geographic position, i.e. near the *Via Baltica* highway, which links Helsinki, Tallinn, Riga, Kaunas and Warsaw. The location is unique both for its geographic position and close connections to Kaunas (the second largest city in Lithuania after the capital Vilnius) as well as to the major junction of transportation routes.

The campus will have excellent social infrastructure, i.e. in addition to warehouses and administrative offices it will also have a gas filling station, a motel and a supermarket.

*Baltic Logistic City* will consist of three large logistics centers. The first, *Via*

*Baltica Logistic* (27,000 m<sup>2</sup>) has been put in operation in September 2006. The second and third stages of the construction begin in 2006 and will be completed in 2008. All three projects have been combined into a single industrial park that would occupy an area of 13 ha with floor space over 70,000 m<sup>2</sup>.

## TO OPEN KLAIPEDA'S SEA GATES

Construction of one of the most impressive projects is currently being implemented in Lithuania. The project's called *Juros vartai* (*The Sea Gates*) has begun in the third quarter of 2006. It is a new investment project run by *Eika* and *Achema* concerns, under which the territory of *AB Klaipedos laivu remonto* shipyard will be transformed into a recreation area offering shopping and entertainment facilities. It is planned to complete the project by 2015. Total investments in *Juros vartai* will reach some 350 mln litas.

The purpose of the project is to expand the Klaipeda center, returning the old fortress back to the city and to open the sea gates. After the planned changes, Klaipeda residents and visitors will freely reach the gulf whereas currently the territory of *AB Klaipedos laivu remonto* is closed to the citizens. Production facilities will be demolished while valuable buildings would be renovated.

The *Juros vartai* project is an attempt to give back to the city its former glamour and old features by using modern architectural forms in combination with advanced construction technologies. There will be a variety of catering businesses, clubs, entertainment centers, shops, a modern business center and a modern museum, and a cozy village will be built around.

The *AB Klaipedos laivu remonto* territory will be circled by the old-style fortification; Klaipeda municipality administers the latter. It is therefore vital to make joint efforts in order to preserve and develop this part of the city having historical and strategic importance. To this end *AB Klaipedos laivu remonto* has commissioned to conduct project's survey to the best European project development company, *Niels Torp* (Norway).

The project will be carried out in three stages: the first one called *Danes galerija* is an area on the left bank of the Dane River where

cafes, restaurants with terraces, shops and three comfortable hotels will be constructed. It is expected that *Senosios Perkelos* ferries will moor there. There will be a cruise ship terminal on the tip of the *Danes galerija*, with the moat and the port close to it. The project *Danes galerija* is to be completed in 2006.

## CURONIAN PARK EXPANDS

A project envisaging creation of a chain of recreation ports suited for modern boating, leisure and other needs in the area stretching for 120 km along the Curonian Spit and the Baltic Sea is in the preparatory stage. The construction is planned for the period from 2008 to 2015.

In the 120-km-long coastal area surveys have been already conducted and preliminary works started at the Klaipeda fortress, in villages Kintu, Drevernos, Nida, Preila, Juodkrante, at the former ship cemeteries, at the Klaipeda yachting club, at the Koggalis pier, on the amusement off-shore island and at the Palanga and Sventoji ports.

This chain of ports will be aimed at people who love water sports and leisure, who want to take rowing lessons, enjoy quality recreation services and appropriate holiday's infrastructure.

Water amusement, leisure and health services infrastructure will be built according to requirements of *Agenda 2020* and *One-Day-Sail* programs. As to operation of this investment project, it will be complex in essence and purpose and will be included in the general complex of the Baltic ports' development program.

The Curonian National Park is included in the UNESCO World Heritage List, and Neringa (Juodkrante, Nida) is being developed as a major Lithuanian resort, as tourism and leisure service center along with the rural tourism and the recreational area in the Nemunas Delta Regional Park. Klaipeda as a sea and waterway coordination center has great potentials in yacht and cruise tourism, services the leisure boats.

Lithuanian state is the only land user, though the parties implementing the project are local administrations in Klaipeda, Palanga and Neringa cities as well as Klaipeda's districts and other *Quattro's* contractual partners. As it regards investments, estimates have been prepared only for some projects, e.g. the so-called amusement island, Klaipeda yachting club and Sventoji port.

It is planned to use private capital for the project implementation along with financial resources from the EU structural funds in order to prepare feasibility studies for the pier's infrastructure. •

# High demand for a place in Estonian industrial parks

By Dmitry Kulikov,  
*Deloviye Vedomosti, Estonia*

Taking for granted the real estate offices' assessments means that production and warehouse premises are the most reliable segments of Estonian real estate market. Rental prices for these premises have almost not changed during the last couple of years and are unlikely to change this year either. This is the expert opinion of the *Arco Vara* realty office in its semi-annual report. High demand for warehouse and production space is typical for this market segment, due to growing investors' interest. Industrial parks still play major role in the production area sector. All newly constructed premises in these parks have been sold.

The initial construction stage in *Ulemiste City*'s technology park: An excavator is demolishing a former *Dvigatel* plant's building.

Experts predict a further growth in industrial parks' development and a great demand for production premises. Such parks are still being actively built near main roads in Tallinn suburbs, i.e. on the highways directed to Tartu, St. Petersburg and Parnu. Investors are also interested in land plots suitable for potential industrial real estate development along Tallinn Ring Road. But there is a trend to reserve land-plots in this area, in the hope of quick profit in the near future. As soon as the real estate prices and construction costs are constantly growing, the experts predict a similar growth of industrial rent in the future.

## THE STATE STAYS ASIDE

The parks are constantly growing yet there is no centralized system or agency in Estonia for supervision or coordination of these parks' development. The Economy Ministry is supervising only the university-based science parks, though there is a strategy for science parks' development.

Looking at industrial parks as the state or municipal property, one can see that municipal authorities in the Estonian capital Tallinn own several industrial parks and business incubators.

## NEW BUSINESS PROJECTS

Among some future projects the initiative of a businessman called **Heiti Haal**, the head of the *Alexela* gas stations' network shall be mentioned. Mr. Haal and partners want to build a technology park for 15 companies in Paldiski port. According to the project developers, the new park would create 1,500 jobs and significantly increase real estate prices in the town with a population of 4,000 people.

The would-be technology park will occupy 25 hectares of land near the port and it is planned to complete the project in a couple of years. "Paldiski has many positive aspects: land is cheap, the Soviet army in due time built reliable infrastructure and, on top of that, there is a fast-growing port nearby"; Mr. Haal told the Estonian newspaper, *Eesti Paevaleht*. The construction is to begin in 2007.

Talking about industrial parks' situation, Tallinn City's Enterprise Department chairman **Kairi Teniste** said that the Lasnamae industrial park could serve as a classical example of a modern park in which production and offices of the same sector have already been concentrated. As an example, Mr. Teniste mentioned *BLRT* Grupp ship-building and repair concern, which had a great number of companies with various profiles working on the same territory. The *Ulemiste City* park, which is being built on the remains of the former *Dvigatel* plant, will be oriented mostly towards innovation-related companies.

The Tallinn Technology Park (or *Tehnopol*) is the first park to be turned into a science park. It falls into the third category of parks being developed by the state. It has to be added that more parks are being built in the Tallinn suburbs, i.e. one park in *Tanassilma* and several parks in the *Juri* village where some more parks are planned.

Mr. Teniste said that the demand for that kind of projects was rather high. "Their popularity is based on the example of the Lasnamae industrial park. The 18 plots in the park were taken in less than a year-and-a-half. And there was a tough competition for the right to buy a plot there," he said. The construction of a park in the former *Vao* gravel pit will begin soon. The decision has not been made yet but Mr. Teniste said it was a pure formality. Similar projects are being developed in

several Estonian regions too, e.g. in Tartu and Parnu as well as in the northeastern part of the country.

## PARKS IN TALLINN AND AROUND

The Lasnamae industrial park, one of the parks where its administration takes the stand towards concentration of industrial production companies, is situated in the largest Tallinn's district, Lasnamae. From the logistics point of view it is a convenient location, as the park lies in the immediate vicinity of the St.Petersburg's highway and Tallinn Ring Road.

*Ulemiste City* is 100 meters away from the Tallinn airport and the Suur-Sojamae train station. The park is aimed at attracting various scientific organizations and universities in order to develop a symbiosis of science and business.

*Tehnopol* is situated in the Mustamae district not far from Tallinn Technical University. Its purpose is to create and develop innovation-supporting business environment. The park intends to link business and science.

The Muuga industrial park is a former production area of the *Estonfosforit* phosphorite factory. *Maardu Katlamaja*, a *KC Grupp* subsidiary, owns 50 ha of excellent land (close to the Muuga port) and plans to build the required utility lines and access roads. The land plots completed with utility lines will be put up for sale. According to the initial plans, the area will be nominally divided into four sectors, i.e. the technological park will occupy about 21 hectares, the logistics zone 14 hectares, the production space 12 hectares and the zone of railway terminals — 30 hectares.

The *Technology Park in Juri* stands at the intersection of the Tartu highway and the Tallinn Ring Road in the Rae district. The park consists of 42 plots, and there are up to 1,000 employees. In addition to sale of land plots, the technological park also offers warehouse and production premises for rent; alongside construction of the park itself a residential complex for 200 families is being built.

The *Tanassilma Technology Park* in the Saku district will be developed in a business area logistically suited for construction of warehouse space and production development. •

# New logistics centers

A great deficiency can be witnessed in the Latvian market in offices and warehouse complexes, which could satisfy European standards. At the same time, the demand for such facilities is constantly growing. Mr. Valdis Ligers, R.E.D. Pro Board of Directors' member speaks about new opportunities in the segment of logistics parks.

R.E.D. Pro company is certainly not a newcomer on the Latvian market. For 13 years the company has been specializing in supplying turnkey production complexes. With the growth of land prices and traffic jams in the Latvian capital's streets, business moves production as well as logistics facilities outside Riga. But business is not any more satisfied with the so-called "second-hand options", i.e. former production plants, obsolete factories and research institutes. R.E.D. Pro has a package of various interesting projects, and two of them are closely connected to logistics sector. A distinguishing

feature in these projects is that all the facilities are built taking into consideration both the customer's needs and business profile. First of all, the new logistics centers would welcome a specific customer or partner, who would be interested in prospective business development.

## TAKING INTO ACCOUNT THE MODERN TRENDS

In modern business the logistics has been increasingly recognized as a tool for growing profits, an important source of competitive advantages and one of the underlying factors for further success.



Office and warehouse complex near Riga. Draft design.

This is why it is not only that large companies can presently afford building logistics centers. It is also being done by medium-sized and small businesses, which usually carry significant expenses in freight, warehousing, etc.

The logistics parks' specific lies in the fact that a clear detailed logistic concept has to

be developed taking into consideration the company's specialization. Based on this, premises in the required area and configuration will be built, the necessary equipment bought and installed, etc. R.E.D. Pro specialists would take into consideration all those components, when working on the new projects.

# According to European standards

One of the planned facilities offered by R.E.D. Pro is an office premises and warehouse complex (1.3 hectares of land).

It is situated in the Marupe district just outside the Latvian capital, about two kilometers away from the Riga airport. Total warehouse area is 5,000 m<sup>2</sup> and total offices space — 2,000 m<sup>2</sup>. The building will be designed according to the customer's specific needs. The reputation of the developer and general contractor will guarantee quality and timely implementation. The full construction cycle from zero-cycle to turnkey can take about 18 months.

One of the project's main advantages is its good location. The logistics center will be situated near K.Ulmana Gatve, a busy highway linking different Latvian capital's districts. Due to excellently developed infrastructure, e.g. all kinds of utility lines, good roads and public transport, future employees will not have any problems reaching their offices. It should be underlined that R.E.D. Pro takes care of the further maintenance system of the building. In this way the owner won't need another firm, which would assume the functions of the property's maintenance.

R.E.D. Pro offers the second logistics center facilities situated in the Rezekne City

in eastern Latvia. About 72 hectares of land allows using the plot both for offices' and warehouse needs as well as for production purposes. One of the project's advantages is its convenient location on the intersection of main roads in Latgale, Latvian eastern region. The offer is targeted towards companies interested both in the project's complex development, as well as in investments into production development.

**For additional information about new R.E.D. Pro's projects visit the company office at: 3 Biekensalas iela, Riga, phone: +371 7602658 or e-mail: valdis.ligers@redpro.lv •**



Land plot for industrial construction near Rezekne.

# ELIPSE waits for tenants

A business and logistics center *ELIPSE* is being built in the territory of the Riga airport's business park. The project is being developed and supervised by *Plus punkts* Ltd. The investments totaled about 100 mln euros. Project manager, **Sandra Smalina** presents the *ELIPSE* concept, with the opportunities for tenants and investors.

*ELIPSE* is planned as a modern multi-functional business park. It would have a logistics and distribution center, production and warehousing facilities, an office and conference center and a cafe; some sales and service outlets are envisaged as well.

With the total site's area of 6 ha, its main advantage lies in the location and excellent infrastructure. *ELIPSE* is situated in the territory of the Riga airport within 15-minute drive from the center of the Latvian capital. In addition, the roads linking *ELIPSE* with Riga-Ventspils and Riga-Liepaja highways have been renovated recently.



## LOGISTICS AND DISTRIBUTION CENTER IS THE BALTICS' LEADER

It is planned to develop the *ELIPSE* business park in two stages. During the first stage a logistics and distribution center will be built. It has been conceived as one of the best logistics centers in the Baltics that would meet all the European requirements and would have modern special equipment.

The total warehousing area of 24,600 m<sup>2</sup> will be divided in three units. Unit 2 and Unit 3, with the area of 8,000 m<sup>2</sup> each, will be leased while Unit 1 is to be used for the needs of *Plus punkts* Ltd.

All warehouses in the center will be equipped with required logistics mechanisms for sorting out, assembling, marking, packaging and goods' storage. The premises can also be used for production purposes or as postal and transit service center, as a wholesale outlet or maintenance center.

Next to the warehouses, there will also be 4,000 m<sup>2</sup> of office space, i.e. an open area of 1,000 m<sup>2</sup> for container cargos and heavy cargos as well as a car parking lot.

Modern equipment, comfortable premises and well thought-out infrastruc-

ture would help to offer maximum-efficiency logistics and distribution services.

The construction of the *ELIPSE* Stage 1 is to begin in October this year and commissioning of the logistics and distribution center is planned in October 2007. Potential tenants interested in the project can already examine details of the site plan, equipment and terms of business cooperation.

## OFFERS FOR PARTNERS AND INVESTORS

During Stage 2 in the *ELIPSE*'s development a 15-16-storey office and



conference center will be built, with the total area of 40,000 m<sup>2</sup>, including 32,000 m<sup>2</sup> of offices and other floor space intended for rent.

The *ELIPSE*'s office and conference center will meet all European requirements. Modern technologies will be used in designs and construction of the center, paying special attention to architectural solutions, communications and interior design.

It is planned that the conference center will occupy an area of 2,500 m<sup>2</sup>, offices will take up 28,000 m<sup>2</sup> and the remaining 1,200-1,500 m<sup>2</sup> are intended for use by catering companies, sales and service's activities. It is quite likely that the conference center will be leased through operators with experience in the relevant business.

The works on the *ELIPSE* office and conference center design will start in October this year and it is planned to put the facility in commission at the end of 2008.

"Implementation of Stage 2 in development of the *ELIPSE*'s project is planned in cooperation with our partners and investors, said S. Smalina. The cooperation can take different forms, e.g. acquiring part of the project, providing investment, etc. We are open for cooperation and willing to review all proposals" •



For additional information on the *ELIPSE* business and logistics center, contact our telephone: +371 7079501, fax: +371 7243606 or e-mail: sandra.smalina@pluspunkts.lv, www.elipse-b1c.lv  
Our post address: 18 E.Birznieka-Upisa Street, Riga, LV-1050, Latvia.

## NP Properties — the biggest developer of industrial parks in Latvia

### ALWAYS BENEFICIAL: NP PROPERTIES OFFERS

NP Properties, the biggest developer and manager of industrial parks in Latvia, reports on completion of reconstruction of the first stage of the NP Business Park Jelgava industrial park.

On the whole, the company has seven industrial parks in various regions of Latvia with the total area of 130 hectares and the area of production, warehouse and office premises reaching 350 thousand square meters.

As emphasized by **Elita Moiseja**, the executive director of NP Properties, a developed network of industrial parks allows the company to offer more flexible lease terms and conditions in comparison to the competition. "The leaseholders can sign a long-term contract, but when it comes to the moment that the old premises are too small or the company's activity changes, we can find and offer new premises in the same or another industrial park. Also, if the leaseholders wish to build their own production or warehouse on the territory of one of our industrial parks, we offer ready-made premises in one of the reconstructed parks for the period of their construction," comments E. Moiseja

### NP BUSINESS PARK JELGAVA: ONE OF THE LARGEST IN LATVIA

At the present moment NP Business Park Jelgava is the largest reconstructed industrial park in Latvia with the total area of 23 hectares and the area of the premises exceeding 111 thousand square meters.

This impressive by its size project of the industrial park has become reality on the territory of the former automobile plant RAF, which used to have a reputation of the machine-building capital.

"Despite the enormous current volume of reconstruction works, it is possible to lease spacious and fully-reconstructed premises, which would meet all the client's expectations already now. Proper production environment, developed infrastructure and strategically beneficial location ideally suit for the companies engaged in light and heavy industry and logistics," E. Moiseja points out.

NP Business Park Jelgava is situated in the town of Jelgava 42 kilometres away from Riga. Jelgava has always been considered a town with highly developed infrastructure and industry. Beneficial geographical location of Jelgava plays an important role as well. Jelgava is at the crossroads of railroads connecting the north with the south and the east with the west. The new industrial park is just two kilometres away from the circle line connecting the highways Jelgava-Riga and Jelgava-Lithuanian border, that leads further to Europe.

### WITH FUTURE PERSPECTIVE: NP INDUSTRIAL VILLAGE

In Riga NP Properties is engaged in development of a large NP Industrial Village, which occupies a territory of 540,000 square meters in the suburbs of Riga. In the village, land lots of 5,000 square meters are planned for purchase and long-term lease.

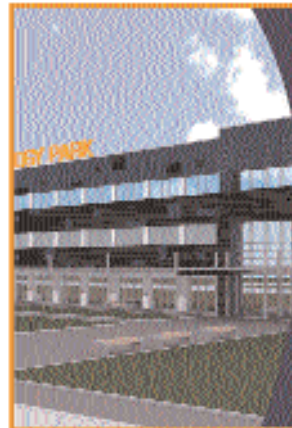
"This village will become a very convenient and modern house for the companies of various activities related to logistics, transport, distribution and production that consider it important to be located outside the crowded Riga city centre near to city circuit roads," says E. Moiseja. •



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Access roads, communications

N  
E  
W



### NP Business Park Jelgava

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and office spaces for rent  
with total area of 111 000 sq.m.

N  
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# AVE TRANS GROUP

## Logistic operator rendering a unique complex of services



### AVE TRANS GROUP

#### Our main aims are:

- Creation and implementation for our clients most optimal goods delivery chains regarding various taxation, customs and transport specifics, including subsequent service control;
- All sorts of supplementing service provision, i.e. financial, legal, insurance, accountancy, repair etc.

#### Our policy and purpose:

- Complex service is more efficient and less expensive

#### Our group structure:

- **Consulting companies** — already 10 years in the market — providing:
  - **Information and legal support**; representation in Latvia, support and advice in finding business partners.
  - **Legal, accountancy and financial services**
  - Assistance in **visa-support** activity
  - **Insurance broker**:
    - All kind of insurance on the EU territory, compulsory insurance in RU, disputes resolution, independent expert assessment, technical expert reviews, etc.
  - **Transport-logistics division**:
    - International goods transport including all types sea and railway goods delivery, as well as export-import logistics within the EU territory, as well as that of the Baltic States, CIS and so on.
  - **Customs terminal service**:
    - **Custom clearinghouses and custom brokers** licensed to processing necessary documents and holding all kind of goods including food-stuff and excise goods; provision of all kind of brokers' services and guarantees
    - All sorts of custom documents for internal and transit goods with respect to goods' "individual specifics"
    - Provision of all sorts and sizes of heated and non-heated clearing-houses, as well as open parking lots
    - Provision of all kinds of loading and un-loading operations, including sorting-out performances
    - Containers' storage facilities
  - **There is a division of national Latvian Custom Service on our custom terminal territory**

### AVE TRANS GROUP

#### Industrial Park

AVE TRANS GROUP has acquired an **industrial park** next to **Riga Commercial Port container terminal** and our clients can rent necessary facilities just 7 minutes from Riga down-town. The park can provide as well the following services:

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We have our own transportation companies including both international road transport firms in Latvia (Riga) and Russia (Moscow)

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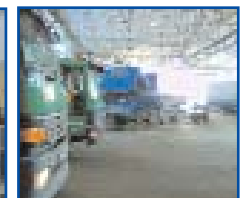
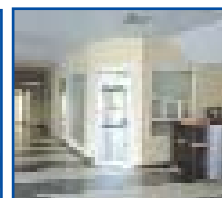
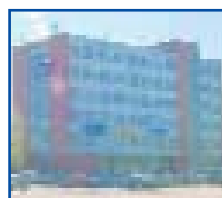
#### Auto-repair works' Section:

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- We can assist in **buying and selling used cars**

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# New life for old electric train

*Rigas Vagonbuves Rupnica (RVR, Riga Carriage Building Plant)* is working on a large order. There are 68 cars of the ER-2 electric trains that need to be fully restored by summer 2008. RVR received this contract after winning the tender organized by *Pasazieru vilciens (Passenger Train)*, a subsidiary of the state-owned railway company *Latvijas dzelzceļš (Latvian Railway)*. The total value of the contract is 13.7 million lats. For the first time in Latvia 75% of the required financing will come from the EU funds. The first four cars of the new old electric train were put on the tracks on September 14, right on the schedule.



