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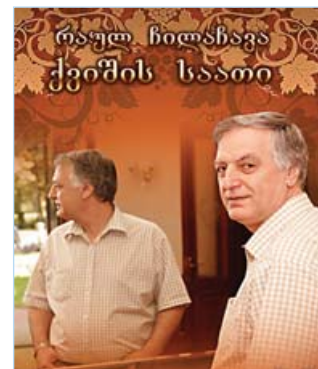
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**The
BALTIC
COURSE**

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At the end of last year *BC's* editorial board together with the Baltic International Academy convened another round-table, now devoted to a burning issue of innovations and SMEs activity. The readers can find interesting facts and materials on the innovations' development in the Baltics and Latvia, including opinions of the Latvian Economy Institute's director and the *Biosan's* president.

Within the regular Baltics' market review series, we publish two reviews, one on investment market analysis in the three Baltic States, another one, on incentive-tourism development in the Baltics. Another new analytical material is dedicated to taxation policy issues in the Baltics.

Baltic and Latvian cooperation development efforts with Norway are revealed in the *BC's* interview with the Norwegian ambassador in Latvia. Among other materials are, e.g. regional energy issues in Europe and the Baltics together with nuclear energy in Lithuania and efficient energy use in construction industry.

Some material on CIS development follows, in particular, on Latvian-Belarusian and Latvian-Ukrainian affairs.

To commemorate the 50th anniversary of the Rome Treaty signed on 25 March 1957 we publish our first article providing some reflections on the initial steps in the Community's economic integration. A short analysis of the German EU's Presidency program is included.

As usually, readers will find some important Baltic States' development statistics in the *BC's* final pages.

Eugene Eteris,
BC's International Editor

NATO SUMMIT IN FIGURES



The NATO summit in the Latvian capital Riga on Nov. 28-29 was attended by nine heads of state and 15 heads of government.

About 13,800 people took part in organizing and preparing the NATO summit's activities. Some 1,400 people participated in preparation of the Olympic Center (designs, construction, interior designs, etc.), which served as the main venue of the summit. Another 8,000 were involved in coordination of security measures (police, armed forces, fire and rescue service, border guards, etc.). Over 400 people were involved in medical assistance and services, and around 200 people were responsible for proper functioning of the accreditation and press centers.

Over 780 people were involved in the cultural events (the program for spouses of the NATO leaders, concert in the Latvian National Opera, and reception for the accredited press). About 750 people were responsible for catering services (dinner for NATO leaders, receptions hosted by the Latvian defense minister and the Latvian foreign minister, meals to police officers and soldiers).

About 600 people participated in organization of public diplomacy events (the Young Leaders Forum, the academic conference, the Open House in the Daile Theater, lectures at schools, exhibition on NATO transformation). Another 160 people were responsible for communications and information technologies, about 600 people handled logistics and transport, and 300 people worked on presents for the summit participants. There were also 600 people working as volunteers during the NATO summit. The number of tourists soared 500% due to the summit. The three-, four- and five-star hotels in Riga accommodated about 5,000 people during the summit days.

UKRAINE TO START ELECTRIC POWER SUPPLY TO LITHUANIA

Ukraine will start supplying electric power to Lithuania from 2010. The leaders of both countries, **Viktor Yushchenko** and **Valdas Adamkus**, agreed on this issue during the Lithuanian president's visit to Ukraine in last October. The parties discussed joint actions in energy and transport industries, the problems of diversifying energy sources and supply routes. They also discussed development of the Odessa-Brody-Gdansk pipeline project. Summarizing the results of the visit, Yushchenko said that Ukraine and Lithuania had a common approach to cooperation and geopolitical problems. Adamkus expressed support to Ukraine's Euro-Atlantic



course. As part of the Lithuanian president's official visit to Ukraine, a Ukrainian-Lithuanian business forum was held in the Chamber of Commerce and Industry in Kiev.

LATVIA APPROVES ECONOMIC AGREEMENT WITH RUSSIA

Just few days ahead of the parliament elections, Latvian Cabinet of Ministers under the urgency procedure approved the agreement on economic cooperation between Latvian and Russian governments. **Aigars Stokenbergs**, Latvian economics minister, signed the agreement on behalf of Latvian government. It was the first time since the restoration of Latvian independence in 1991 that Latvia entered into direct economic agreement with Russia. Previously these relations between the two countries were regulated through the EU's institutions. Other important developments in the Russian-Latvian relations in 2006 include visits to Latvia by Russian ex-president **Boris Yeltsin** and the head of the Russian Orthodox Church, **Patriarch Alexis II** of Moscow and All Russia, as well as Latvian Prime Minister **Aigars Kalvitis** meeting with the Russian Prime Minister **Mikhail Fradkov** and Russian President **Vladimir Putin** at international forums.

COURSE TOWARDS CHINESE GOODS TRANSIT CENTER



Estonian Prime Minister **Andrus Ansip** met last October with the fourth highest Chinese state official, the People's Political Consultative Council's chairman **Jia Qinglin**, and expressed hope for organization of a Chinese goods transit center in Estonia. They discussed mostly economic issues but also touched upon the EU-Chinese relations and the need to solve the nuclear crisis in North Korea. The Chinese representative said that China and Estonia had very close trade ties and he hoped they would become even closer in future concerning transit, tourism, wood-processing industry, oil refining industry and information technologies.