The electric train cars return to the plant where they were made 24-34 years ago. During this time they have been seriously worn out from use. In addition, this rolling stock had to live through the stormy times in the early 1990s and the regress to hard wooden benches because of vandals, who frequently used to cut the artificial leather upholstery of the seats. Now passengers are no longer satisfied with wooden benches, and the confined and uncomfortable train driver's cabin also needs a major overhaul.

## UNIQUE CHANCE

The rail cars brought to the plant are fully dismantled, leaving only an empty metal frame. The driver's cabin is also cut off to undergo complete transformation. RVR General Director **Vladimirs Camans** said that the order from *Pasazieru vilciens* was the largest that company had received recently. Moreover, RVR was the only company, which bid for the contract.

This can be explained by peculiarities of the rail gauge in the former Soviet Union republics. It is broader than the standard European gauge, therefore RVR has a unique

chance to carry out renovation of all electric trains running along tracks from Vladivostok to Minsk. This unique position is further strengthened by the fact that RVR had a monopoly on making electric and diesel trains in the former Soviet Union.

## ORIGINAL DESIGN

RVR works hard to keep up its reputation. At one time a number of engineering and mechanical personnel left for Russia to work at a plant in Demikhovo. This was where the Russians, to a large extent thanks to contribution by the staff from Riga, started making the same ER-2 electric trains. But the designs of the new, upgraded electric train are original and have been developed in compliance with all EU requirements. The rail car interior will be changed completely — there will be new soft seats, an air conditioning system and even a special compartment with transparent walls for conductors. The driver's cabin will also change greatly. The train operation will become fully automated, and the cabin itself will be much larger than before.

In fact the plant would turn out completely new rail cars, which would have all 20,000 parts replaced. "After the overhaul the electric trains should run for at least another 15 years," said *Pasazieru vilciens* board chairwoman **Linda Baltina**, "but we have plans to buy brand new rail cars. We build our plans on increasing popularity of commuter trains among residents of Latvia. In 2005 electric and diesel trains carried 25.5 million passengers, up 8.8% from the year before."

## HOPE FOR EU SUPPORT

But this program requires substantial financing. After all, to renovate a single rail car would cost 150-300 thousand lats (215-430 thousand euros) depending on its configuration. But a new train will cost much more. At present the Latvian electric train fleet consists of 22 trains with 6 cars each. A simple calculation would show that full upgrading of the entire rolling stock would cost at least 16.8 million lats (24 million euros). Still, there is a hope for the EU support.

In that case it is most likely that RVR will have to build those trains because any foreign rail car producers will have to create designs suitable for the local rail gauge and this would seriously increase the costs.

Speaking at an official ceremony, Baltina thanked former Transport Minister **Ainars Slesers**, who had initiated the train renovation project in his time. A. Slesers said that once people realized the comforts of a train ride, they would switch from buses to electric trains. Therefore it was time not only to upgrade the old trains, but also to buy brand new, comfortable and fast electric trains. •

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The conference is traditionally devoted to improvement of transport services, development and strengthening of partnership of all the participants of the transport process of the Russian railway, and to summing up the OAO RZD's results of the year, as well as those of the railway reforming.

## MAJOR ISSUES TO BE COVERED:

Enhancement of the services provided for cargo owners under the conditions of transport sector reforming  
Crucial issues of cooperation between all the transportation process participants: technological, economic and legislative aspects  
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Problem of external investment bringing in the transport sector  
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First natural gas plant in Riga in the 1930s.

The largest gas deposit, built in 1901. The building has now been restored and is used by Latvijas Gaze for office purposes.

# Latvijas Gaze: today and tomorrow

By Olga Pavuk

Quite remarkable that start of combustible gas production in Riga, which began in 1862 has occurred at the time of the Riga Technical University inauguration. Since then all leading experts in Latvian natural gas industry have graduated from that university. **Adrians Davis**, who has risen from an engineer to a company head, received his diploma in 1965 and has been in charge of the natural gas utility *Latvijas Gaze* for 20 years already.

Privatization of *Latvijas Gaze* began in 1997 and was completed in 2002. Today it is a private company owned by *E.ON Ruhrgas International AG* (47.23%), *Gazprom* (34%) and *Itera Latvija* (16%). The company now employs a staff of 1,340 people, who serve over 400,000 clients. In 2005 *Latvijas Gaze* had 428,000 household clients and 5,500 commercial and industrial clients.

## CONSUMPTION

The share of natural gas in total consumption of primary energy resources in Latvia is 31.1% (20.2% in 1996). Oil products and wood have slightly smaller shares at 28.9% and 28.8%, respectively, with the share of electric power at 9.5%. Latvian fuel consumption balance now consists of natural gas – 56%, wood – 27.5%, oil products – 10.4% and fuel/heating oil – 3.6%.



**ADRIANS DAVIS:** Being in Latvian gas supply business since 1965.

“The number of households using natural gas for heating purposes has increased steeply in the last decade, said A. Davis.



## TOP-20 BALTIC IT SERVICES COMPANIES IN 2005, TH EUR

Rank	IT services revenue				Total revenue				Growth, %/year
	H1 2006	H1 2005	Growth, %/year	% of total, H1 2006	H1 2006	H1 2005	Growth, %/year		
1.	Sonex Group (Lithuania)	10861	8689	25%	34.9%	31105	28557	9%	
2.	Exigen Group (Latvia)	9373	8300	13%	100%	9373	8300	13%	
3.	MicroLink Eesti (Estonia)	4839	3769	28%	58.3%	8299	5715	45%	
4.	Alna Group (Lithuania)	4270	3629	18%	52.6%	8114	8083	0%	
5.	Elsis Group (Lithuania)	3330	3686	-10%	30.4%	10969	8984	22%	
6.	Webmedia Group (Estonia)	2480	1223	103%	92.5%	2680	1544	74%	
7.	Columbus IT Partner (Latvia, Lithuania, Estonia)	2374	2068	15%	75.9%	3128	3256	-4%	
8.	Helmes (Estonia)	2264	1126	101%	52.3%	4331	2327	86%	
9.	Baltic Data Center (Lithuania)	2137	1841	16%	100%	2137	1841	16%	
10.	MicroLink Lietuva (Lithuania)	2072	1879	10%	77.5%	2673	2054	30%	
11.	Blue Bridge (Lithuania)	1832	1474	24%	17.4%	10516	8621	22%	
12.	Tilde (Latvia)	1580	1052	50%	100%	1580	1052	50%	
13.	Baltic Amadeus (Lithuania)	1576	565	179%	27.5%	5730	3320	73%	
14.	Edrana (Lithuania)	1034	527	96%	97.8%	1057	564	87%	
15.	FMS (Latvia)	1015	402	152%	97.0%	1047	402	160%	
16.	Sintagma Group (Lithuania)	956	1178	-19%	20.8%	4602	2894	59%	
17.	Santa Monica Networks (Estonia)	924	623	48%	19.3%	4800	3263	47%	
18.	New Vision Baltija Group (Lithuania)	840	719	17%	22.8%	3691	3924	-6%	
19.	NDR (Lithuania)	546	233	134%	96.9%	563	233	142%	
20.	Rix Technologies (Latvia)	529	435	22%	100.0%	529	435	22%	
Average	-	-	26.3%	46.9%	-	-	22.6%		

This is the proprietary ranking of the leading Baltic IT service companies by their revenues from in-house developed IT services and does not include any sales of hardware, distribution of software other than developed in-house, office equipment or other products.

Wherever gas is available in Latvia, all consumers — commercial clients, industrial plants and households — try to switch to natural gas. Out of 16 large Latvian cities supplied with natural gas, in 13 cities natural gas share in fuel consumption reached 56-99 per cent. Only in three cities in eastern Latvia the share of natural gas consumption is 10-33 %.

According to Mr. A. Davis, natural gas consumption is likely to grow in future. “Every year we build 220-220 km of gas pipelines, investing 5-8 mln lats annually,” he added.

Steep rise is expected in 2008 when a new power unit will be launched at the thermal power plant TEC-2 in order to improve heating supply in the Latvian capital Riga, and provide for “parallel” electric power supply. Following the installation of the second power unit and additional gas supply to more cities and towns, natural gas consumption in Latvia will reach 2.5-2.7 bln m<sup>3</sup>. It should be noted that gas consumption was at the level of 1.664 bln m<sup>3</sup> in 2005 and are planned to reach 1.850 bln m<sup>3</sup> in 2007.

### STORAGE

The underground natural gas storage facility in Incukalns fully meets Latvian natural gas needs in winter season and also assists gas supplies to Estonia and Russia’s western region according to established contracts. In emergency situations natural gas is also supplied to Lithuania.

“The company’s main aim is to ensure stability of supplies in summer and winter,” said Davis. We also have to meet contract terms and ensure safe and uninterrupted functioning of the entire gas supply system, i.e. underground gas reservoirs, the gas main system and the gas distribution system.”

Latvia’s peculiar situation suggests steep summer decline in natural gas consumption contrary to growing consumption in winter, e.g. natural gas consumption in winter is 4-6 times higher than in the summer. In such situation it is nearly impossible to meet the natural gas needs without underground storage and with the existing gas delivery system. In case of very cold winter large natural gas consumers such as *Latvenergo* electric power utility, *Rigas siltums* heating utility, etc., would be required to use reserve fuel (fuel oil, coal, diesel fuel), which would greatly increase costs for production of heat and heating services.

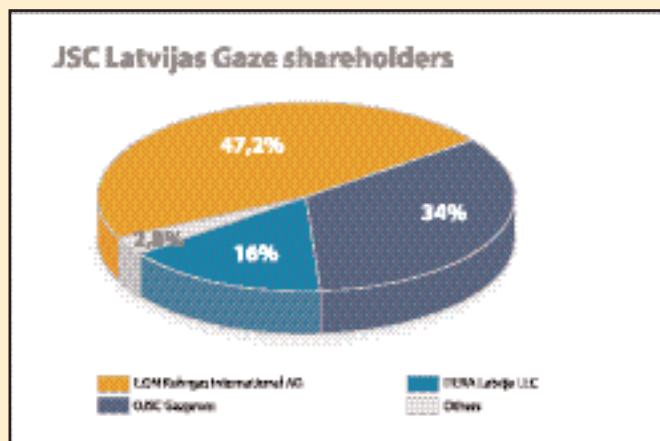
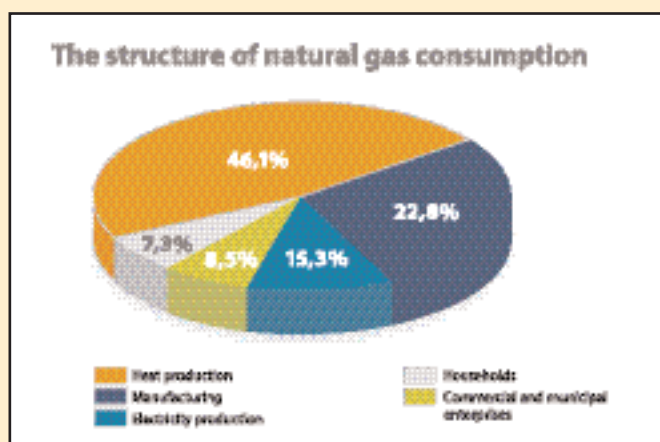
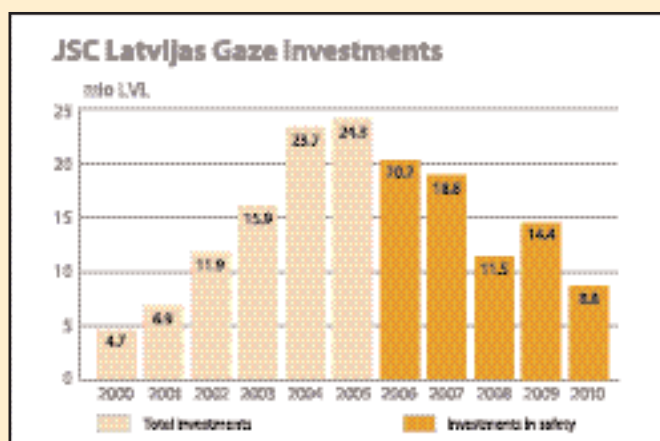
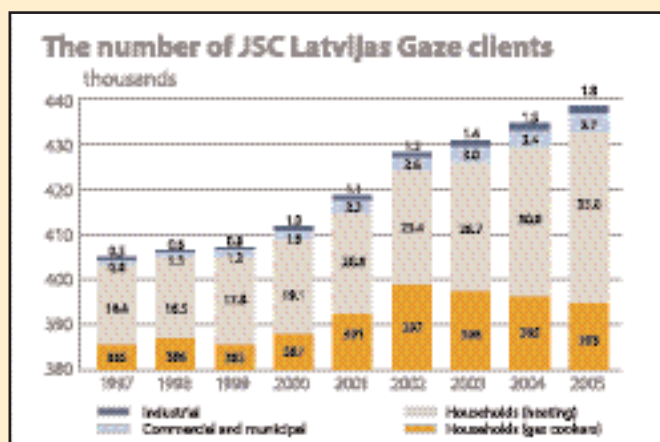
The current natural gas storage volumes in Latvia amount to 2.3 bln m<sup>3</sup>. These are volumes that can be pumped in and out of the storage facility annually. According to forecasts by experts in Moscow Gas Research Institute, it is possible to increase active gas consumption to 2.6 bln m<sup>3</sup> or even to 3.2 bln m<sup>3</sup> (when the total amount of deposited gas would be 6.2 bln m<sup>3</sup>, including 3 bln m<sup>3</sup> of buffer gas share).

The most important steps planned by *Latvijas Gaze* in modernizing the Incukalns storage facility are construction of a new compressor unit, modernization of 15 wells, renovation of collection points, etc. It is planned to invest 46.3 mln lats into safety measures at the Incukalns underground gas storage facility by 2010.

### TRANSPORTATION AND DISTRIBUTION

Distribution of natural gas to consumers is being done through 46 gas distribution stations, of which 35 have been fully renovated. Another four stations will be modernized this year, including one station situated in Riga.

It has to be taken into account that the main gas-system infrastructure with total length of some 1,250 km was built mainly in 1960s-1970s. It means that by now they have been in operation



# IT services revenue growth continues

By Martynas Visockas, Vilma Lisauskaite, Algimantas Nedzveckas,  
Prime Investment, Lithuania

Prime's TOP-20 Baltic IT services companies sustained a high pace of growth during the first half of 2006, which indicates that the sector will show significant annual growth for the third year in a row. Companies in Prime's TOP-20 increased the share of revenue from IT services in the composition of total revenue as it grew by 26.3% compared to 22.6% growth in total revenue. Five companies in the ratings more than doubled IT services revenue comparing to H1 2005.

*Sonex Group*, the leader in the rankings reinforced its first place and had the largest total revenue among all TOP-20 Baltic IT services companies in IH 2006.

Revenue growth of over 40% from sales inside of the Baltic States was the main driver of *Exigen Group's* revenue growth. Income from the Baltics make up less than 40% of the company's total revenue, thus the total growth was quite smaller.

Meanwhile Lithuanian IT services provider *Alna*, which takes the 4<sup>th</sup> place, had almost 50% growth of revenue from exports outside of the Baltics.

Export revenue make just below 35% of the *Alna's* total revenue.

*Webmedia Group*, a high-end software development company with headquarters in Estonia, continued its very fast organic growth and managed to double IT services revenue compared to IH 2005. The company has development centers in Estonia, Lithuania, Serbia and Romania, and it is starting its activities in Scandinavia, where it opened an office a year ago.

*Helmes*, an Estonian software development company was active in large projects in telecommunications, logistics and financial software solutions that allowed it to double IT services rev-

enue. The revenue growth also resulted in a 311% increase in consolidated profit that reached 0.7 mln euro. The last year's acquisition of *Trigger Software*, a former subsidiary of *Tele2 Estonia*, certainly contributed to such an improvement, and *Helmes* itself also carried out a larger number of projects than a year ago.

Several new large projects significantly boosted the revenue from IT services of *Baltic Amadeus* as well, which stood out with the highest IT services growth of 179%.

*Edrana* is another company that increased its revenue from IT services almost twice. The company offers business management systems but its strongest positions are in providing personnel and salary payment process management and accounting solutions. These positions were enhanced last year by acquiring one of the competitors (*Infotema*) with its clients' base, which also contributed to such performance improvement. This year *Edrana* made another small acquisition in Lithuania (see in Corporate news' part below) and launched a subsidiary in

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16. Sintagma Group (Lithuania)	956	1178	-19%	20.8%	4602	2894	59%
17. Santa Monica Networks (Estonia)	924	623	48%	19.3%	4800	3263	47%
18. New Vision Baltija Group (Lithuania)	840	719	17%	22.8%	3691	3924	-6%
19. NDR (Lithuania)	546	233	134%	96.9%	563	233	142%
20. Rix Technologies (Latvia)	529	435	22%	100.0%	529	435	22%
Average	-	-	26.3%	46.9%	-	-	22.6%

This is the proprietary ranking of the leading Baltic IT service companies by their revenues from in-house developed IT services and does not include any sales of hardware, distribution of software other than developed in-house, office equipment or other products.

Source: Prime Investment.

St. Petersburg (Russia), where it has already found clients for its personnel and salary payment process management solutions adapted to Russian legislation. This sets up *Edrana* for continuing its pace of growth.

Latvian *FMS (Finance Management Solutions)* produced one of the

largest percentage increases in revenue from IT services and had the largest growth in total revenue. The company was established only in March 2005, thus high percentage growth is understandable. Nevertheless, it also reflects general growth of the Latvian ERP market and successful business start of *FMS*.

*NRD*, a specialized registers development company, showed nice growth figures in the Baltics as well as in export markets. During H1 2006, *NRD* exported its services in the field of modernization and reformation of State registers, and the company's export revenue made up about 1/3 of total revenue. •

## IT News

### LITHUANIAN TELEMETRY START-UP ATTRACTS INVESTMENT OF SKYPE'S CO-FOUNDERS

Two Estonian investment groups acquired a majority stake in *Europos Telemetrijos Centras*, a Lithuanian start-up that provides remote monitoring and control solutions with the brand name of *Connecty*.

*Ambient Sound Investments (ASI)*, established by four co-founders of Skype, now holds 30% of *Connecty*. Private equity firm *InnoCap* owns 25% of the company, with the remainder distributed between *Connecty's* two co-founders and a private investor.

The newly announced investments will help *Connecty* to develop new products and strengthen its position in the Lithuanian market. Tapping into *ASI's* existing investment portfolio, *Connecty* will also develop joint solutions with *Oskando*, an Estonian telematics company that makes vehicle-tracking devices. *Europos Telemetrijos Centras* was founded in early 2005 in Vilnius, Lithuania, but it has already participated in *CeBIT* exhibition. Last year *Connecty* was awarded as the best information system of the year during *InfoBalt*, the biggest IT exhibition in the Baltic states. The company has five employees and expects to add several new staff in the near future.

### LATTELECOM TECHNOLOGY SOLD FMS

*Lattelecom Group*, the leading provider of electronic communication services in Latvia, sold *FMS*, which was a subsidiary of Group's company *Lattelecom Technology* (previously known as *MicroLink Latvia*).

One of 7 new private shareholders is **Janis Bergs** (27.5%), who was the board chairman of *Lattelecom Technology* until the deal and now continues as the chairman of *FMS*.

*FMS* was sold because its area of operations — development and maintenance of the finance and bookkeeping software solutions *Apvarnis* and *UVIS*, along with distribution of the data analysis solution *MicroStrategy* — was not a part of the *Lattelecom Group's* strategic priorities. *Lattelecom Tech-*

*nology* focuses on outsourced IT services and infrastructure solutions, installation and maintenance of company information and management systems, and user training.

*FMS* will continue developing functionality of its ERP solutions. It has made investments to localize its ERP software in Lithuania where it already started its first projects and plans to establish a subsidiary.

### HERMITAGE SOLUTIONS OPENS A SUBSIDIARY IN LITHUANIA

A French IT company *Hermitage Solutions*, which already has a subsidiary in Latvia, has made another move into the Baltic region and established a daughter company in Vilnius, Lithuania. *Hermitage Solutions* will distribute IT security solutions created to protect computers from spam, damaging programs and hackers, and to deal with other digital data security issues. The managers of the company see small and medium sized business as their client. **Paulius Ceponis**, the director of the new Lithuanian subsidiary, forecasts that the demand for such products will grow by 20% in the coming years. In 2007, the company expects revenue of 200 th euro.

### NEXUM INSURANCE TECHNOLOGIES TO ENTER LITHUANIAN INSURANCE MARKET

Latvian IT company *Nexum Insurance Technologies (Nexum IT)* has opened a subsidiary in Vilnius. It is the only company in the Baltic States, which is specialized in the development and implementation of specialized software solutions for life and non-life insurance companies. Solutions by *Nexum IT* help optimize business processes, automate policies management, decrease handwork, increase and simplify productivity and operations analysis of insurance companies. *Nexum IT* was established in 2004 by *Tilde*, the market leader of Latvian language software products. *Nexum IT* employs 35 skilled and experienced professionals and is a Microsoft Gold Certified Partner.

### LATVIA AND TELIASONERA ARE CONSIDERING THE SWAP OF LMT AND LATTELECOM

Latvian Government and Scandinavian telecommunications corporation *TeliaSonera* are getting closer to an agreement on a swap deal by which the Government would regain full control of *Lattelecom* in exchange for its stake in the largest Latvian mobile network operator *LMT*.

The assessment of *Lattelecom* and *LMT* is carried out and it is expected that the valuation will be completed at the end of November or beginning of December. Currently the Republic of Latvia owns 51% of *Lattelecom* and *TeliaSonera* holds 49%. The ownership of *LMT* is the following: *TeliaSonera* — 49%, *Lattelecom* — 23%, *Latvian State Radio And Television Centre* — 23%, and another 5% belong to the Ministry of Transport.

### EUROSET ENTERS THE BALTIC STATES MARKET

By the end of this year, Russian mobile handset retailer *Euroset* plans to open up to 150 outlets: 25-30 in Estonia, 50 in Latvia and 65 in Lithuania. It will invest 50-70 th euro in each outlet. *Euroset* plans to operate in the three countries under the brand name *Ultra*. *Euroset* has over 200 stores in Russia. *Euroset* also plans to become a virtual network operator in the future.

### BITE LAUNCHES HSDPA SYSTEM IN LITHUANIA AND LATVIA

*Bite*, a GSM operator active in Latvia and Lithuania is going to speed up mobile data transfer to 3.6 Mbps in partnership with Ericsson. *Ericsson*, a telecom equipment and services provider delivers HSDPA hardware, software and implementation services to upgrade *Bite's* 3G network in Lithuania and to build HSDPA-enabled WCDMA/UMTS network in Latvia.

Baltic GSM operators owned by *TeliaSonera (Omnitel* in Lithuania, *LMT* in Latvia, and *EMT* in Estonia) have also introduced HSDPA technology. In Lithuania and Latvia the supplier was *Nokia*, while in Estonia the technology by *Ericsson* was used.



## Sanus Per Aquam — health through water

By Anzhela Rzhishcheva, *Latvia*  
 Sergei Sergeev, *Verslo Labirintas, Lithuania*  
 Dmitry Kulikov, *Delovye Vedomosti, Estonia*

Pine trees on dune beaches, beautiful sea endlessly throwing foaming waves to the flat sandy shore — this is a visit card of the Baltic resorts. One can both have nice holidays here and improve health and re-invigorate mentally and physically. Contemporary Baltic health resorts, SPA-sanatoriums and centers can be proud of the created symbiosis of traditional sanatorium-type health resorts coped with contemporary treatment methods.

### LATVIA: BELNEOLOGY'S COMEBACK

“About 3.8 mln tourists visited Latvia last year. To compare, during 2004 there were 3.03 mln people, in 2000 — 1.9 mln, said Latvian tourism development agency director **Uldis Vitolins** in the interview to the *BC*. He added that that in 2005 more than 24 thousand hotels, sanatoriums, guesthouses were actively working in Latvia. They have accommodated about 1.15 mln guests, with an average of 2.3 days’ stay in Latvia.

About 9.7 thousand people have rested and underwent medical treatment in sanatoriums (an average, length of stay was 14.7 days). About 19 thousand have used Spa-hotels’ services with an average length of stay of two days.

#### TOP SPA-CENTERS IN LATVIA

1. **Baltic Beach Spa Center (Jurmala).**
2. **Hotel Jurmala Spa (Jurmala).**
3. **Spa-Hotel Alve (Jurmala).**
4. **Spa-center in Vaivari sanatorium (Jurmala).**
5. **Spa-center based on the Vards’ medical center facilities (Riga).**

Source: Data from the Baltic Spa Professional Association.

Tourists were coming from Germany — 17%, Finland — 12%, from Lithuania and Estonia — 9%, from England — 8%, 6% from Russia and Sweden, 3% — from Italy, Poland and Norway. The remaining 37% came from Latvia.

Apart from the traditional climate treatment factors and recreational programs offered by Latvian sanatoriums, Spa-services are becoming more and more popular. Such service is offered in Riga (Spa-centre based on the premises of *Veselibas centrs 4*, *Liora Beauty Institute*, etc.) in Jurmala (*Baltic Beach Spa Center*, *Hotel Jurmala Spa*, *Aquae-Triumphus*), as well as in other regions in Latvia.

Unique for Eastern European countries Spa-center, *Marcienas Muiza* is situated near Madona (150km from Riga), which is a divine corner of nature, far from the city’s fuss. 40 different Spa procedures are at client’s service, some of them are in national styles. For example, a countryside terrace’s steam bath with a big wooden tub with heated water and various bunches of trees.

Spa-centres are being organised in other Latvian regions; one of the major Spa-complex is under construction in Liepaja, added Mr. U. Vitolins.





“During last 10 years Spa-technologies have been broadly used all over the world, including Latvia. The range of Spa’s possibilities are broad enough, e.g. physical- and health- rehabilitation, treatment with natural herbs, relaxation, beauty salons and non-traditional health recreation using Terma and Wellness-type treatment, said to the *BC Svetlana Shabalina*, the president of the Baltic Spa Professional Association.

The most popular Spa-resorts in Latvia are Antistress, Relax and Mental — for the renewal of “mental equilibrium”; Sliming (for weight’s losses), Detox (for stomach’s purification), Antiage (for body rejuvenation), Beauty (for beauty treatment) and various kinds of programs, e.g. for active people, for men, for pregnant women, etc.

Spa-compositions can be divided into some levels.

1<sup>st</sup> level includes a set of procedures with one to three hours’ duration (average cost of 50-70 euros).

2<sup>nd</sup> level is Day-Spa: the program intended for the whole day (the cost is about 140 euros).

3<sup>rd</sup> level is the Spa’s subscription including a set of procedures taking several days (cost — about 430 euros).

“Spa is a relatively new trend in Latvia. That is why at the moment there are no strict rules concerning this service, S. Shablina emphasized. The main task for our association, she added, was to develop legal acts to regulate the sector and first of all the criteria to certify specialists. This will increase service’s quality as the most important for Spa-center’s specialists is not to fail clients expectations”

Now the Spa Baltic Spa Professional Baltijas Association unites about 30 members. Association is open for cooperation.

**Solveiga Freiberga**, Jurmala information resort-tourism center director has told the *BC*: “Tender sun, sea air enriched by phitonicides’ ions and sandy beaches, healing mineral water and healing-

mud, these are the components of Jurmala resorts. Among leaders in the sector are such sanatoriums as *Jaunkemeri, Vaivari, Belorussija, Jantarnij bereg, Baltic Beach Spa Center and Hotel Jurmala Spa*. A combination of climate factors, sanatorium and health resort treatment with available prices attract tourists (on average, a place in the hotel with treatment and food will cost about 35 -50 Euros)”

*BC*’s correspondent asked Mrs. Freiberga: what impedes the city-resort Jurmala’s prospective development?

“Undoubtedly, first of all, visa policy regarding former Soviet Union’s citizens. But this special, quite long and painful issue. I will bring up a fresh example: tourists from the East come to Latvia in May as they have a whole week of holidays. But this year, because of the world cup in ice-hockey Jurmala hotels, Spa-centers and sana-

#### FROM THE ANCIENT ROME’S TIME

Spa originates from the Latin “*Sanus per Aquam*”, which means “health through water”. This notion is known since Ancient Rome, where thermal springs and baths were used for illness treatment. Spa today is a complex of procedures using any kind of water, e.g. mineral, sea, regular tap water, as well as sea weeds and salt, medicinal mud and curative plants.

Spa-procedures are aimed both at cure, rehabilitation and body relaxation. Affecting through skin, Spa-components activate metabolism’s processes and blood circulation, help to drain out from the crop various toxins, all that which generally favors health. Besides, Spa helps to reach personal psycho-emotional equilibrium.

Spa can be called without exaggeration a magic terran, which one can enter shutting the door and leaving all the worries behind! This is a completely new approach towards oneself, one’s health, mental state and physical appearance.



**SVETLANA SHABALINA:** Most important for SPA-center's specialists are not to fail clients' expectations.

the revival of "balneology doctor" specialization, including it into the Latvian profession's register. I hope that our proposals will be taken into consideration", she concluded.

#### LITHUANIA: THE COURSE TOWARDS REHABILITATION

Popular sea resorts, such as Palanga and Neringa have earned broad recognition in Lithuania. Apart from the sea, continental resorts on mineral springs are also popular in Birštonas and Druskininkai. In

toriums increased their prices so high that we have lost almost all of our traditional guests.

About 20 years ago a special branch of medical treatment as balneology was widely developed in Latvia. In the early 1990s Latvian officials decided that the country did not need any more such health-care treatment", she added.

"This spring the meeting of doctors with a specialization in balneology took place, e.g. those with the qualifications in balneology", explained **Vera Krase**, cardiologist with 26 years' experience to the BC. A resolution was adopted and sent to the Ministry of Health in which a necessity of the

the past years, citizens from all over the Soviet Union came to Lithuanian mineral-water Spas for the treatment. Some ten years ago the resorts have experienced difficult times, i.e. unprofitable clinics went bust, the walls of enormous sanatoriums dilapidated.

Today the situation is getting better. Sanatoriums and clinics are waiting for the patients. However, from the time Lithuania regained independence, the government did not increase its resort zones; no scientific research in the field of balneology was done. Except that places that wanted to receive a status of a resort come up, although they do not correspond to the broadly acknowledged norms for resort zones.

Two thirds of foreign tourists are confined to visiting only Vilnius and Klaipeda. Guests are unlikely to visit all other towns and regions. There are several reasons for that. There is not enough information literature in foreign languages, the activities of tourism information centers are insufficient, and sometimes infrastructure is obsolete.

Statistics has show that Lithuanians most often go to Lithuanian resorts on weekends, while foreigners take a week or a couple of weeks. About 27% of foreigners are coming to Lithuania for rest and 55% — for business.

In all, 47% of guests of Lithuanian hotels are locals and 53% — foreigners. From foreign visitors Germans prevail — 22%, 17% of Polish, 7% of Russians, 6% of Latvians, Finns, English and Estonians constitute 4.5 to 3.5% of overall number of foreign guests. Various kinds of health treatment are offered to the guests in the hotels, e.g. from age-old massage, sauna and swimming pools, to nowadays-modern Spa procedures.

By preliminary Ministry of Statistics data about 118.6 th guests have stayed in Lithuanian sanatoriums in 2005 (5.8% more than in 2004), out of which 20.8 th (17.5% of all guests) were for-



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- Beauty parlour and SPA procedures

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eigners. The number of foreigners, compared to 2004, has grown by 7%. In Druskininkay's sanatoriums a number of foreign guests, compared to 2004, has grown by 73%, in Palanga sanatoriums by 26.3% and in Birštonasa by 16.6%.

In the hotels, guesthouses and motels in Druskininkay stayed 57,3 thousand Lithuanians (100.2% more than in 2004). In guesthouses and motels of Birštonans stayed 1.7 thousand Lithuanians (+53%), in Palanga 52.5 thousand (+35.3%), in Neringa — 9.5 thousand (+11.3%).

Most of Lithuanian citizens — about 33.2% have chosen the hotels, guesthouses and motels in Klaipėda region. The hotels and motels in Vilnius take second place: about 22.5% of Lithuanians stayed there.

Lithuanian citizens that have visited healthcare establishments in 2005 constituted 82.5% of all the clients; this already clearly manifests a reanimation of medical resorts at the expense of local tourism. Almost 37.4% of all Lithuanians have undergone treatment and rested at the Druskininkay resort, 36.6 thousand people in all (3.4% more than in 2004). In Palanga sanatoriums there were 38.6% of Lithuanians (37,8 thousand, which is an increase of 12%). In Birštonas sanatoriums there were 8.8% of all of the Lithuanians that have visited resorts (in total, 8,6 thousand, an increase of 8.3%).



**RICHARDAS MALINAUSKAS:**  
Investments into Druskininkai have increased more than 50 times during past three years.

Gradually the contingent of patients sent to sanatoriums is changing. More and more patients with serious illnesses and injuries come for rehabilitation courses. That is why additional research of the influences of individual treatment and the adverse effects of natural factors' influence is becoming more and more important.

It was assumed five years ago that many Lithuanian sanatoriums would go bust. It didn't happen. The most difficult years when Lithuanian sanatoriums have been completely dependent on financial resources from the state healthcare fund are over. Starting commercial practice the sanatoriums have begun to regenerate. Today most of them are modernized and are on the rise. It is true that there is still a couple of sanatoriums experiencing difficulties and which are not yet privatized.

During last years sanatoriums have been arranged into "niches"; e.g. there are some that put more emphasis on medical services, others on rehabilitation, third on services for handicapped,

fourth have opened services for tourists and created recreational complexes.

There is only one Spa-resort in Lithuania — *Spa-Vilnius*, situated in the town of Druskininkay. Six years ago there was a danger of sanatorium's bankruptcy, but now the resort is on the rise and 55 thousand guests visited Druskininkay in 2005; this year we expect 5 thousand more. By the ratings of the *Newsweek* agency, the Druskininkay resort is among ten best in world's list of rehabilitation resorts and is recognized as the best balneological resort in Europe.

Druskininkay's mayor, **Richardas Malinauskas** told the *BC*: "During past three years investments into Druskininkay's economy increased more than 50 times: i.e. two years ago there were hardly about 2 mln Lits, this year we expect about 100 mln Lits. New hotels, sanatoriums and clinics will be created and reconstructed. I think that the quality of services will grow too".

Prices in Lithuanian sanatoriums and service prices are ten times lower than, for example, in Switzerland or Scandinavia. Druskininkay's sanatorium association president, Mr. **Jonas Valskus** argued: "The cost of living during winter time is 48-62 litas, in summer — 62-100 litas. Treatment, food and health-procedures are included in the price. Prices depend on the room's size, i.e. double, lux, super-lux, etc".

Because of such low prices the number of foreigners in Druskininkay is growing. Foreigners occupy the main share — almost 80% of total guests: mostly from Poland, Germany, Israel, and citizens of the CIS countries. In summer it is not rare that all of the 3,500 places in country's sanatorium are occupied. Germans come to Lithuania not only to relax but also to invest. The president of Lithuanian sanatorium association, **Antanas Shatas** says that solid assistance has been rendered by German investors, whose financial aid and investments helped to improve rehabilitation sanatorium network in Lithuania.

Lithuanian citizens are re-discovering their sanatoriums again; they especially like to come to resorts on weekends. Guests in Druskininkay have told that prices for some treatment are five times lower than in Vilnius.

### ESTONIA: SPA BECOMES MORE POPULAR

There are in total 23 Spa-hotels and resorts in Estonia; 18 of which are members of the Union of Resorts and Rehabilitation Treatment (EKTL or Spa-Union). The development of this sector was relatively fast in the past two-three years. Today 23 sanatoriums and Spa-hotels have 4,700 places available, while three years ago this figure was at the level of 2,900. The number of foreigners visiting Estonian resorts has grown from 12 thousand in 1994 to 197 thousands in 2005. In the last years several new sanatoriums and Spas were opened; many of the Spas have increased a number of places by building extensions. New complexes have also appeared in Parnu — *Laulasmaa Resort, Viimsi Tervis, Tervise Paradiis* and in Tallinn — *Georg Ots Spa Hotell* in Kuressaare, *Kalev Spa Hotell ja Veekeskus* and in some small

### NUMBER OF FOREIGN TOURISTS IN LITHUANIA STAYING IN HOTELS

	2003*		2004*		2005**	
	Guests	Market share, %	Guests	Market share, %	Guests	Market share, %
<b>Total</b>	686,610	100.00	910,234	100.00	1,067,880	100.00
<b>From Lithuania</b>	330,872	48.19	417,753	45.90	502,302	47.04
<b>Foreign</b>	355,738	51.81	492,481	54.10	565,578	52.96

\* January-September.

\*\* 2005 — preliminary data.

Source: Lithuanian Statistics Department.

places for relaxation and rehabilitation: *Villa* in Viljandi, *Saka Cliff Hotel & Spa* in the country's northwestern region.

The range of services offered is broad enough: from traditional medical-rehabilitation sanatoriums (Estonia complex and Tervis sanatorium in Parnu) to places specializing in relaxation and offering cosmetic services (for example, *Georg Ots Spa Hotell*).

As Mr. **Piret Kallas**, research coordinator in tourism from the Special establishment of enterprise development told the *BC*, that there was no official gradation of sanatoriums and Spas. Thus some Estonian enterprises call themselves sanatoriums, some — rehabilitation centers, others — Spa. Many offer a bit of everything. In the majority of hotels there are conference halls that allow visitors to combine work and holidays.

A list of services is constantly growing taking into account growing competition in this business sector as clients need to be attracted by original ideas. For example, one can take "Sleep protection center" in the Kubija hotel or thermal baths in Tojla, which were once, as is advertised on the hotel's website "Ancient Rome's public-bath establishment"

In 2005 about 325 thousand guests visited sanatoriums in Estonia, 197 thousand of which were foreign tourists and 128 thousands — locals. Foreigners have stayed in average 4.2 days, locals — 2.4 days.



**IRENE VYALI:** Balneology, or health science is a sort of criterion which scientists use for evaluating health-resorts' quality.

During past years clients of Spas have changed greatly (see the table). First, the number of local inhabitants has grown. Second, the composition of foreign tourists has changed: if before mostly Finns came to Estonia during last few years the number of guests from Sweden, Norway and Russia has risen significantly.

The cause of a growing interest to Estonian resorts is based in extensive marketing in the mentioned countries. Promotion actions in Sweden were especially successful, because people there especially liked modest prices and good quality of services in Estonian sanatoriums. During last year Swedes constituted one fifth of all tourists that used Spa services.

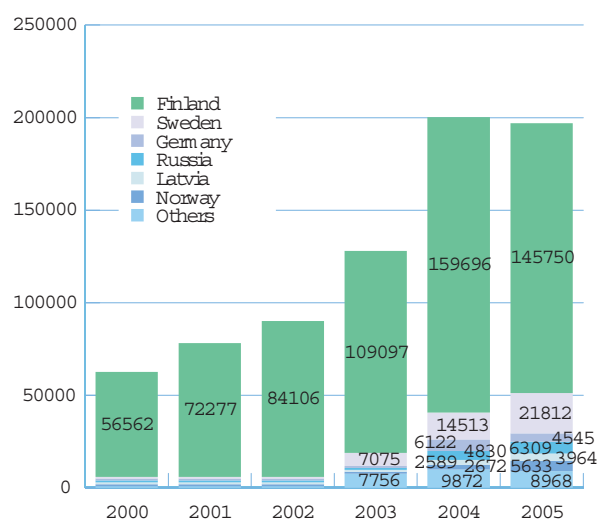
Estonian Spa union (EKTL) unites 16 different resorts and enterprises that specialize in SPA-services and rehabilitation treatment. Besides, another group of companies, that are not in the union, operate on Estonian market and the union doesn't have data on them. "That is why I can only tell about the enterprises which are members of the union," said to the *BC* the member of the board in *Haapsaluss resort Lain* ("The wave"), **Irene Vyali**.

In 2005 about 270 thousands of clients have visited hotels of the union-group (the overall number of beds in the union's members is 4 thousand), which occupied 1,03 mln bed-days. An average occupation rate in the hotels and resorts of the EKTL-group was 70%.

As to the geography of our clients, more than half of visitors (60%) were Finns, 20% — Estonians and remaining 20% were split between the representatives of other countries (3.5% — Swedes, 2% — Russians).

In comparison to statistics from 2004, in 2005 the number of bed-days has risen by 20 thousand, but the number of places remained the same. "The statistics presented tells that things are pretty well for the enterprises in the union," says I. Vyali.

### NUMBER OF FOREIGN TOURISTS IN ESTONIA STAYING IN SPA AND SANATORIUM



Source: Estonian Statistics Department.

There is another specific — the costs, e.g. in the Western part of Estonia, for example, on the Saaremaa Island the cost of services can be twice the amount in the Northeast of the country. This can be perhaps explained by the fact that the eastern region has only recently started to develop modern infrastructure by investing in the modern technologies. For example, recently Spa-Hotel Narva-Jõesuu has celebrated its 45<sup>th</sup> birthday. In the occasion the owners have invested 17 mln kroons in the complex's development.

Mrs. I. Vyali said about the balneology as a branch of medicine: "Balneology is a sort of criterion which science uses to evaluate the resort's quality. First of all climate and rehabilitation conditions of the place (resort, rehabilitation center, etc.) are evaluated, and other indexes are taken into account, for example, stress caused by changes in time zones or climate changes."

In 1957 in Parnu, on the basis of Estonia sanatorium the balneology department of the Institute of experimental and clinical medicine, later Parnu institute of balneology and rehabilitation treatment began its work. During three and a half decades the institute has investigated the medical effects of natural substances, and balneology problems. From 2002 Parnu College of Tartu University specifically deals with these problems.

Today the resort treatment has achieved good results in the field of rheumatic treatment. For the past decade, the 3-4 week's rehabilitation course was replaced by the 6-day treatment and even sometimes by 10-12 day's treatment course. Research has shown that 6-day course is effective for treating osteoporosis, spondylosis and rheumatic arthritis.

Resort treatment is characterized by preventive measures against illnesses assisted by rehabilitation treatment. The patients that have undergone the resort treatment have had 7 times less sick-days a year, compared to those that did not use the treatment.

Estonian Spa-union and hotels that belong to it mostly deal with bones and movement systems, cardiac abnormalities, problems of blood circulation, reducing negative stress' effects and overstress side effects. •

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**We offer:**

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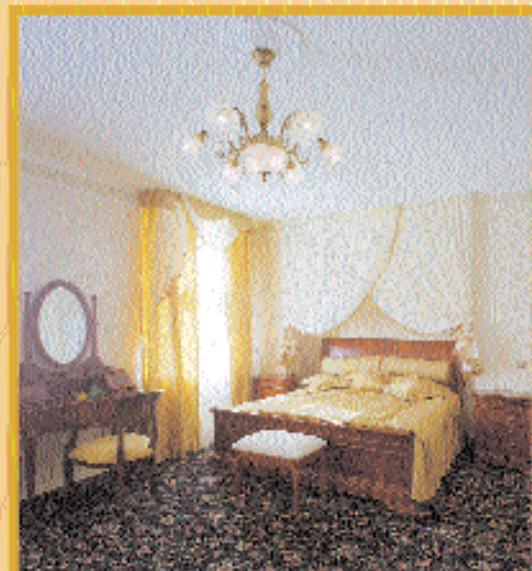
# Baltic Beach Hotel

spa & resort



## *Baltic Beach Hotel offers:*

- 165 Hotel rooms and apartments in the Garden-House
- Restaurant Caviar club (excellent European menu) with terrace and wonderful view to the sea
- Restaurant il Solo (Italian cuisine) with the sea just behind the windows
- Lobby Bar for having fun times with friends
- Retro Bar with live music, billiards and a superb choice of cigars
- Conference centre with 12 rooms of different sizes (for up to 900 guests simultaneously) for arranging conferences, banquets and other social parties
- Business Centre with well-furnished workplaces
- Baltic Beach Spa centre – one of the largest in Europe
- Fitness club Baltic Beach Sport – with heated indoor swimming pool filled with sea-water (exclusive in Baltic Region)
- Recreation and bath complex Slavic Yard
- Relaxation area Flamingo
- Excellent hall for conferences and banquets with wonderful view to the sea



## *The elegant Baltic Beach Hotel,*

fully reconstructed in 2004, is located at the very centre of Jūrmala on the Riga Gulf beach. It is only 15 minutes drive from the airport and only 25 minutes from the centre of Riga. Hotel provides rest in the atmosphere of peace and calmness. The Hotel has singles and doubles rooms, suites, presidential apartments and apartments in the Garden-House with a terrace or balcony, where a wonderful view of the sea opens up.



# The largest spa hotel on the Baltic beach!



## *In the Baltic Beach Hotel,*

you will be provided with the opportunity to taste selected meals from different parts of the world – starting with Eastern exotics and up to French delicatessen. The rich wine list will delight refined connoisseurs. There is live music in the restaurant on weekends and holidays.

## *Baltic Beach Spa centre*

is one of the most capacious in Europe. The 4,500 sq.m centre, with its three floors, allows you to enjoy undisturbed the gentle feel of natural products during treatments performed by highly qualified specialists. Surrender yourself to skilful hands of our specialists.



Baltic Beach Spa centre has three areas for:

- Relaxation
- Health care
- Beauty care

Various procedures and methods allow to improve your health and to take care of retaining the beauty and healthiness of your body and soul.

You deserve the best!

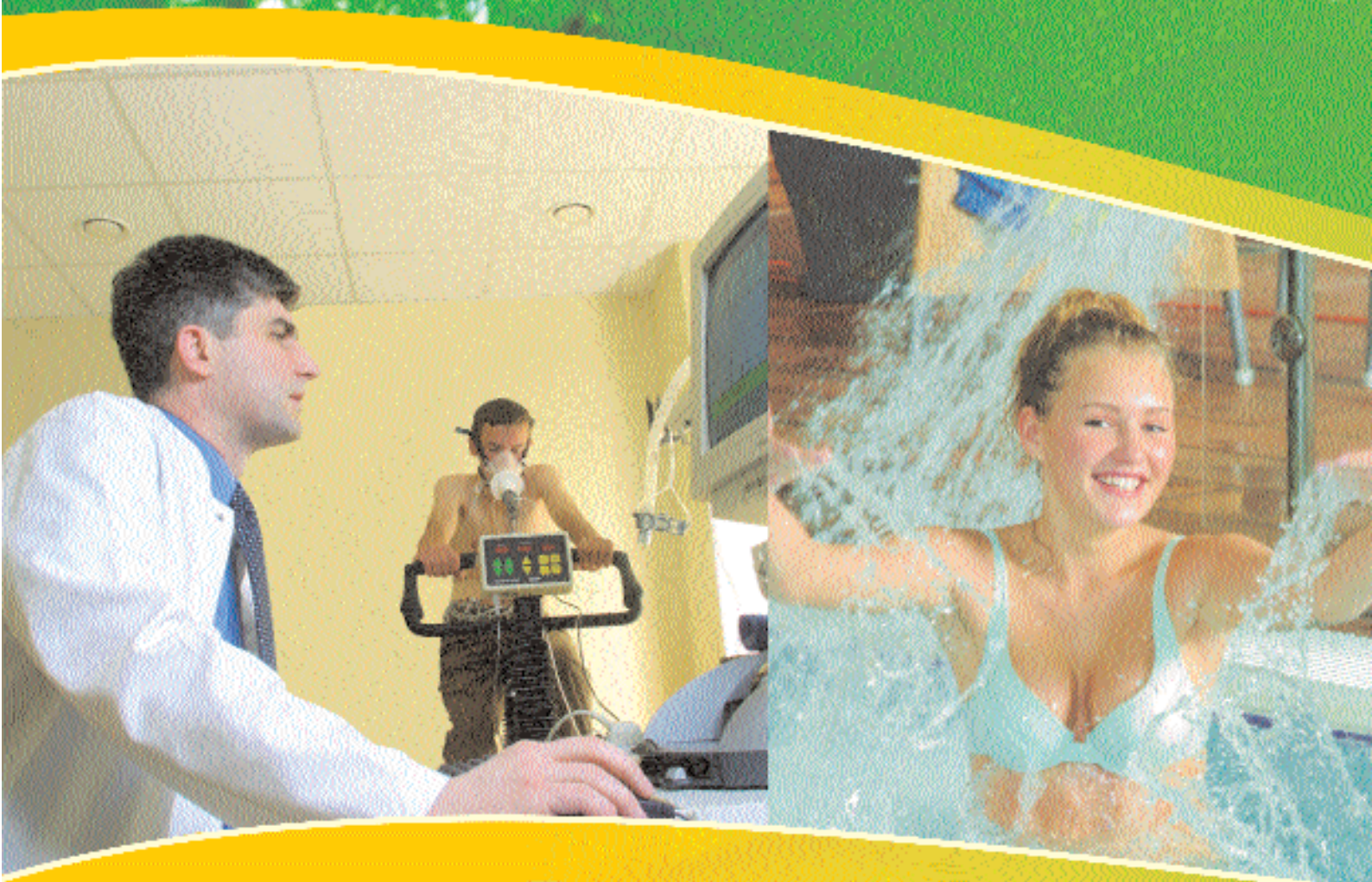


## *Welcome!*

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THE ABOVE PRICES EFFECTIVE 01 09 2006 to 31 12 2006



## Wellness package:

- Overnight stay at the room category at your pleasure
- Three buffet-style meals per day
- Physician consultation and development of wellness program
- Mineral water pool
- Jacuzzi
- Stone path - reflector foot therapy
- Circular shower
- Sauna and Turkish bath
- Fitness room and individual consultation by fitness instructor (1 h)
- 2 daily procedures

Price per one day\* VAT inc.  
starting from **59 EUR**

\*Standard double room for one person.

## Treatment package:

- Overnight stay at the room category at your pleasure
- Three buffet-style meals per day
- Physician consultation and development of wellness program
- Selected treatments complex or individual program developed by doctor
- Mineral water pool
- Jacuzzi
- Stone path - reflector foot therapy
- Circular shower
- Sauna and Turkish bath
- Fitness room and individual consultation by fitness instructor (1 h)

## Special treatment packages:

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Price per one day\* VAT inc.  
starting from **63 EUR**

\*Standard double room for one person.

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## Scandinavian expansion or trivial Darwinism?

By Olga Pavuk

What arguments are used behind the Northern European financial capital invasion in the Baltics? Some think that this way the Swedish financial invasion can, for example, control the whole Baltic region. Others think about simple Baltics' geographical proximity to the northern part of the Baltic Sea countries. There is though another opinion, i.e. that this is all a consequence of the northern states' competition for additional profits, or in fact — a trivial Darwinism, i.e. so-to-say, expand or die.

The number of commercial banks in the Baltics is comparatively high, totally 45. There are 25 banks in Latvia, 8 banks in Estonia and 12 banks in Lithuania.

The total volume of Baltics commercial banks' assets has reached at the end of June 2006 about 46.76 bln euro, according to report of *SEB Latvijas Unibanka*. Latvian banks, traditionally, occupy leading position in the Baltics as to the size of banks' assets (see the diagram below).

As to the rate of assets growth, though, Lithuanian and Estonian banks occupy the leading positions. Thus, during the last 2005 the Baltic States banks' assets increased by 43.2%, or by 12.1 bln euro up to the level of 40.2 bln. Estonian banks' assets increased by 35.5%, Lithuanian — by 53.1% and Latvian banks' — by 39.4%.

Presently, in the list of top-200 European banks there are 20 Baltic banks: 9

from Latvia, 7 from Lithuania and 4 from Estonia. The first of the Baltic banks in this list was Estonian *Hansapank*, which occupies the 16<sup>th</sup> place in the top-list. The *Hansapank's* sister company in Latvia, i.e. *Hansabanka*, which is a leading bank in Latvia, occupies in the top-list only 40<sup>th</sup> line. Leading Lithuanian bank, *SEB Vilniaus bankas* occupies in the top-list the 38<sup>th</sup> line. Aggregate assets of Polish banks at the amount of 151.9 bln euro occupy the first place in the top-list. It has to be noted that the total assets of all Baltic banks in 2005 reached about 40 bln euro and Latvian banks' share is 7.6 bln euro.

### PROFITS GO TO SWEDEN

Financial credit institutions in the Baltics have earned in 2005 a record profit — 574.7 mln euro, which made the average-per-bank profit in the Baltics of about

13 mln euro. About 10 Baltic banks have acquired profits at the level of 10 mln euro each (see table below). Negative revenues have been registered in Estonian *SBM Pank*, minus 434 th euro.

About 61 per cent of the Baltic banks' profits, or 352 mln euro, have been earned by daughter structures of the two Swedish bank-groups, i.e. *Swedbank* (229 mln) and *Skandinaviska Enskilda Banken* (123 mln) working in all three states. Quite successful too are Nordic banks connected to the following financial groups: *DnB NOR*, *Nordea Bank Finland* and *Sampo*.

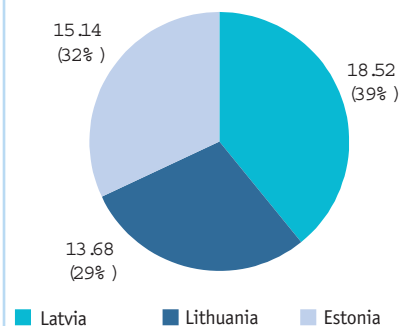
In 2006 two other banks joined this group — *SEB's* Riga filial, aimed at supporting and servicing corporate clients. And a filial of a Swedish bank, *GE Money Bank AB* with the aim of servicing business clients in Northern Europe countries, i.e. Sweden, Norway, Denmark, Finland and the Baltic States. The latter filial in the initial stage would perform the tasks of administering regional activities in *GE Money Bank AB*. In other words, this filial would perform the functions of the Swedish bank's internal auditing and control. The *GE Money Bank's* Riga filial chief, **Dmitry Tsimber** does not expect its strong expansion as the local retail financial market service provider.

Another Swedish bank, *Swenska Handelsbanken*, so far without any of its own filial in the Baltics, has opened one in June this year in Tallinn. The filial's office is headed by **Harri Tuohimaa**, being assisted by **Bo Krag**, financial expert in Estonian and Latvian national banks in early 1990s.

### MR. SHVEDOV VS. SWEDEN

*Handelsbanken* has undertaken another initiative in June this year with aim of privatizing *Latvijas Hipoteku*

**BALTIC BANKS' ASSETS, AS TO JUNE 30, 2006, BLN EUR**



Source: Latvian Commercial Banks Association.

banka, making a corresponding application in Latvian Privatization Agency (LPA). By chance, at the same another application appeared in LPA, originating from a Latvian daily's journalist with a symbolic name, **Andrej Shvedov**. At the end of August the third application's showed up in LPA for *Latvijas Hipoteku banka* privatization from **Armands Zutis**.

A principal decision has been already reached that privatization of the financial institution owned by the state and engaged in providing securities for mortgage transactions is a must. The ministries of economics and finances' opinion shall supplement this decision with some details. Although, it has to be mentioned that a month after the Swedish bank's application another event happened: during his visit to the UK Latvian economy minister, **Aigars Stokenberg** invited to participate in such privatization the British banks, e.g. *Citibank* and *Lehman Brothers*, among others. As the minister underlined in an interview to *LETA*, "the diversification of potential investors in privatization would enlarge the banking service's spectrum, which is presently dominated by Swedish and German capital".

There is another aspect in a future deal: the end of August was the deadline for filling state property objects' privatization applications in LPA. Further on, Latvian Council of Ministers has created conditions for privatization excluding the use of privatization certificates.

Present legislation gives the government four months to reach the decision since the day of application, which in this case is mid-October, when *Handelsbanken* is to get a final answer. There are at least 3 options: wholly negative answer, submission to privatization only a share of the mortgage bank, and sell out the object as a single entity. A partial intrigue is connected to the fact that the time of the deci-

sion has coincided with the parliament elections on 7<sup>th</sup> of October.

Undoubtedly, with the *Latvijas Hipoteku banka*'s privatization the Latvian government can make a fortune, though it has to be remembered that the bank performs a double function: it services public contracts and provides mortgage credits. These functions in the bank are already separated, at least technically, and the chances exist to privatize only bank's commercial part.

According to *BC*, several banks working in Latvia have expressed their interest to acquire the mortgage bank. These are, first of all banks that are somehow connected to Nordic countries; among the first is, for example, *Sampo banka*. A couple of banks with the local capital would like to buy this mortgage bank, though in a tough competition with Swedish and Norwegian ones.

#### MORTGAGE SECTOR ATTRACTS SCANDINAVIANS

Scandinavian financial daughters' successful performance in the Baltics has been instigated by the growth of mortgage credits in Latvia, Lithuania and Estonia, coped with financial injections from mothers-type financial institutions to subsidize credits. During 2005 the share of credits issued in the Baltics increased, on average, by 85 per cent: by 90% in Latvia, 88% in Lithuania and 75% in Estonia. In fact, it was the Scandinavian banks that have become monopolists in the mortgage field.

German and local banks tried to follow the drive for mortgage credits operated by Scandinavians, trying to attract clients by more "interesting" options and interests.

The outcomes of the tough competition are already seen to day: thus, the share of mortgage credits in the total amount of credits has reached 32 per cent (2.6 bln euro out of about 8 bln). In Latvia the corresponding figures are 25.1 per cent (2.4 bln euro out of 9.9 bln) and in Lithuania — 24.7 per cent (1.8 bln euro out of total 7.5 bln).

Some think that there is a chance of reduction in Scandinavian market share in the near future. The idea was coined last year by the head of *SEB*'s Eastern European department, **Mats Kjaer**. Another option is to open banks in Russia and adjacent countries.

#### GEOGRAPHY AND MENTALITY AS UNITING FACTORS

All Scandinavian banks occupy about two-thirds of the Baltic States

#### GE MONEY TO ACQUIRE BALTIC TRUST BANK

*GE Money*, the global consumer lending unit of *General Electric Company* (NYSE: GE), and *Baltic Trust Bank* can confirm that following a period of exclusive negotiations and due diligence, an agreement has been signed which will see *GE Money* acquire approximately 98 per cent of the bank. The acquisition price is not being disclosed. It is anticipated that the deal will be closed in November 2006 and it is subject to regulatory approvals.

#### COMMON NORDEA AND SAMPO NETWORK

Since lately the two banks, i.e. *Sampo* and *Nordea* haven't had automatic cash dispensers (ATM) in the Baltics. Already in September in the three states, Latvia, Lithuania and Estonia some of the stripped ATMs have appeared where both the *Nordea* and *Sampo* clients can extract cash. This is the first time in Latvia that an expert firm, i.e. *First Data* performs cash dispensers' management while the banks just fill in the ATMs with cash.

#### DNB NORD BANK'S NEW MISSION

Lithuanian Securities Commission approved in August the new emission prospect for DnB NORD with the nominal value of 28.339 mln litas. The shares are distributed among bank's shareholders at the rate of 350 litas, as on the day of shareholders' meeting on July 10<sup>th</sup>. After the shares' accommodation the bank's assets will increase by 86.251 mln litas, to the total assets of 311.736 mln litas.

#### PROFITS DEPEND ON FTSE/XINHUA CHINA

In August-September *SEB Vilnius bankas* performed three new bonds' emissions, which are closely connected to companies' shares. The bonds' yield is closely connected to the shares' index of China's companies in FTSE/Xinhua China 25. The bonds are issued for 3-years term.

The FTSE/Xinhua China 25 index depends on the 25 Chinese companies' profitability, as well as other big companies connected to them. Most effect on bond's liquidity can have companies' profits in telecommunication, financial sector, and oil-gas refinery.

#### PROFITS IN TOP-10 BALTIC BANKS IN 2005

	Bank's name	Profit, th EUR
1	Hansapank	142.35
2	SEB Latvijas Unibanka	57.36
3	Hansabanka	55.57
4	Parex banka	36.43
5	Rietumu banka	34.81
6	SEB Eesti Unispank	34.31
7	Bankas "Hansabankas"	31.25
8	SEB Vilniaus bankas	30.93
9	Aizkraukles banka	23.82
10	Bankas "NORD/LB Lietuva"	11.90

Source: Latvian Commercial Banks Association.

market. Stepping up its presence in Latvia, Estonia and Lithuania they keep to the rule of not violating the Law on Competition and that each bank's share would not exceed 40 per cent of the market. The Scandinavian banks' "exploding" interest in the Baltics explains Latvian Commercial Banks Association's chairman, **Teodors Tverijons**: "These banks are closer to us, both geographically and mentally; and all the profits they get they invest in the local markets' development. Thus, *SEB* and *Swedbank* are enlarging by way of expansion into other regions, e.g. Russian and Ukraine".

In fact, there are plenty examples when experienced and strong financial groups tend to work in the territories being closer by mental and geographical factors. Thus, Austrian banks are quite active in the Balkan region, i.e. in Slovenia and Croatia. Portugal banks, after 20-years interval again returned to Angola and Mozambique. Indian banks, with the presence of several British banks on the territory, are quite active in Shri-Lanka and Bangladesh. Spanish banks are heading towards countries in Latin America having closer traditional, cultural and linguistic ties.

### THE SUN IS RISING IN THE EAST

But the real problem lies somewhere else. We have to answer the main question: whether it is still wise to indefinitely increase Scandinavian financial influence on Latvian small economy? According to some experts, Swedish

banks' expansion is rather dangerous for Latvian economy, in general. *The Financial Times* acknowledged recently that Swedish government has already created an expert group to find out the possibilities of Stockholm's being a regional financial center. Among the group's members are *SEB* representatives. This way we can find some indirect intentions in Swedish desire to control economic development in the Baltics northwestern region.

It is to be noted that there is not such a group in Latvia, which is all the time dreaming about creating a "bridge" between East and West and re-creating historical "Silk-way".

In order to develop transit routs, investments from both sides are needed. Therefore, it's important that serious financial institutions are working in the country from both East and West. Banks' capitals are needed from southeastern Asia or at least banks' representations in our region. Presently, in order to resolve any financial issue our businessmen have to fly to London. Isn't it the reason for drastic increase in flights' numbers to the UK recently?

"Our future belongs to the West and not to the East", argues *Latvijas Hipoteku banka* president, **Inesis Feiferis**. And he concludes: "No doubt, we have to work with both East and West, but Europe is an aging region. We need an intergovernmental bank with the capitals from China, Kazakhstan, Russia and Latvia".

### RUSSIA BELIEVES IN OUR BANKS

The number of non-residents' accounts in the Baltic banks is constantly reducing: in Latvia non-residents' share reduced during last year from 54 to 42 per cent. In most Latvian banks with local and "eastern" capital the number of accounts, as well as their size, has a reduction trend; this is the consequence of a new tough requirements to investors in providing adequate information on profits' origin.

And still Latvian bank system is very attractive for wealthy Russian businessmen. It is even more attractive then, for example, the Swiss one. Russians are very actively using in their country plastic cards received in Latvian banks. Only cards from the UK and the USA are in greater numbers.

*Visa International* has calculated the amounts Russians are loosing in that way; it has become clear that in the first quarter of 2006 by using Visa-cards some 127 mln dollars of goods has been paid (see table). •

### KAUNAS MAKES A LOAN IN SEB VILNIAUS BANKAS

It was agreed that *SEB Vilniaus bankas* would provide Kaunas city council with a 47 mln litas loan. The bank has won all three tenders issued by the city council and recently signed a credit line to finance construction and renovation of important city's objects, as well as projects supported by the EU Structural Funds. The biggest loan of 23 mln litas will go to projecting, construction and renovation of Kaunas city's infrastructure and streets.

### MICRO-CREDITS' DEALS

The three-lateral agreement has been reached between Lithuanian Economic Ministry, the *Investiciju ir verslo garantijos (INVEGA)* Society and 3 banks for providing micro-credits to small and medium enterprises (SMEs). Out of state credits' total amount of 28.8 mln litas for these mini-credits, 15 mln will get *Siauliu bankas*, 8.3 mln — *Medicinos bankas* and 5.54 mln — *DnB NORD* bank.

### MULTIBANKA'S SET FREE

Representatives of the US financial authorities (FinCEN) combating financial crimes decided to release Latvian *Multibanka* from further investigations. At the same time, another Latvian bank, *VEF banka* suspected of money laundering is still under investigation as "unreliable" in transactions, and American organizations are banned from opening their corresponding accounts in this bank.

### PAREX BANK ACQUIRED 310 MLN EURO...

The bank has signed a syndicated 310 mln euro loan from a consortia of several banks — *Lloyds TSB*, *DZ Bank AG*, *Bayern LB* and *Mizuho Corporate Bank*—totally, 34 financial institutions from 18 countries took part in the syndication. This is the tenth syndicated loan in the bank's history. The acquired loan shall be used partly for re-financing the syndicated loan of 188.5 mln euro received last year, partly for credits to private and corporate clients.

### ... AND RIETUMU BANKA RECEIVED 110 MILLION

*Rietumu banka* has signed a syndicated loan of 110 mln euro from a group of 20 European, American, etc. banks. *Raiffeisen Bank* in Austria, *HSH Nordbank* in Denmark and *Dresdner Bank* from Germany conducted the loan's syndication provision. The loan is going to be used for crediting bank's clients in Latvia and abroad. But the loan's main purpose, it is said, was for the bank to enter the international financial market.

### VISA-CARDS' OPERATIONS IN RUSSIA, ISSUED IN OTHER COUNTRIES

End of 1 <sup>st</sup> quarter, 2006	Volumes, mln USD
USA	280.56
Great Britain	129.99
<b>Latvia</b>	<b>127.14</b>
Kazakhstan	87.88
Switzerland	81.32
Germany	73.95
France	72.36
Cyprus	65.27
Ukraine	61.96
Italy	47.22
Spain	29.00
Norway	26.63
Finland	25.52
Latin American countries	23.13
Canada	22.82
<b>Estonia</b>	<b>20.08</b>

Source: *Visa International*.

# Bank for your success

In 2005 an agreement was signed between the biggest financial group in Norway *DnB NOR* and the biggest bank in Northern Germany *Norddeutsche Landesbank (NORD/LB)* on foundation of a new joint venture, *Bank DnB NORD*. As *NORD/LB* for several years is working in the Baltic States as well, in May 2006 the names of the respective banks in the Latvia, Estonia and Lithuania as well as Poland and Denmark was changed to *DnB NORD*. On the reasons of Norwegian bank entering the market in the Baltics, challenges and changes we were talking to **Andris Ozolins**, CEO of *DnB NORD Banka*.

**Bank *DnB NOR* is quite unknown for Latvian society. Please, tell — what is *DnB NOR*?**

*DnB NOR* is the largest financial group in Norway and a significant member of financial market of entire Scandinavia. *DnB NOR* leads the Norwegian market with respect to loans and deposits, mutual funds and asset management, life insurance and pension savings, payment and financing services, real estate services and services linked to the money and capital markets.

**The role of an enterprise in a market usually is most easy to describe by market share and other figures. Can you mention some of them?**

Yes, I can mention some figures just to feel the situation. For example, the service of *DnB NOR* as the “main bank” are used by approximately 60% from the TOP 300 enterprises in Norway, and *DnB NOR* occupies more than 30% from the retail market in Norway, servicing more than 2.1 million customers. The bank has the widest banking network as well.

Besides, the financial group of *DnB NOR* comprise the largest life insurance company in Norway, the

biggest capital markets and assets management company of the country, the biggest real estate company, and the amount of assets of the financial group exceeds 185 billion euro. The figures prove that all the existing and potential customers of the bank have a new and strong partner of cooperation — the joint venture of the biggest bank in Northern Germany and largest financial group in Norway — bank *DnB NORD*.

**On the perspective of the Latvian market — people and mass media are discussing the possible crisis in real estate market, economy... Doesn't the threat that the soap-bubble will split make your shareholders doubt on the profitability of entering the market?**

I think that there will be not splitting, as you call it. There will be some back-off in the development, especially in the segments where the prices have exceeded all the boundaries a long time ago, in the post-war houses at first.

We are sure that the number of people willing and being ready to get a loan in the nearest years will increase — at least, if we are looking at long-term perspective. And *DnB NORD* is interested in long-term perspective. There is an opinion that the increase of loan portfolio of banks is stimulating inflation, but to my opinion, it does not reflect the real situation. Inflation in our situation is a natural process: the tax system has changed, salaries are increasing... And we should say that the salaries will continue growing in future as well. As one of our customers said — we are competing for working force not between Latvian companies, but with Ireland.

**What do the changes in shareholder structure mean for your customers?**

At first, the decrease in resource price. Up to now one half of our



**ANDRIS OZOLINS:** *DnB NOR* is the largest financial group in Norway and a significant member of financial market of entire Scandinavia.

resources was taken from our German shareholder, and the second half — from inter-bank market. Now the situation has changed: the entire amount of the financial resources come from our shareholders, therefore the price will be lower. So, we decreased the margins for loans for development of small and middle-sized enterprises. As for mortgage loans, there will be no significant changes in this sense.

**Our customers having business outside Latvia can use new opportunities as well: now we are represented in Scandinavia as well. For example: one of our customers refinanced to *DnB NORD* because his partners in Norway asked for guarantees of Latvian bank. Speaking on changes for ourselves we have to admit: the capital of the bank has increased significantly in this year, and the tendency will remain the same in future. We are improving the existing products and elaborating new ones. So we can be sure that the completion of our shareholder structure will offer new opportunities for all of us — both bank and its customers in Latvia and abroad. •**



# Philosophy behind the transactions

## Property investment in the Baltic States and Russia

After joining the EU, the investment market in the Baltics has lost its status of "terra incognita" in the eyes of foreign investors. Moreover, they are beginning to use the local market as a spring board to get to the vast Russian market. Everyone knows that it is possible to earn a lot of money in Russia, but almost everybody is afraid of the harsh reality of local business there. Foreign investors need a trustworthy partner, who is able to represent their interests in a highly professional manner. *Bridge Capital* has been successfully operating as such a partner for five years.

The company is run by two partners: **Jonas Tamulis**, who runs the Lithuanian office, and **Gilad Regev**, who represents the company in Latvia, Norway and Russia. Jonas, being a member of the first Lithuanian Parliament, was head of various committees and represented Lithuania in the Parliamentary Assembly of the European Council. After his work in Parliament, Jonas participated in the privatisation of various leading Lithuanian companies. In turn, Gilad has been active in merger and acquisition transactions since 1992. A number of large-scale pan-Baltic mergers and acquisitions have been completed with his assistance.

Gilad and Jonas established the company *Bridge Capital* in 2001. As a result of this common work, real estate transactions totaling EUR 350 million have been completed. In addition, the



**JEKATERINA KOLOSOVA:** We assist to work out a market entry strategy.

volume of real estate transactions in Russia exceeds EUR 700 million. Amongst others, *Bridge Capital* represents the interests of the UK-based private equity fund *London&Regional* (with cumulative assets of EUR 5 billion), as well as a number of Irish investment funds.

Investment management is often a complicated process. Investors, who wish to allocate their funds profitably, need to understand all the peculiarities of the market which they are investing in, including its legislation, business environment and the current state of the market. The assistance of a simple broker is often not enough. **Jekaterina Kolosova**, Head of the Analytical Department of *Bridge Capital*, explains how *Bridge Capital* offers a full package of services in order to represent the interests of both buyers and sellers: "We assist, first of all, to work out a market entry strategy, then we look for an appropriate project, we assist in negotiations and settle issues involved in dealing with municipal and governmental agencies. If necessary, we can help to attract debt financing, working with leading local and foreign banks".

"Let's take Russian market as an example" continues Senior Analyst in *Bridge Capital* **Kristina Kolosovska** "A client has a foreign investment fund. They plan to allocate their assets in a certain sector of commercial property. Let's say, he is interested in retailing property. His basic requirements are: good location and convenient transportation access, long term contracts with anchor tenants and sustainable income level from the property. Our task in this case is to fulfil all these requirements. The problem is that, as a rule, common investment schemes do not work in Russia. That is why we have

to find an approach that best suits both sides, the seller and the buyer".

"Why do international investors look to the east?" adds Jekaterina. "Their philosophy as follows: they can spend the same time investing in the Baltics or in Russia, but the transaction volume and expected return will usually be higher in the later case".

### KEY REQUIREMENTS FOR THE PROPERTY

What are the specific requirements that international investors put forward for the property they plan to



**KRISTINA KOLOSOVSKA:** We have to find an approach that best suits both sides, the seller and the buyer.

acquire in Russia? If we are talking about properties that are already developed, including trade centres, office centres, logistics centres, and business parks, first of all, investors are look for Class A and B1 properties. In such properties, long term contracts with anchor tenants are concluded for 5-7 years. The property is managed by a professional company with an international name, which takes care of the tenants, rent, concept and other issues, and there is a company, which takes care of technical building maintenance

# East and West

## in the eyes of a foreign investor

and security. Great significance, of course, is attributed to the quality of the tenants, their popularity and level of brand recognition on the market.

In turn, strategic investors, who are ready to carry developer's risks, require guarantees that all permits for construction will be covered by the sellers. They are interested in the reputation of the general subcontractor, who will physically do the construction work. Taking into account that the risks associated with development in Russia are still incomparably high, investors rarely step into the project in the development phase.

"In such cases we offer our clients a scheme whereby they buy the property only upon completion of the development phase, but lock the deal while development is still in progress" explains Kristina "So, the investor doesn't carry the developer's risks, and the seller gets the guarantee that the property will be sold — which motivates them to complete the project"

Geographically, the majority of investors look for investment opportunities in Moscow, St. Petersburg and in the capital cities of the Baltic States. Sustained interest in properties in these big, internationally recognised cities leads to a growth of interest and investment in other less well known towns and cities. "For instance, today we can offer competitive projects in such cities as Nizhniy Novgorod, Ufa and Kaliningrad," — says Kristina.

### DEAL STRUCTURE

Often, the property acquisition takes the form of shares acquisition in the company holding the company. Transactions whereby the property object is acquired directly, are now rare. In the Baltics, for example, the majority of transactions are accomplished via local special purpose companies (SPC), whereas in Russia complicated offshore schemes are still very widespread. It is not unusual to have a separate company for project financing and for acquisition of SPC in Russia. This increases the whole project risk tremendously. "For example," Kristina

explains "if the assets were spun off into the special purpose company at very low cost in comparison to the transaction price, local tax authorities may question the company even after the transaction"

In addition, such complicated and non-transparent schemes are often not bankable. In these cases the greatest role is attributed to the reputation of the borrower and his track record in work with large European bank groups. Another common issue in Russia is huge exit penalties associated with assets built with financing from local Russian banks."

### THE PRICE

Undoubtedly, the key issue in any transaction is the price. It is common practice for foreign investors not to fix the price in money terms, but rather they fix the yield on net operational income (NOI). In this case, the final transaction price becomes known after the completion of Due Diligence that confirms the expected NOI for the property. For example, in transactions in Baltics, the deals are closed at yields of 8-9%, but in Russia yields exceed 10-12% level. In comparison, in Western Europe, common yields are 5-6% and lower. Today, for all real estate segments, the key challenge is fast yield compression process; therefore, the right transaction timing is crucial in determining the profitability of an investment. "The yield compression process is especially evident for the projects that are officially on the market" asserts Jekaterina. "That is why we always try to offer exclusive off-market projects, working directly with the owners, thus offering more flexible terms for cooperation."

Finally, in order to conduct successful transactions in Russia, a clear understanding of local mentality is of the foremost importance. Understanding of cultural differences is a key point, firstly, to bring the local sellers and foreign investors together, and secondly, to reach agreements on key points and to define a common approach for the benefit of both parties. •

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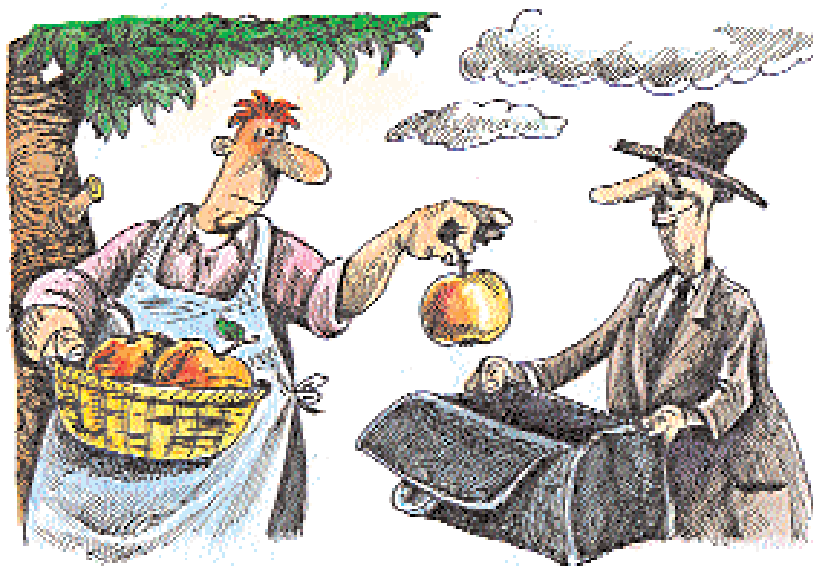
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# Taxation policy in the Baltic States

By Eugene Eteris

Taxation issues play important role in the Baltic States' economic, political and financial development. Suffice it to say that major share in these states revenues belongs to various types of taxes. At the same time, taxation policy in these countries is aimed to provide a good climate for foreign investments, including low tax rates, special incentives and options to exempt the distribution of profits, in particular for holding companies.



Regardless of the popular belief concerning flat tax system in the Baltic States, there are numerous tax types in these countries. Thus according to the Lithuanian Law on Tax Administration, adopted in April 2005, there are 25 types of taxes.

Taxes and duties in the Baltic States are imposed both by the central government and the regional authorities and municipalities. These duties are levied on top of the existing "general" taxes.

Alongside tax legislation containing general taxation principles some special laws setting up special taxation rules, e.g. in VAT, corporate income, withholding tax, etc. exist in the Baltic States.

Excise taxation is rather specific in all the three Baltic States. In Latvia, according to "The law on Excise tax" adopted in October 2005, the following rates were established: soft drinks — 2 lats per 100 liters, wine — 30 lats and spirits over 22 proof — 550 lats per 100 liters, cigarettes — 178 lats per 1000, cigars — 11 lats per 1000, petrol & diesel — 164-281 lats and motor oil — 83 lats per ton, etc.

In the three states there is a natural resources tax which is payable both by indi-

viduals and companies according to an issued license. Then, there is a tax imposed on various packaging types.

On the general level, the *corporate tax* is at the level of 13-15% in Lithuania and Latvia and 0-20% in Estonia. Due to introduction of temporary social tax in Lithuania (4% in 2006 and 3% in 2007) the corporate income tax is effectively at the level of 19% in 2006 and 18% in 2007. *Personal taxation* varies from 23% in Estonia, to 25% in Latvia, to 33% (with the possible reduction to 24-27%) in Lithuania. In all three states these taxes are "flat", i.e. applied without any differences of incomes. VAT rate is at the same 18% level in all three states.

Countries' residents are taxable on their worldwide income; non-residents are liable for the income received in the country; expatriates are liable for taxes depending on their tax residency.

## LATVIA

*Duties in company's registration* are most specific in Latvian corporate administration and management. Therefore, besides regular taxation, the Latvian government imposed the following taxes in companies' registration: company registration duty (100-300 lats depending on how quick the registration certificate is needed) and company's publication fee in the Register (24 lats). Any subsequent amendments to company's Articles of Association are taxed at 10-30 lats, plus new registration (30 lats) and publication fee — 8 lats. Changes in the company's board of directors are subject to state duty of 20-60 lats, depending of time, followed by the regular 8 lats publication fee.

Duties exist for registration of a permanent commercial company, as well as duties for registration of a foreign representative office: 20 lats within 15 working days, 40 lats within 4 working days, 60 lats — within the working day. Then various duties are imposed for amendments in registration from 10 to 30 lats.

For registration of a new SIA — limited liability company — the duty is from 100 to 300 lats, registration duty for a new AS -joint-stock company — is 250-750 lats, plus publication fee — from 8 to 24 lats.

For immigration purposes duties for residence permit for people outside the EU jurisdiction is from 70 to 170 lats; the fee for a month's work permit is 35 lats.

Special taxation regimes in Latvia exist for four special economic zones (SEZ): two free ports' zones in Ventspils and Riga, and two SEZ in Liepaja and Rezekne. The

### TAXATION LEVELS IN THE BALTIC STATES, %\*

	Estonia	Latvia	Lithuania
Personal income tax	23.0	25.0	main – 15.0 (33.0)
Corporate income tax	24.0 or 0	15.0	13.0/15.0
Withholding tax on dividends, interest	5.0/15.10	10.10	15.0/10. 0
Real estate tax	varied	1.5	1.0
VAT	18.0/5.0/0	18.0/5.0/0	18.0/5.0/9.0/0
Social security contribution	33.20	34.0	30.0

\* July, 2006.

Source: Authors' calculations.



companies registered in SEZ's are provided with rebates on real estate tax, on corporate income tax (for income derived within the SEZ), on management fees and on VAT. But these rebates may not exceed 50% of the company's investments.

2005 it was reduced to 24% and to 23% in 2006. It is going to be reduced further on up to 20% in 2009.

In May 2006 Estonian government postponed a planned rise in the excise tax as a measure to curb inflation. The rise in the

Fund. Social contributions are tax — deductible.

“Law on Individual Income Tax” adopted in July 2002 provides, generally, for 15% tax for all kind of entrepreneurship activities; in exceptional cases the tax is 33%. And the employer withholds individual income tax from the employees' salaries. Lithuanian residents must file annual income tax returns before 1 May of the following year.

The employers withhold 3% from each employee's salary as a social security tax and health insurance. For the period of 2006-2007 a temporary social tax was introduced at the rate of 4-3%, correspondingly. Tax on real estate, either foreign or national, is levied at 1%.

There is also land tax at 1.5% and road tax; the latter's rate range from 0.1 to 1% (the road tax for trade companies is 0.3%).

The law on Value Added Tax (March 2002) is harmonized with the EU's Sixth VAT Directive: the standard rate is 18% with several reduced rates, i.e. 5%, 9% and zero taxation in certain cases.

Existing two SEZ in Lithuania — one in Kaunas and the other in Klaipeda provide tax incentives with the investment level over 1 mln euro. With this amount of investments the company is exempt from corporate tax for 6 years, and qualifies for 50% tariff deduction during following 10 years. But 75% of the company's income must occur from the company's activity in the SEZ. •

#### REVENUES FROM MAIN TAXES AS PERCENTAGE OF STATE GDP IN ESTONIA

	2003	2004	2005
Individual income tax	9.4	8.4	6.1
Corporate income tax	5.1	5.4	4.5
VAT	26.5	25.0	26.6
Excise duties	9.9	11.2	11.8
Social security contributions	34.5	35.1	32.9

Source: Authors' calculations.

Specific feature in Latvian taxation is *insolvency risk duty*, introduced in 2003. For 2005 this duty was 4.20 lats per employee for the year; in 2006 it is reduced to 3 lats.

#### ESTONIA

The country's per capita GDP in the highest among the 3 states — 17.8 th dollars. Tax revenues' share in the country's GDP during last three years have been at the level of 32%.

Since 1 January 2000 companies do not pay income tax on re-invested income. However, there is a tax on companies' income distribution at a rate of 24%. Corporate taxation is moved from earning profits to the profit distribution; the system will be in place in January 2009.

Personal “flat tax” system (without any differences and types of income) at the level of 26% was introduced in 1994; then in

excise tax on alcohol, tobacco and on fuel will be postponed until Jan.1, 2008.

#### LITHUANIA

Corporate Tax Law adopted in December 2001 provided for two type of taxation, i.e. so-called standard corporate tax rate (15%), and exceptional tax rate of 13% for small businesses with the annual profits not exceeding 144.8 th euros (half a million litas).

Example: A company with less than 10 employees and annual revenues not exceeding 1 mln litas (about 290 th euros) would be taxed by 15%; only the initial share of profit equaled to 7.2 th euros, or 25 th litas, would be taxed at O-rate.

As to the social contributions, the employer must pay 31% of the employees' gross pay, as well as 0.2% of each employee's salary to the State Guarantee



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On the business-press market since 1996

## Norway: Baltics' close and trustful neighbor

By Eugene Eteris

Geographical proximity in Northern Europe and strive for mutual benefits provide solid background for extensive cooperation between Norway and the Baltic States. That was Ambassador of Norway to Latvia, **Nils Olav Stava's** opinion in an interview given to *The Baltic Course* at the end of September. Norway and the Baltics enjoy freedom and security in Europe assisting each other in creating favorable climate for business and prosperity. "We express great sympathy for the Baltic republics and we'd like to help them to explore new opportunities", underlined the ambassador.



### AMBASSADOR'S SHORT CV:

Born in 1942. Education: Economic degree from the Norwegian School of Economics and Business Administration. In the Foreign Service since 1968. Since 2004 — Norwegian ambassador to Latvia.

### AT HOME AND ABROAD

Norway has experienced during last decades most spectacular pace of development in Europe, with one of the highest per capita GDP in the region. In line with strong economic features country's foreign investments (FDI) have been increasing in the Baltics. Thus, e.g. in Latvia these investments have grown during last 15 years from a fraction of 120 th lats in 1991 to more that

100 mln in 2006. Latvia's closer neighbors have greater FDI's share, i.e. Estonia (181 mln) and Sweden (180 mln) but Norwegian FDI is quite impressive being only slightly less than that of Russia (115 mln) and the UK (101 mln). Although, the ambassador repeatedly underlined, statistics seldom give the full picture and the registered capital does not reflect investments' market value. Another interesting feature in eco-

nomie cooperation is the number of foreign joint ventures. Thus, only in Latvia there are 238 Norwegian companies, either wholly owned by Norwegians, joint ventures or those with shares in Latvian companies, in comparison to, e.g. 1255 Estonian or 2141 Russian companies.

### NORWEGIAN SUPPORT FOR COHESION

Although Norway is not the EU member-state, the country is very active in international and European development; the latter proceeds mainly through the Norwegian Financial Mechanism distributing grants allocated by the 3 EEA states, Iceland, Liechtenstein and Norway. The EEA Councilor in Norwegian Embassy in Riga, **Henrik Foyn Skjerve** noted that about 600 mln euro has been available for projects in the "new EU-10 states". Additionally, Norway has made 567 mln euro available for the 10 new EU states through Norwegian Financial Mechanism, making a total fund's allocation to 1.17 bln euro.

Information about the grants' objectives and priorities in the Baltic States can be obtained at the following addresses: [www.eeagrants.fin.ee](http://www.eeagrants.fin.ee) (in Estonia), [www.eeagrants.lt](http://www.eeagrants.lt) (in Lithuania) and [www.eeagrants.lv](http://www.eeagrants.lv) (in Latvia). Link for general information: [www.eeagrants.org](http://www.eeagrants.org).

### NORDIC REGION AND THE BALTICS

"The more contacts we develop, the better we get to know each other, noted Ambassador Nils Olav Stava; but just the way the Nordic countries are different, so are the Baltic States. We know these states are not identical, but there is still a good basis for joint action in many cases and situations". The validity of ambassador's notion was proved right at the recent August seminar in Riga on foreign investments: if the Baltic States could have acted together, the common opinion prevailed, it would have been both easier for investors and advantageous for the Baltic States. Thus, for example, in the sphere of bio-fuel all 3 states have different requirements, which must be taken into consideration when blending the petrol.

Although according to the FDI's rank in the Baltics Norway occupies 6-7<sup>th</sup> place, in Latvia anyhow, its impetus into the Baltics' development is quite significant. There are

some examples, i.e. from banks (*DnB NORD* bank with about 20 mln lats investments) and press (famous *Narvesen* kiosks) to wholesale and retail trade (*Linstow* and *Reitan*), to hotels (*Ridzene*) and industrial parks (*Siva Baltic Holding*).

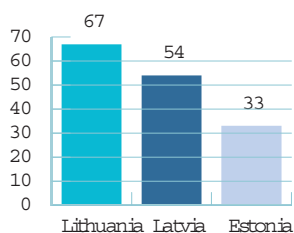
But still the main purpose in Norwegian-Baltic cooperation is to foster entrepreneurship climate and strengthen business communities in the Baltics. Some important product deliveries can be mentioned as well, e.g. oil refined products (not crude oil) as, for example, neither Latvia nor Estonia has (functioning) refineries.

“Therefore in economy, the ambassador stressed, we want both to contribute to and take advantage of a growing market, be it in the energy or financial sectors?”

There are some other fields for cooperation, such as educational sphere: some contacts at university level have been already established, e.g. between Riga Technical University and Buskerud University College in Norway.

The ambassador mentioned another interesting fact: there are more (young workers) from the 10 new EU member states in Norway than in all three other Scandinavian countries combined (Sweden, Denmark and Finland). Workers migration has become quite simple; with a job offer from a Norwegian company the rest could be cleared within a couple of weeks.

#### EUROPEAN ECONOMIC AREA (EEA): FINANCIAL MECHANISM OF COHESION BREAK-DOWN OF ALLOCATION IN THE BALTIC STATES, MLN EUR



Source: Embassy of Norway in Latvia.

#### MINIFACTS ABOUT NORWAY

Kingdom of Norway is a constitutional monarchy.

Territory — 385.1 th km<sup>2</sup>.

Population — 4.6 mln.

Currency — Norwegian krone, NOK (1 USD = 6.3 NOK).

GDP — 1.6 bln NOK

GDP per capita — 342 th NOK.

Inflation rate — 0.4%.

Unemployment — about 3%.

#### TRADE COUNCILS: A HELPING HAND

In Latvia a Norwegian Trade Council is to be officially registered before the end of this year, the ambassador mentioned. The Council will represent the interests and views of Norwegian investors in Latvia versus Latvian authorities and at the same time be a cooperation partner both for the Embassy and others who want contact with Norwegian business interests. So

far no Trade Councils have been established in Estonia and Lithuania.

Norway-based *Innovation Norway* assists Norwegian companies and business people who want to start activity in Latvia. Contact address: riga@invanor.no, Mrs.

**Ineta Leikuma.**

Below you will find a great deal of valuable information about the economic and social development in the Norwegian “social model” •

#### SOME MAIN EXPENDITURES OUT OF TOTAL 655.0 BLN NOK

Category	Value (Bln NOK)	%
Old-age pensions	83.6	12.9
Disabled & medical assistance	69.0	10.6
Illness benefits	30.9	4.7
NIC	19.7	3.0
Childbirth benefits	10.4	1.6
Family allowances	14.3	2.2
Unemployment benefits	21.9	3.3
Regional health subsidies	64.4	9.8
Grants to municipalities	46.6	7.1
Defense	29.4	4.5
Higher education	11.9	1.8
Transport and communications	15.3	2.3
Expenditures on petroleum activities	23.2	3.5

Source: Embassy of Norway in Latvia.

#### REVENUES AND TAXATION IN NORWAY, 2005

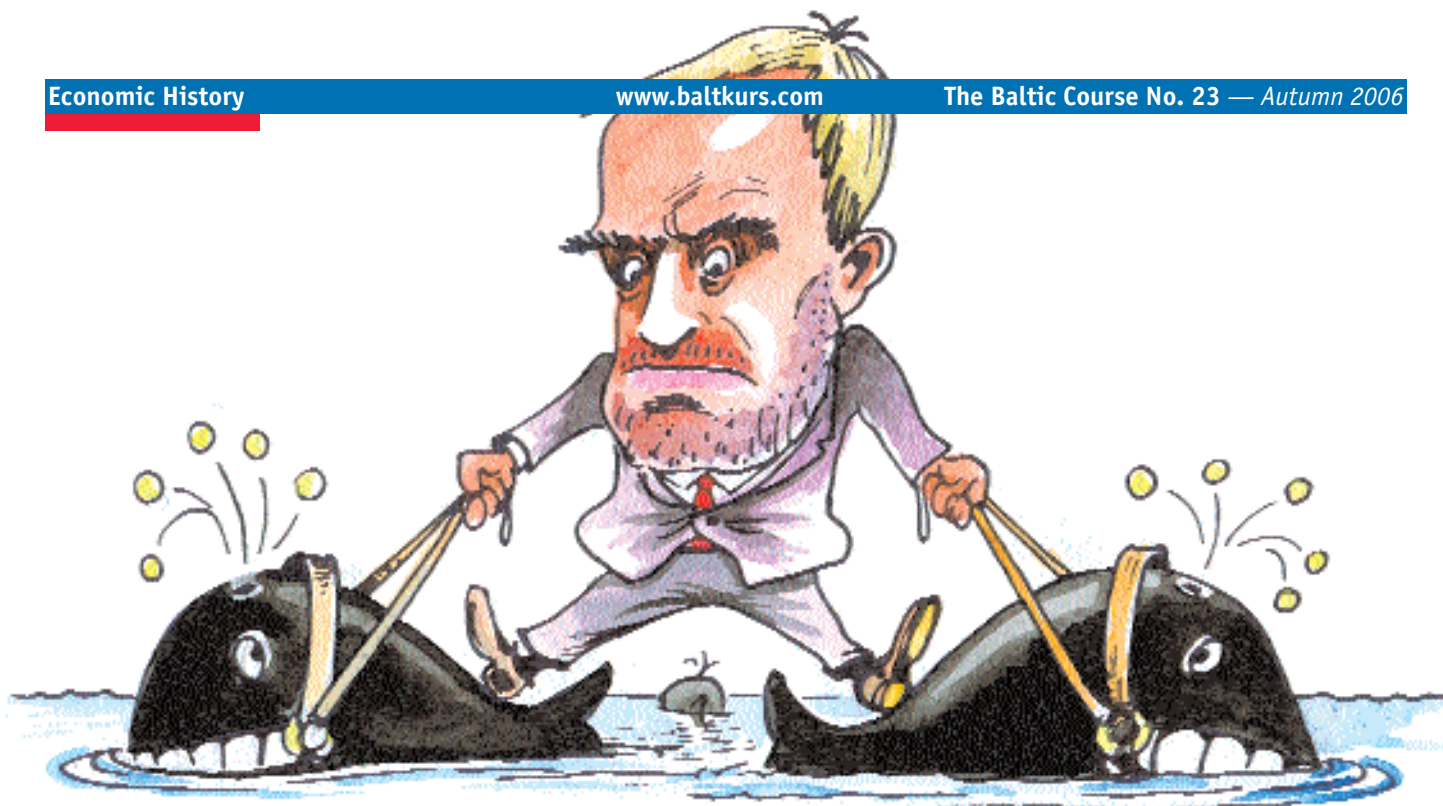
Category	Bln NOK	%
<b>Total revenues</b>	<b>824.7</b>	<b>100.0</b>
Income tax	128.2	15.5
National insurance contributions-NIC (employers, workers)	158.5	19.2
Value-added tax and investment tax	150.5	18.2
Excise on tobacco and alcohol	17.2	2.1
Taxes on motor vehicles, petrol, etc.	39.5	4.8
Electricity tax	6.6	0.8
Tax on mineral oil, mineral products	4.9	0.6
Customs duties	1.3	0.2
Other taxes	10.1	1.2
Income from petroleum activities	227.7	27.6
Interest and dividends from Petroleum Fund	39.6	4.8
Income from state enterprises	1.4	0.2
Other interests and dividends	20.3	2.5
Other income	18.9	2.3

Source: Embassy of Norway in Latvia.

#### MAIN NORWEGIAN INVESTORS IN LATVIA, MLN LVL, SEPTEMBER 2006

Portpro As	21.9
Statiol As	19.4
Linstow Center Development As	16.0
Linstow As	13.7
Linstow International As	6.7
Moller Balticum As	4.7
Reitan Servicehandel	3.7
Verner Tekstil As	2.2
Siva Baltic Holding As	1.0
Sperre Stoperi As	0.9
Lungsongruppen As	0.7
Bosman As	0.6

Source: Embassy of Norway in Latvia.



# Skele's Empire: from rise to fall

By Olga Pavuk

The next Latvian economic history's review (previous one was published in the *BC-22*) is devoted to privatization history of the group of companies with an attractive name *Ave Lat*. The group has been dominating in a very important country's economic sector during 1990s. It was the period when the foodstuff sector in the country has been closely connected to Mr. A. Skele, a millionaire himself and three times being Latvian prime minister. It is quite complicated to find strictly documented evidences about Mr. Skele's direct connections to *Ave Lat Grupa*, though he himself regards his role in it as quite significant.

It was in autumn 1995 that friends-businessmen advised the author of this review to display the history of the foodstuff sector's privatization story. Journalist's investigation has revealed the group of leading Latvian companies, which at the end of 1995 covered major spheres of the foodstuff sector. Such as egg-production (*Balticovo Ltd*), child-nutrition (*Lize Ltd*), meat processing (*Rigas galas parstrades sabiedriba Ltd*), sweet-food and chocolates (*JSC Laima*, *JSC Grauss* and *JSC Uzvara*). There were several companies in grain-flour production, i.e. *JSCs' Abra*, *Rezeknes dzirnavnieks* and *Hanzas maiznica* with a couple of other companies with limited liability, i.e. *Rezeknes maiznieks* and *Baltmaiznieks*. Companies in fish-products' processing — *JSC Kaija*, in agro-food processing — *Ave Lux Ltd* and *Ave Sargs Ltd* in guarding and security business shall not be forgotten either. A joint owner of all these companies, *Ave Lat* was a uniting consolidated factor; that is a private limited liability company registered by several physical persons in Latvian Company House in February 1992. Already at the end of December 1994 *Ave Lat* was re-registered under a slightly different name — *Ave Lat Grupa*.

## CAN'T DO WITHOUT OFFSHORE REGISTRATION

In November 1992 to the list of private owners was added an offshore company, *Quainton Ltd*, registered in the Isle of Men offshore jurisdiction; its director was Mr. A. Skele. The new company's corporate address belonged to the firm *Abacus Ltd* that registered the company, with the legal address in Riga, at Republicas iela, nr. 2. The registration address coincided with

the address of Latvian Agricultural Ministry. It has to be noted that at that time Mr. A. Skele performed the functions of the executive agriculture minister the wide public in the country did not know a thing about his entrepreneurial activities. His hidden business mysteries have been closed to public eyes up to 1995 when the 37-years old A. Skele was nominated for the post of country's Prime Minister.

Up to that time the offshore company was re-registered on Skele's companions, i.e. **Harijs Krongorns** (*Ave Lat Grupa's* financial director) and **Erik Masteiko**; the latter together with Skele's old friends **Normunds Putans** and **Varis Jakovitskis** have been founding-people in most of the companies, which were controlled by *Ave Lat*.

In order to clear up the quickly growing group structure of offshore companies in *Ave Lat*, journalists undertook extensive efforts. The first official information about Skele's involvement in *Quainton Ltd's* activities appeared in the *Business&Baltija* daily in 1995, where at that time the author of this publication worked. Only in 1998 *Ave Lat Grupa's* Chairman of the Board and its general director Mr. E. Masteiko acknowledged this fact in an interview to *Klubs'* magazine. To the magazines' question of how long he would use "Quainton's offshore company" Mr. E. Masteiko said, "let's see how the state would perform"

By the year 1998 offshore company *Quainton Ltd* had already controlled tens of Latvian companies involved in foodstuff production (there were already more than 15 companies in *Ave Lat Grupa*). At that time Mr. Skele was publicly called an unofficial *Ave Lat's* boss.

## LONG LIVE, LATVIA!

Let's try to find out how almost unknown businessman could take over the country's foodstuff industry being, at the same time, out of the public limelight.

We have to return to the beginning of 1990s when first *Ave Lux Ltd* has been established, followed by *Ave Lat Ltd* in 1992. These firms have been created within the then Institute for agricultural electrification and mechanization, so-called *Stars'* industrial and science development company (during 1981-1990 Mr. A. Skele worked in this Institute taking various positions, from an engineer to deputy-director). His father, **Edgars Skele** has been at that time the professor in Jelgava's Agricultural Academy and part-time consultant in the *Stars*. Several future *Ave Lat's* partners have been working in the *Stars* too, e.g. **Andris Feldmanis** (who was promoted later to the head position in *Kaija* Company), **Andris-Karlis Dambergs** (later to become the head of *Hanzas maiznica*) and **Elmars Gozitis**, to head *Laima*. Next to the *Stars'* company has been *Dailrade's* office, from which **Valdis Grimze** has been promoted to the head position in another company, *Balticovo*.

According to the then *Stars's* director, Mrs. **Nadezhda Kotikova**, the ambitious *Ave Lat* name originated from the initial names' letters of its founding fathers, i.e. A. Skele, V. Grimze and E. Masteiko. The additional "Lat" in the title was a commonly used abbreviation in many Latvian firms. Mr. Skele himself denied this version, saying that *Ave Lat* just meant, "Long live, Latvia." It is to be remembered that Mr. Skele did not, directly, take part in *Ave Lat's* establishment; even in offshore documents his business colleagues quickly substituted his name.

At the initial stage *Ave Lux* and *Ave Lat* have been involved in tractors' and other agro-machinery imports from Belarus, and later on started to supply machinery for foodstuff industry.

A small but interesting remark is to be mentioned an article written in *NRA* daily in 1998, i.e. a new partner appeared in *Ave Lat* on 11<sup>th</sup> February 1993, Mr. **Ivan Guzenok**, a Belarus citizen. What a big deal, one might say. But for his 100 dollars foreign country's investment in the company *Ave Lat* got solid tax benefits and deductions for the next four years. That was done in the right time, as already in 12 days' time or on 23<sup>rd</sup> of February that year the state annulled these benefits.

Good knowledge of legal issues and good command of appropriate information served perfectly well several times during Mr. Skele's professional business carrier.

No doubt, important place in *Ave Lat* creation has played *Zemes banka*, Latvian financial institution. Most of the G-24 credits during the first independence years have been administered and channeled by this bank. During *Kaija* privatization, the bank has been included into the list of companies in the *Ave Lat's* holding. Once in an interview to the *Business&Baltija* daily (and the author of the review) *Zemes banka's* president, Mr. **Andris Ruselis** called himself A. Skele's banker (in 1998 *Zemes banka* has been affiliated with *Hansabanka* — editor's note). Mr. Skele's connection to another bank, *Unibanka* can be traced through his membership in the bank's Board of Directors until the bank's second privatization term in 1995.

By 1998 *Ave Lat* has developed into a rather powerful structure involving some quite big companies, e.g. *Balticovo*, *Salacgriva'95*, *Kaija*, *Hanzas maiznica*, *Laima*, *Rigas piena kombinats*, *Rigas vini*, with more than 6.5 thousand employees and 3.7 mln lats profit. After 1996 re-construction, the concern was headed by *Ave Lat Grupa*, which was holding major share of stocks in the companies connected to it. The group's registered

capital has reached 15 mln lats. Mr. E. Masteiko has become the concern's Board of Directors, whom mass media called the "empire's boss," at the same time A. Skele seemed to agree being the "empire's brains".

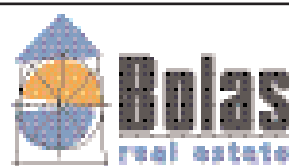
## LEGAL LITERACY AND LAX OF RESPONSIBILITY

Mr. A. Skele undoubtedly assisted *Ave Lat Grupa* in its quick rush into free market changing already in 1990 the director's post in the above mentioned Institute for the post of deputy minister in agricultural ministry, where he worked until August 1993. Mr. Godmanis, who once defended in this institute his Ph.D. thesis, occupied the Prime Minister's post while Mr. Gegers occupied the post of agricultural minister.

Plenty of irregularities connected with Mr. Skele happened during that period. Thus, through Agro-ministry's initiative the Council of Ministers adopted a set of special laws for foodstuff industry's privatization in such spheres as milk, meat and bread production and other property assets' privatization in agro-service business.

The idea of special laws in privatization was emulated from Central European states' experience. Thus, these companies were relieved of all taxes and duties as was set in the "Privatization Law on State and Municipal Property".

The peculiar aspect of all the special laws on privatization in the foodstuff sector was the fact that the controlling stock's share of about 65-85 per cent was regarded as solid and undivided. The author of all these laws was **Andris Miglavs**, the head of the mentioned Agro-Economic Institute. According to the Country's Land Ministry, during April with the



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adoption of such special laws 49 foodstuff companies have been privatized, out of the total of 60. In 1996 Latvian Council of Ministers repealed all these special laws.

Precisely with these special laws the very first companies in the *Ave Lat's* concern have been privatized. But as Mr. A. Skele personally acknowledged to the author, the procedure was not used in his companies' privatization. Most of the companies have been bought in 1994 following special laws' privatization scheme by other people, e.g. such companies as *Balticovo*, *Rigas maiznieks*, *Baltmaiznieks*, *Abra*, *Rezeknes maiznieks*, *Rezeknes dzirnavnieks*. It has to be added that *Ave Lat* bought a good share of these companies in good time, i.e. just a couple of weeks before the new re-evaluation occurred fixing new companies' market value; the latter increased ten-fold.

After the process of mass-privatization began in 1994 the drive for the concern's enlargement went on; now, the privatization vouchers came into circulation.

It is interesting to mention that Mr. Skele was at the period one on the candidates for the post of Latvian Privatization Agency (LPA). Due to the "Lāvijas Celsh" leading party's efforts to the opposite, he became only an LPA's adviser. No doubt, that one of the first companies set for LPA's privatization auction was the former state-owned fish-processing firm *Kaija*. That was one of the most expensive properties, which was privatized with the help of LPA's procedure required for the acquisition company of not less than 3 mln LVL. Thus, *Kaija's* 54 per cent of shares (1,805,583 shares, each of one lat's value) has been acquired by a single strategic investor — *Ave Lux Ltd*; the payment occurred in two trenches -25% in cash and 75% in privatization vouchers. Mr. A. Skele has again become the newly created *Kaija's* JSC Board of Directors chairman. Another concern's company, i.e. financial and industrial firm *Rigas vini* has acquired the controlling stake of shares (80%) in another state-owned beverages-production company, *Riga* using the abovementioned procedure (the required initial capital was 400 thousand lats).

Other concern's companies has acquired the JSC's status following Ministry of Economics' orders, i.e. *Laima* and *Uzvara*, some of them have been sold and bought later — *Salacgriva'95*, *Latvijas Balsams* and *Rigas alus*.

In April 1997 *Ave Lat Grupa's* director, E. Masteiko publicly announced that the group would like to take part in privatization procedures concerning the biggest Latvian companies, e.g. *Latven-ergo*, *Latvijas Gaze*, *Latvijas Kugnieciba* and *Ventspils nafta*.

Up to 1998 all concern's companies successfully worked providing good profits to their owners. Thus, in 1997 *Kaija*, the fish-pro-

cessing factory earned 730.9 thousand lats (after taxes), *Salacgriva'95* earned 195.6 thousand lats, *Latvijas Balsams* -2.3 mln lats and *Rigas alus* 184.4 thousand lats.

#### OTHER INTERESTS

Mr. A. Skele has had some additional interests to explore; thus during three periods, i.e. from December 1995 to January 1997, from February to July 1997 and from October 1998 to July 1999 he occupied the Prime Minister's post in Latvia, representing People's Party. Before taking over the Prime Minister's position, he headed the board of directors in many companies, e.g. *Latvijas Kugnieciba*, *Rigas miesnieks*, *Uzvara*, *Rigas vini*, *Rigas alus* and *Kaija*.

During the time he joined the politics, he became the focal point in several scandals, the most prominent being the one connected to the so-called pedophile case. The latter provoked Mr. Skele's drastic fall in his popular ratings reducing him for the long time to come to the rank of most unpopular politicians in Latvia. At the same time, the privatization process within *Ave Lat* for several years has been the supervision subject in various state bodies, e.g. State Security Office, State General-Attorney Agency, State Combating Crime Office and Revenue Service.

#### AVE LAT GRUPA: BUYING AND SELLING

After the Russian financial and de-fault crisis in 1998 the foodstuff companies working with Russia have experienced a tough time, most of them being on the brink of bankruptcy. It seemed that Mr. A. Skele, an experienced adviser himself (having an advisory status in a state agency and possessing his own consultancy company) had done practically nothing in order to streamline foodstuff's West-East import flows.

In spring 1999 Mr. Skele had become officially the owner of the companies in *Ave Lat Grupa* concern after the company *Uzņēmumu vadība un konsultācijas* (A. Skele was a co-owner in it too) had bought the concern. At that time Mr. Skele bought an offshore company — *Quainton Ltd* owned previously by Mr. E. Masteiko.

The amount of the deal was not made public; in an official announcement A. Skele said that for the concern's acquisition he took a loan in one of the largest Latvian banks. Though neither bank nor the amount of money had been revealed.

In 1999 Mr. Skele became the country's Prime Minister again and was forced to abandon his foodstuff business. Therefore on 17<sup>th</sup> of August he requested *PricewaterhouseCooper*, an international accountancy company to find a manager for stocks' sale in *Ave Lat Grupa*. On November 16<sup>th</sup> the international accountancy firm informed that the stocks had been



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transformed, according to the agreement reached, to a company called *Abacus Ltd*. At that time nobody noticed that the *Abacus Ltd* had the same registered address on the Isle of Men as a previously registered in 1992 the *Quainton Ltd*. A little bit later the managers exchanged *Abacus Ltd* for another offshore company — *Bolster Management*, registered in Channel Islands; the latter in January 2000 had acquired 99.9 per cent of shares in *Ave Lat Grupa*, according to Latvian Company House register. Thus, Mr Skele had received a promissory note of 29 mln USD nominal value.

Quite interesting that in an interview with the author in 1998 Mr. Skele did not deny offshore companies' ownership, having said, "that he had one — in Ireland, but that had nothing to do with the *Ave Lat* company"

Mr. E. Masteiko has got all *Hanzas maiznica's* shares, most of which he later sold. Most of Mr. Skele's business-colleagues, such as E. Masteiko, N. Putans, V. Grimze and others are presently in the list of the richest businessmen and millionaires in Latvia.

Financial account's data in *Ave Lat Grupa* for 1999 revealed that all its companies have been a very profitable business.

On the 9<sup>th</sup> of March 2000 at the *Ave Lat Grupa* shareholders' meeting it was announced that due to changes in the main activity's directions in the company, it had changed its name. Since that time *Ave Lat Grupa* acquired a much more difficult for pronunciation name — *New Technology and Business Development Corporation, NTBDC* in order to take over information technology lines in business. Mr. **Janis Leimanis** has been nominated for the post of *NTBDC's* chairman and he said to the press that he communicated with the *Bolster Management* only by post.

Instead of concentrating on information technology, the new company started internal re-organizations. The process of registering several newly firms, e.g. *NTBDC LB, NTBDC SL, NTBDC SLG*, etc. clearly indicated the massive forthcoming sell-out of *NTBDC's* companies' assets.

Step-by-step such companies as *Kaija, Rigas alus, Balticovo* and others, being for several years within the *Ave Lat Grupa's* structure, have been sold to the new owners. Each of these deals aroused huge attention in the public and press; some experts tried to calculate, whether the former foodstuff giant *Ave Lat Grupa* was worth the mysterious 29 mln dollars promissory note. Afterwards, the former giant *Ave Lat Grupa* has had in the concern only two companies, i.e. *Ave Lat Sargs* and *Latvijas Balzams*; the latter after long considerations had been sold to Russian *Sojuzplodimport*.

## MYSTERIOUS BILL

Precisely in this words one of Latvian daily's journalists have described the famous Skele's promissory note, one of the most mysterious financial documents in Latvian modern history.

During several, three in fact, State Revenue Service's control-checks it turned out that Mr Skele made a deal to sell *Ave Lat Grupa's* shares, and the promissory note had become a specific means of payment. Although the question still remains, who was the new *Ave Lat Grupa's* owner?

The recent control group from the State Office for Combating Crime has concluded its last review in late 2005 without finding any irregularities, according to the office's report to the public, Mr. **Aleksej Loskutov**. Though, he added, the promissory note's control would be renewed if any new information concerning its history had appeared. So far it seems that everybody was quite satisfied with Mr. Skele's explanations.

Mr. Skele's assistant, **Jurgis Liepnieks** already in the year 2000 acknowledged that as long as the former prime minister was

involved in politics his promissory note worth 29 mln dollars would not be used. The bill will be "sleeping" even if Mr. Skele will not join the new government, said to *LETA*, the Latvian news agency Mr. J. Liepnieks.

According to Mr. Skele's tax declaration, the value of his famous promissory note reduced from 29 mln to 20 mln in 2005.

## A FINAL PERIOD IN THE AVE LAT STORY

In February 2002 Latvian Company House put a last period in the *Ave Lat* history by liquidating joint stock company *New Technology and Business Development Corporation*. Though numerous companies, which have been for several years within the biggest foodstuff concern in Latvia, still provide the citizens with cheese and sweets, salami and fish, as well as various beverages.

Former sweet, fish and milk producing giants, as integral parts in *Ave Lat Grupa's* business strategy have disintegrated; these companies have acquired new owners. Former *Ave Lat* managers rather successfully work in the companies, which previously were integral parts of the concern's structure. In case they want to change employment, they can always find a new position in other firms. Some minor *Ave Lat Grupa's* shareholders have become successful businessmen too and established their own companies. None of the group's companies went bust under the new owners' leadership; on the contrary — they work quite successfully.

Such companies as *Latvijas Balzams, Kaija, Rigas alus, Laima, Rigas pienu kombinats, Hanzas Maiznica* and *Balticovo* are still leaders in corresponding foodstuff sectors and are having all the opportunities to stay in the business in the future.

The group's leader was in full-fledged readiness for the next parliamentary elections and his constant adviser, J. Liepnieks created an organization called "the society for the freedom of speech", which paid for the Peoples' party advertising clips and slogans. Mr. Skele has become the main new society's sponsor; he is at the same time a founding-father of Peoples Party and, according to observers is the party's "gray cardinal" sponsoring the party with 300 thousand lats.

On Riga's streets one can still sometimes ten see the cars decorated with the *Ave Lat Sargs* advertising sticks reminding us of the then famous A. Skele's empire. •



# A way from the present crisis

By Eugene Eteris

More than forty years ago the Communities started to create a genuine energy policy and internal market within the important sector of economy and development. But even at present the achievements in this sector are quite modest. The policy-making has not been ready to tackle the multiple increase in crude oil prices from 3 dollars per barrel in 1950s to about 60-70 dollars presently. The internal energy liberation efforts do not produce desired effect; the member states are hiding behind "national patriotism". Present crisis has forced the EU to start discussions on common energy policy, efforts which most of the members have been strongly opposed, preserving national monopolies and different regulatory structures. These and other issues in our second article in the series on the EU energy problems.

## INTRODUCTION

It was not a coincidence that the initial Coal & Steel Community Treaty in 1952 was about important source of energy in Europe, although in its essence the Treaty was aimed at reducing the core material substances for wars' preparations. The following, European Economic Community Treaty of 1957, included among the Community's directions "measures in the

sphere of energy". A special Treaty at that time, the European Atomic Energy Community Treaty of 1957 placed main accent on nuclear energy as a future major source of energy supply. Needless to say that the policy-making strategy was far too ambitious and nuclear energy occupies presently only a fraction of energy consumption in the EU. In some countries nuclear power production is just banned.

## WHAT DO EUROPEAN LEADERS THINK ABOUT ENERGY POLICY PRIORITIES

**Tony Blair, British Prime Minister:**

— We strongly need common energy policy taking into consideration both global warming issue and our national concern to avoid outside press and secure our own energy independence.

**Dominique deVillepin, French Prime Minister:**

— We have four main priorities in Europe, e.g. security issues, innovation, environment and most of all energy priority.

**Anders Fogh Rasmussen, Danish Prime Minister:**

— Among examples of our common concern there are common foreign policy, research & development, consumer protection, illegal immigration and, of course, energy. The latter issue has some priorities as well: to secure safe and clean forms of energy, increase efficient energy use, support for renewable energy sources instead of developing nuclear energy.

*Source: International news & press release.*

Only in 30 years' time, in fact in 1988 and later in 1996, the European Commission in its working papers on "Internal energy market" provided for basic measures in creating liberal energy sector in the Communities, so-called energy Trans-European network.

During 2006 several high-level meeting took place devoted to energy issues. Suffice it to mention just two of the most important, e.g. G-8 Meeting in St. Petersburg on energy supply security, EU summit in Lahti, Finland on the EU energy issues in relations to Russia and the EU's growing dependence on external energy supplies. The bottom-line that energy presents an important factor in the EU economic performance and the absence of a single market in energy undermines competitive EU advantages on the international scene.

## ENERGY MARKET

There are several integral components in the EU energy market, e.g. electricity and gas markets, solid fuel and nuclear energy markets, oil market. In all these sectors a series of guidelines (supported mainly by the EU directives) have been designed to create favorable conditions for trans-European energy networks. What is still lacking is the common EU leaders' desire to support projects of common interest due to varied technical, legal and financial means involved in practical implementation. Very often EU states entrust the energy supply to bilateral cooperation. Thus, about one-



third of oil and one-third of gas in Germany originates in Russia.

The Community's energy policy is aimed, in part, at present on efforts towards agreed common objectives in internal energy market and energy supply. One of the recent trends in energy security is that of the nuclear resources.

### SECURITY OF SUPPLY: NUCLEAR OPTION

Nuclear energy in the EU covers about 15 percent of electricity production, though in some countries it is the cornerstone of national energy policy, e.g. France this share reaches almost 80 percent. The country has launched recently a new type of nuclear reactors to be operated in 2020, which will cover its electricity needs.

With the present level of growing oil and gas prices the only way to secure energy supply is self-sufficiency. One of most viable sources is nuclear energy. As to January 2006 there have been 207 functioning nuclear reactors in Europe and 149 — in the EU (if Bulgaria and Rumania join the EU the total number would reach 153).

During the January 2006 EU's energy crisis French President sent a memo-note to the 25 head of states in which he stressed the nuclear energy's positive aspects: "nuclear energy can provide the EU energy stability and reduce global CO<sub>2</sub> emissions". But the roots of the latest energy crisis lie deeper in politics and economics, and closer to each member state.

At the time of discussing and signing the Euratom Treaty-EAEC in the 1950's the economic factors did not attract serious attention, as the main idea was concentrated on nuclear energy as the major future source of European electricity.

Nuclear energy is becoming quite attractive again, after half a century of hesitant moves in most EU members. The same euphoria can be seen in Asia and the US. There are presently about 450 nuclear reactors (NR) in the world, which produce about 16 percent of global electricity. According to IAEA and World Nuclear Association's data from January 2006 about 110 reactors are being planned for construction and 66 reactors are either terminated or renovated.

Thus 8 new NR were built in 2005, i.e. 4 in Japan and one each in Russia, Ukraine, India and South Korea. At the same time in 2005 two NR were closed — one in Sweden and one in Germany and 3 new being built — one each in Finland, Pakistan and China.

There are several EU states that do not use nuclear energy: Denmark, Portugal, Greece, Italy (4 last reactors have been closed); and Norway from EEA-zone. Out of 25 EU states only 12 are producing nuclear power energy.

Among the new EU member states the Czech Republic is most affluent in energy resources, e.g. in Europe it is the second biggest power exporter after EDF in France. Czech's main solution is to build more NRs.

Better cross-border energy networks can reduce foreign energy dependence in the EU, as well. The European Commission will have to quicker build more interconnection links and reduce local utilities' resistance, so that countries with power surpluses could export easily to the countries with energy deficits. That could be done mostly through TEN infrastructure programs.

There are some opponents of nuclear power in the EU as well as strong feelings to protect national markets. Czech power utility CEZ operates two nuclear power stations, which produce 42 per cent of the country's electricity. CEZ is 66 per cent state-owned; the country produces very little "renewable energy" (power from renewable sources of energy). CEZ exports about 20% of its generated electricity, mostly to Germany.

Finland is presently the only EU country that is building a nuclear power station; since 1991 the EU did not build nuclear plants, and the Finnish *Olkiluoto* and French at *Flamanville* were the examples of a new breed of high powered, pressurized water reactors.

### ENERGY EFFICIENCY

In 2005-06 EU politicians admitted the necessity of finding ways to improve energy security turning to nuclear energy. And at the same time, stressed all the means to energy conservation. As to the latter, Italian government in late January 2006 ordered all official buildings to reduce temperature and called on the public to cut heating by an hour a day.

New recent EU initiative is aimed at reducing 100 bln euro a year from the Union's energy bill, imposing the EU "green agenda" in the world.

Tough new EU energy efficiency targets (released by the EU Energy Commissioner, Andris Piebalgs) can set new global standards, since all imports into the Union market would have to comply with these standards. The Commissioner's target is to put the EU on a 20% energy saving strategy by 2020. New regulations include: cutting carbon dioxide emissions, new energy standards for buildings, minimum energy performance requirements for 14 priority products (boilers, computers, washing machines, office lighting and air conditioning).

These moves reflect the EU growing fears on energy dependence coped with the EU high environmental standards. •

### NUCLEAR ENERGY IN EUROPE

Country	Number of nuclear reactors	Share in electricity, %
Lithuania	1	79.9
France	59	77.7
Slovakia	6	57.4
Belgium	7	55.4
Sweden	10	49.6
Ukraine	16	45.9
Slovenia	1	40.5
Switzerland	5	39.7
Bulgaria	4	37.7
Armenia	1	35.5
Hungary	4	32.7
Czech Republic	6	31.1
Germany	17	28.1
Finland	4	27.3
United Kingdom	23	23.7
Spain	9	23.6
Russia	32	16.5
Rumania	1	9.3
The Netherlands	1	4.5

Source: IAEA, 2003 Nuclear energy market in the EU.

## Modern concept of stable development in Kazakhstan

By Sattar Kuashbayev, Altynsary Umbitaliev,  
both are Masters in Economic Sciences and Doctorate trainees in Economics  
in Kazakh National Agricultural University, Almaty city, Kazakhstan

Kazakhstan is presently in the period of transition towards the economically competitive world. Industrialization, agrarian industrial complex's infrastructure, the agrarian industrial sector (AIC) financial insurance infrastructure — these are the main goals in reaching highly developed agricultural centre.



For the purpose of saving the agricultural tempo and dynamic the national Concept of stable development until 2010 was adopted in June 2005. The Concept is based on the principles of logical continuation of an increasing level of competitive AIC's development.

With this aim to achieve we shall provide for the following:

### INDUSTRIALIZATION OF AGRARIAN INDUSTRIAL COMPLEX (AIC)

The most important criteria of competitive growth are the volumes of AIC set in as indicators of productivity and effectiveness. An industrialization of agrarian industry is one of the fundamental factors in increasing production.

Nowadays the old agricultural technology potentials could be radically modernized, e.g. 75% of present tractors and combines are completely obsolete. Only 10% of

husbandry production is performed mechanically. Coefficient of using facilities in agro-process is varied from 4% in fruit-vegetable till 67% in butter-fat production. The sector's physical wear-out is more than 50%.

One of the most important problems of agriculture's small-good production are the low quality agro-technology, undeveloped ways of procurement and realization of agrarian productions providing husbandry produce. Large-scale husbandry production does not exist.

The weak connection between science and productivity, the poor state of financing in scientific research and application of the world scientific achievements, low level of professionalism — all that holds back the effective increase in agrarian production.

For this purpose the leasing program will be widely used, as well as agricultural technology will be fixed according to the state of production and service industry.

We shall hold the complex of measures oriented on enlargement, concentration, specialization and mechanization of productive processes. We'd create large-and-middle-goods productions and will transform nature conservation and resources' conservation system. We should create the incentives for cooperative enterprises and association of small industries. In this case the budget program has to provide assistance.

### THE INFRASTRUCTURE OF AGRARIAN INDUSTRIAL COMPLEX

Flexible production methods to control quality of production shall be used. In this case the veterinary and phitosanitary services well be used in management.

Joining the World Trade Organization is the most important step in economic development of Kazakhstan. Thus the quality and risk-value of product security would be according to the international requirements. The security problem of food products has the integrated characters covering the whole chain, i.e. from the first stage of production till the final consumer.

An effective risk management will provide the control system to prevent the risk, and control from the state of raw product till its process, transportation, keeping and realization of final products. Only strict control system may provide the transition to the competitive production industry in line with the international standards.

An extremely important moment is the modernization of quality control system and valuation of security risk of agricultural products. For solving this problem it is required to develop and introduce the modern technical standards, transition of agrarian industrial complex's firms along international system management quality ISO, to create the network of specially equipped laboratories on testing product quality according to the international requirements.

Second, we should build the clear system of growing and marketing rear spices of agricultural production. For this we should create the branching network of specially equipped collection points, special wholesale and common food markets.

Nowadays there are 280 fruit-vegetable stores with 208000-t capacity but unfortunately the great number of them is not used.

With the aim of creating husbandry production infrastructure, a joint-stock company *Мал Енімдері корпорациясы* has been created with the representations in all the regions of the republic. The corporation has acquired the special technology, refrigerators and other technological equipments.

There were 64 milk reception points with reservoir freezing; the great number of livestock for fattening was bought up. The specialized equipment supply permits the food industrial enterprises of 7 regions to increase 3-times the purchase of the raw products.

The corporation cooperates with 15 dairy farms and supports restoration of 4 milk-processing enterprises, to increase the volume of production in 5 dairies. Besides, the corporation supports foreign trade in dairy-beef production.

The wholesale market is one of the effective ways to provide effective distribution. The main goal of specialized wholesale markets development of agricultural productions are the creation of conditions for the stable realization in modern trade structure and mechanism formation of mutual

interest of good manufactures, merchants and consumers.

In accordance with the world practice it is necessary to organize the communal wholesale markets of agricultural produce in major cities. Minimizing the trans-shared expenses of the sellers and customers allows them to acquire qualitative and inexpensive goods and services. Alongside the rent of trade places and keeping stores, veterinarian and phytosanitary control, information-marketing guarantee and transport service — all that will support the agricultural development.

Third, it is intended to develop the financial and insurance infrastructure of AIC. It is offered to widening maximally the present system of village credit partnerships, the credit volumes and the forms of financial services.

The acting credit system of agricultural productions in village credit partnerships is very popular for agricultural producers and it is required to be further developed. There are many patent applications for the opening of village credit partnerships. The system works effectively according to the following facts:

coefficient of credit resources repayment is 99,8%, an average profitability of credit system partnership is 44%; 70% of the credit portfolio structure takes place in the basic funds' investment (about 3 billion tenge, or 23 mln dollars).

It is intended to form and develop the new types of village population. Because of the absence of funds for middle and small-goods-producers in village, there is a problem of insufficient level of infrastructure of agricultural business — the additional source of agricultural income. All these facts make it necessary to encourage the state support for the village farmers with the creation of alternative financial schemes; in micro credit system too.

And finally, it is required to form the system of information provision of AIC subjects. The further raising of competitiveness of home productions in a condition of an open economy increases the requirement of agro-market partners in qualified information-marketing utilities.

Adequate information is becoming the decisive factor in competition; as the world practice has shown, it is becoming an important state function too. •

## State management priorities in the Kazakhstan agrarian sector

By Sattar Kuashbayev, Altynsary Umbitaliev

**The year of 2005 was the "countryside year" in Kazakhstan. Various methods in farming, stockbreeding, animal husbandry and plant have been adopted during this period. The inventory of Kazakhstan's agriculture is being prepared during the year showing the real situation in the agricultural sector.**

In modern time Kazakhstan has sharply increased the means for effective leading agribusiness's development. In this aspect the structure of the state support was essential, i.e. the share of so-called "green basket" in the budget of the state agrarian program reaches 77%, and subsidies directly influencing price formation ("yellow basket") reached only 23%.

The precise target priorities of the state policy were the powerful impetus for the investment growth in the agrarian provision complex. In total, during 2003-2005 there were about 600 billion tenge has been allocated for the refreshment of the basis capital in the countryside; it is 20 times bigger than in 2002. In state investments one tenge equals to 5 tenge in private funding; foreign investments increased more than 20 times.

In the AIC's state credit program the multi-aspect system of effective financial instruments has been formed oriented on agricultural producers' requirements, i.e. for crediting spring

and harvesting work, leasing of the agro-technology and equipment for the processing enterprises, village credit partnership system, the forward purchase of grain, cereal receipt and micro-crediting the village inhabitants.

Gradually the banks of the second financial sector have shown the trust in agricultural sector. In the first quarter of 2005 the share of loans was 10% higher than in 2004, in 2004 — 30% higher than in 2003 and two times higher than during the whole 2002. The credit structure has changed too, e.g. in the beginning of program realization the correlation between short- middle- and long-term credits was 50:50, than at the middle of 2005 the correlation changed in favor of middle- and long-term credits in the rate of 30:70.

In the background of achievements in agricultural production stabilization have been good legislation and financing measures, which increased effectiveness and provided security of the state.

The average annual tempo of the agricultural food production for the last 5 years in comparison with the previous 5-year-term was 3,7%. Notwithstanding the weather conditions the middle indicator of harvest of arable farming increased 25.9%, cotton — 21,5%, sunflower — 1.7 times, and sugar beet, potato and vegetable — 1.5 times. Also in the animal husbandry for an analogous period of time the following yields increased: milk — 22.6%, wool cutting — 11.5%, egg — 12.2%.

Physical volume index of agro-branches productivity and processing agricultural raw products increased by 20%. The volume of products per 1 working person in the branch increased by 45%.

The main product's food security has been provided for: thus home production increased the national standards of consumed baking products 4 times, potatoes — 2 times, vegetable supply by 120%, rice — 152%, milk — 117%, cattle product — 119%.

The total export-import balance of agricultural products is positive, while export is 35% bigger than import.

The value of gross agricultural output in 2005 reached 772-bln tenge, which in current

prices is 11% higher than in 2004 and 38% higher than in 2002.

In horticulture the structure of sowing area has been optimized substantially. The sowing of high profitable cultivation has increased: raps — 3.3 times, saphlor — 2 times, buckwheat — 1.6 times and cotton increased by 21%.

The cultivation technology has improved too: annually the share of steam in the field structure is increasing, the great volume of mineral fertilizes is provided by the state.

The state is supporting the test of all sorts of sowing seeds, and elite seeds are discovered. In this way the test permits increased the seeds' standards from 53% in 2001 to practically 100% in 2005; partly the seeds of 1-2 classes increased by 70%.

Constant improvements in leasing operations and the state support for technical equipment have improved the agrarian sector's energy dependence. Thus the average loading per a combine is reduced practically to normal level and permits optimal agro-technical harvesting period. The network of MTS and service centers is an additional advantage.

Due to state support efforts and measures a satisfactory phyto-sanitary situation existed in the country.

The efficient use of the earth's main resource, the land is increasing. The agricultural gross product per hectare in comparative prices in the middle of 2003-2005 period reached 11 th tenge, which is 7.5% higher the indicators for 1999-2002, and 60.3% higher the annual sums of 1995-1998-period.

The positive trends are kept in animal husbandry. The stable increase of all kinds of livestock is continuing, 5-7% of annual gene-

fond of animals is improving. Realization of tribal saplings has risen more than 2 times on all kinds of animals. Quantity of tribal households and number of artificial seeding is increased. The process of concentration of production specialization in animal husbandry is continuing, transferring it on industrial base. It brought to increasing middle- and large-scale goods households and today their general quantity has reached 3 thousand.

As a result of undertaken measures the production of all kinds of animal products increased on average by 4-5%.

Creation of a united veterinarian inspector's system has been completed; i.e. all rural districts are equipped today by state veterinarian inspectors.

The positive trend in the increase of foodstuff production has been generally acknowledged.

Main attention is devoted to work on improving quality of agro-output production and other enterprises in view of international standards (ISO).

The process of integration and unification in agro-production is continuing: there are presently 9 acting sector's associations in the republic.

For solution of village social development problems a state program of rural territories development is realized since 2004. According to this program during last two years the republic's budget allocated resources for the construction of 53 education objects, 46 health service objects and 143 objects of water supply.

Presently a demographic program has been activated through mass media, i.e. *Kaztelradio* financed modernization of equipment in 253 rural settlements. Joint-

stock *Kaztelekom* established digital devices of automatic number determination in 118 rural settlements. About 32 satellite stations have been installed and exploited in the republic's rural districts.

About 164 education facilities, culture and health service centers have been built recently from the local budget. More than 1600 objects of social infrastructure will be reconstructed completely. Improved drinking water service is being installed in 218 rural settlements. Measures on repairing local roads of local meaning will be realized in approximately 1500 rural settlements. Besides there is continuing realization of measures on development of objects of gas, electricity and ecology service security.

According to the last year's head of the State's nation message a program of micro credit, which got widespread response among rural population, has been realized actively. From the foreseen republic's budget of about 1 billion tenge more than 8393 micro-credits with the total sum of more than 800 mln tenge were given, about 35% of this sum was given to households with less than minimum living wage level.

To sum-up the above mentioned it is necessary to say that generally realization of state programs allowed for creation of necessary conditions for development of efficient and competitive agricultural production, substituting import, spreading export possibilities and rising level of living and prosperity of rural population.

On the background of positive dynamics in rural sector of economy there are still many unsolved problems. They discard rising labor efficiency, growing profits and quality of agricultural products. •

## Infrastructure development in agrarian industrial complex (AIC): management problems

By Sattar Kuashbayev, Altynsary Umbataliev

The financial, insurance and informational infrastructures of the national agrarian industrial complex (AIC) are in the developing stage. The technical and technological renovation of AIC's processing enterprises is to be hold according to international standards. The state regulation using different measures for AIC's market production is aimed at keeping the product security of home at high level.

The practices of the Kazakhstan's economy stable development in the agrarian sector have faced some problems to be solved.

1. The financial, insurance and informational infrastructures of the national agrarian industrial complex (AIC) are in the developing stage.

In this connection there is a great work to be done for the further development of the network of rural credit partnerships.

At the same time, using state means, it is necessary to attract private capital, in order to develop the appropriate economic mechanisms.

Compulsory insurance in horticulture is functioning from 2005. But the mass scale of rural production still doesn't meet the legal demands. That's why it is necessary to coordinate all measures of the state support in the horticulture with the present insurance policy with the aim of further strengthening this important direction.

It is also necessary to provide information guarantees for AIC's goods in order to speed up the formation of joint-stock companies' network. A special company, "Kazagromarketing" expand them to the level of rural districts, providing free of

charge market information to the AIC's issues, assisting in arranging regular educating facilities for agro-producers, as well as holding fairs and exhibitions, and creating the system of electronic trades in agricultural products.

2. In the sphere of agricultural processing the technical and technological renovation of processing enterprises are to be maintained in order to transfer them according to international standards and to remove barriers for the home goods on export markets.

3. The state regulations on AIC's market production is to proceed with the aim of increasing its competitiveness and expedient application of special tax regime, creating and providing planned pilot clusters for production of wheat, meat, milk, fruits, vegetables and cotton.

For our state neighboring with the great world costumers and product producers it is important to regulate the inner markets for keeping product security.

The necessity of taking above-mentioned measures is dictated by seasonal fluctuation of agricultural products and irregular supply at the domestic market, which is leading to the sharp price fluctuation and inflation processes. Therefore it is necessary to buy up in traditional way the socially significant agricultural products and to create the state reserves and funds of resources. Besides, it is required to work out the precise mechanisms for state food interventions.

As for exports of agricultural products it is necessary to activate the policy focused on widening existing means and mastering the new markets. Further progress of agricultural products requires state intervention and export support.

The problems concerning land tenure, as well as water, fish, forest and hunting have to be oriented towards solving the main tasks with the competitive increase of the whole agricultural complex production.

In particular, in accordance with the acting legislation, it is required to assign the nature sites for the nature users for the long-term periods and to create economic mechanisms promoted supply of private capital for developing wood funds, lakes and pools (as well as hunting farms), alongside formation of non-state system of security and restoring natural resources.

As to agrarian science, the structural reorganization has positive effect on science development; in particular, with the improved application of the scientific methods in agro-

industry. For the last 3 years 456 scientific projects in industry have been used on total sum of 700 mln tenge, which is nearly 3 times bigger than on average during previous 3 years.

But, there is a sharp shortage of young staff and fresh scientific ideas and projects. We do not have closer connection of scientific institutions with educational high schools of agrarian profile. The academic curriculum of students obviously is falling behind the agro-branch dynamic.

Research-industrial center, Akmola Agrarian University was formed and handed over to the Ministry of agriculture, which is intended to join the research-industrial centers of cereal farms. The cooperation of science, industry and education facilities into a single unit is the world's trend and we shall use it in full.

As for the scientific groundwork, it would be reasonable to concentrate our scientific ideas and financial means on the research priority and competitive directions in particularly in gene engineering, and to explore the achievements of the world science into our real life.

4. It is important to develop countryside territories.

The necessary countryside and farms' revival is impossible without the decisive changes in farmers and peasants' conditions and their way of life. Therefore it is necessary to activate the countryside and village territory structure. And not only due to the growth of state investments, which are of course necessary. But the main thing is to give the peasants an opportunity to settle down in their own houses, in their village, to command their destiny. They are to have all the necessary authority and resources.

It means that it is necessary to provide for the institution of local self-administration on a village level and its financial security, on the one hand, and for the improvement of the state control in power vertical, on the other.

It should be noted that the developing measures in village territory management are realized alongside keeping up with their traditional way of life.

Sizeable sums of money are devoted for that purpose. At the same time, it has to be acknowledged that in fact it is not necessary that so many people work in agricultural sector. For example, in the countries of the European Union where the majority of population lives in the countryside, only about 5% of the population employed in agriculture, 27% — in industrial enterprises and 67% — in the service industry. With our undeveloped agricultural forms of state programs for village territories we are interested in the European experience, particularly, in small business development in the villages. Such approaches would decrease the stress in urbanization processes. In this connection we should clarify and correct it according to the new developing projects.

The forthcoming first agricultural inventory has to equip us with detailed analytical material. We have to accelerate the speed and volumes of work implementation. For this purpose it is necessary to use widely the opportunities of micro-credit programs, service industry development, raw material development, national trade and others. •



**GROSS DOMESTIC PRODUCT**

	Latvia	Lithuania	Estonia
<b>GDP at current prices, mln EUR</b>			
Q1 2006	3267	4932	2742
Q1 2005	2624	4267	2321
<b>GDP at constant prices, % of corresponding period of previous year</b>			
Q1 2006	113.1	108.8	111.7
Q1 2005	107.6	104.4	107.2
<b>GDP per capita at current prices, EUR</b>			
2005	5527	6030	7832
2004	4782	5264	6702

Source: Central Statistical Bureau of Latvia.

**WAGES, EUR**

Monthly average, Q1 2006	Latvia	Lithuania	Estonia
Gross wages	383.0	416.0	549.0
% to Q1 2005	119.2	113.2	115.7
Min. wages, July 2006	128.0	174.0	192.0
% to July 2005	112.5	109.1	111.5
Old-age pension, monthly average, Q2 2006	136.0	130.0	187.0
% to Q2 2005	119.1	113.1	118.8

Source: Central Statistical Bureau of Latvia.

**FOREIGN TRADE, MLN EUR**

January-June 2006	Latvia	Lithuania	Estonia
<b>Export (FOB)</b>			
total	2195	5536	3729
to EU-25	1650	3485	2415
% of total	75	63	65
<b>Import (CIF)</b>			
total	3927	7241	4904
from EU-25	2921	4291	3486
% of total	74	59	71
Balance of foreign trade	-1732	-1705	-1175

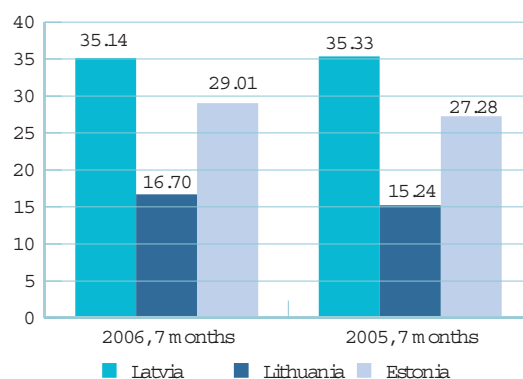
Source: Central Statistical Bureau of Latvia.

**OUTPUT BY LATVIAN PHARMACEUTICAL COMPANIES, H1 2006**

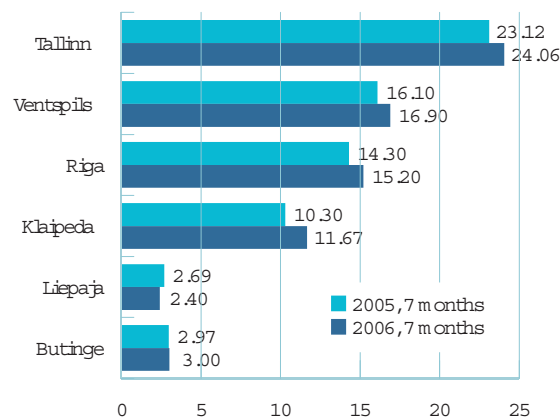
Company	Output	Export	Latvian sales
<b>Total, mln LVL</b>	<b>30.546*</b>	<b>25.8</b>	<b>4.8</b>
Grindeks, mln LVL	20.9	19.5	1.3
Olainfarm, mln LVL	7.3	5.9	1.4
Rigas farmaceitiska fabrika, mln LVL	1.3	—	1.3
Kalceks, th LVL	337.4	159.4	155.2
LMP, LVL th LVL	144.0	67.6	101.4
Elme Messer Metalurgs, th LVL	61.0	39.8	21.2
Medpro Inc, th LVL	41.8	20.7	41.8

\* In the first half of 2006 the output in the industry increased by 26.6% from the same period last year.

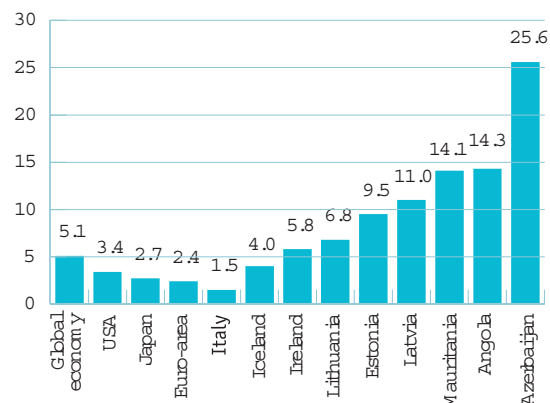
Source: The National Drug Agency.

**CARGO TURNOVER AT BALTIC PORTS, MLN T**

Source: Central Statistical Bureau of Latvia.

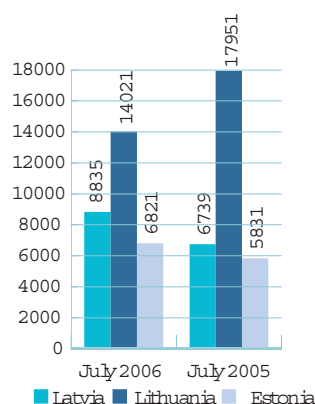
**CARGO TURNOVER AT BALTIC PORTS, MLN T**

Source: LETA, ELTA.

**GDP GROWTH FORECAST FOR SOME WORLD COUNTRIES IN 2006, %**

Source: LETA, The International Monetary Fund.

### NUMBER OF CAR FIRST REGISTRATIONS



Source: Central Statistical Bureau of Latvia.

### THE WORLD'S MOST EXPENSIVE CITIES

City	Place*
Oslo	1
London	2
Copenhagen	3
Zurich	4
Tokyo	5
Geneva	6
New York	7
Dublin	8
Stockholm	9
Helsinki	10
Moscow	41
<b>Tallinn</b>	<b>49</b>
<b>Riga</b>	<b>56</b>
<b>Vilnius</b>	<b>63</b>
Kiev	66

\* 30 different indicators, including the Big Mac Index, were used for comparison of purchasing power in various cities.

Source: Price and Earnings Report by Swiss bank UBS.

### TIMBER EXPORTS AND IMPORTS IN LATVIA

	In 2005, mln LVL	Change to 2004, %
<b>Total exports</b>	<b>757.8</b>	<b>+9.8</b>
including to:		
United Kingdom	213.7	-1.7
Sweden	131.6	-5.8
Germany	84.3	-6.8
Denmark	54.7	+8.7
<b>Total imports</b>	<b>295.46</b>	<b>+18.0</b>

Source: LEA, the Forest Department of the Latvian Agriculture Ministry.

### FOREIGN DIRECT INVESTMENTS

At the end of quarter	Latvia	Lithuania	Estonia
<b>FDI, stock, total, mln EUR</b>			
Q1 2006	4444	5653	11224
Q1 2005	3546	4836	9099
<b>Per capita, EUR</b>			
Q1 2006	1940	1664	8347
Q1 2005	1540	1414	6750
<b>FDI, flows, mln EUR</b>			
Q1 2006	291	178	496
Q1 2005	174	192	938
<b>% of GDP</b>			
Q1 2006	8.9	3.6	18.1
Q1 2005	6.6	4.5	40.4

Source: Central Statistical Bureau of Latvia.

### POPULATION, TH

	Latvia		Lithuania		Estonia	
	January-June 2006	January-June 2005	January-June 2006	January-June 2005	January-June 2006	January-June 2005
Births	10680	10719	14969	15209	7397	7135
Deaths	17380	16895	23262	22393	9250	9006
Natural increase	-6700	-6176	-8293	-7184	-1853	-1871

Source: Central Statistical Bureau of Latvia.

### GENERAL GOVERNMENT DEBT

At the end of period	Latvia	Lithuania	Estonia
<b>total, mln EUR</b>			
Q2 2006	1407	2607	249
Q2 2005	1356	2417	243
<b>Per capita, EUR</b>			
Q2 2006	614	767	185
Q2 2005	589	707	180

Source: Central Statistical Bureau of Latvia.

### AVERAGE PRICES FOR GOODS AND SERVICES, EUR PER KG

	Latvia		Lithuania		Estonia	
	July		July		July	
	2006	2005	2006	2005	2006	2005
Beef	2.97	2.72	3.38	3.24	2.96	2.85
Pork	2.63	2.55	2.62	2.48	3.36	3.23
Chicken	1.96	1.96	1.69	1.71	2.19	2.34
Sausage boiled	2.82	2.72	2.64	2.59	2.88	2.63
Butter	3.57	3.33	4.53	4.55	4.09	3.93
Milk, 2.5% of fat, 1l	0.54	0.50	0.48	0.51	0.44	0.44
Eggs, 10 pcs	0.87	0.84	0.82	0.66	0.78	0.75
Rye bread	0.84	0.70	0.77	0.65	0.87	0.82
Wheat bread	0.98	0.85	0.94	0.85	0.93	0.93
Sugar	0.95	0.92	0.85	0.86	0.97	0.98
Potatoes	0.70	0.44	0.63	0.43	0.53	0.51
Vodka 40% alc. vol., 1l	8.42	7.36	7.28	7.19	9.22	8.72
Petrol A-95, 1l	0.92	0.81	0.99	0.87	0.92	0.82
Electricity, per 100 kWh	6.83	6.40	8.98	8.98	7.99	7.86

Source: Central Statistical Bureau of Latvia.



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