As regards transit, Estonia is interested in the possibility of opening a Chinese goods' transit center.

GE MONEY BUYS LATVIAN BANK

The consumer lending company **GE Money**, which belongs to the US corporation *General Electric*, has signed an agreement on acquisition of 98% stocks in Latvia's *Baltic Trust Bank (BTB)*. All required approvals by supervising authorities were received last November, and the deal was regarded completed. A new *BTB* council has been elected, which now includes **Niels Aall**, the *GE Money* Nordic and Baltic region's Chief Executive Officer. Previously *BTB* belonged to a Latvian-registered company, *Finstar Baltic Investments*. The largest shareholder in *Finstar Baltic Investments* is the Russian millionaire **Oleg Boiko**. According to the *Forbes* magazine, his wealth amounted to 960 million US dollars in 2005.

CHAPTER ON VENTSPILS NAFTA PRIVATIZATION CLOSED



Latvian Prime Minister **Aigars Kalvitis** has announced that “the auction of the state-owned shares in *Ventspils nafta* (VN) has closed the chapter on the subject that had plagued the Latvian economy and politics for several years.” All the state shares in VN, which deals with the oil transit in Latvia’s north-western port of Ventspils, were sold at the auction on October 5, 2006, organized by the Latvian Privatization Agency. The price per share was 1.84 lats, which means that Latvian budget earned 74.236 mln lats. The deal’s brokerage was represented by a consortium consisting of *Parex banka*, *IBS Suprema* and *Suprema Securities*. Under the terms of the auction, the broker’s share reached 2.05% of the amount of the deal.

The state-owned shares in VN were bought by *Vitol Group*, which now holds 41% in the company. As soon as the name of the new shareholder was announced, various reports appeared in Latvian press about *Vitol Group*, which was completely unknown in the Baltics. In fact, *Vitol Group* was among partners of the Ventspils port almost from the very beginning when the oil terminal started functioning there in the 1960s. The major oil trader is well known also in the Tallinn port and Mazeikiiai. In 2005 Lithuanian oil concern *Mazeikiu nafta* signed an agreement with *Vitol Group* about reloading 7 mln t of oil through the Butinge terminal. *Vitol Group* expressed interest in participation in *Ventspils nafta*’s privatization already back in 2004 but no deal was made then.

The VN new shareholder immediately took steps to ensure active use of the company’s port facilities. From January to October 2006 *Ventspils nafta terminals*, the oil reloading subsidiary of *Ventspils nafta*, handled 0.7 mln t of oil and 0.2 mln t of oil products delivered by sea. During the entire last year tankers delivered to the Ventspils port 0.3 mln tons of oil products. “We in Latvia are receiving such large amounts of oil products by the sea for the first time,” said *Ventspils nafta*’s spokeswoman **Gundega Varpa**.

A NEW BUSINESS PARK BEING BUILT NEAR RIGA

Dommo Business Park — it is the name of the nearest to Riga office, warehouse, production and service complex, which is under construction at the moment. The complex will attract 100 million lats in investments and give business people a great opportunity to use new and modern premises just a half-hour trip from the Riga centre.

Dommo Business Park is situated in the Olaine Parish on a territory of 58 hectares; its main advantages is its nearness to the main roads, the Riga Port, the Riga Airport and the city centre, which is just 13 km away. The total area of premises will be 186,072 square metres.

“We offer for lease a wide range of premises, from 530 to 34,000 square metres, which can be finished and decorated in accordance with the needs of clients, and a developed infrastructure,” informed **Valdis Gaillitis**, Board Member of *SIA Dommo*, the developer.

It is planned to commission the first warehouse building already November this year.

Lease payments of office premises per month: 8-10 EUR/m²; warehouse and production premises — 5-6 EUR/m². The project comprises parking lots, catering establishments and a petrol station.

The developer, *SIA Dommo*, is specialised in projects of high-standard apartments, offices, mixed use centres and business parks. Its shareholders are Lithuanian companies, *inRed* (holding company *Invalda Group*) and *MG Valda* (holding company *MG Baltics*), which develop real property projects internationally.

ESTLINK ENDS THE BALTIC STATES’ ENERGY ISOLATION

The EU Energy Commissioner, **Andris Piebalgs** on December 4, 2006, participated in the opening ceremony of the *Estlink* start up, an underwater electricity cable that will connect the electricity systems in Finland and the Baltic States. The cable connects Estonia to Finland, and thereby the Nordic transmission grid to the Baltic States. “Up until now, the Baltic states were an electricity island. The *Estlink* will enable electricity trade between the Baltic states and Finland, effectively putting an end to the isolation of the region,” said Commissioner **Piebalgs**.

The effective isolation of the Baltic republics was considered as an urgent problem to be addressed for the optimal Internal Energy Market functioning. Therefore *Estlink* had been identified as a priority interconnector in the new guidelines for the Trans European Energy Networks (TEN-E). A feasibility study was supported by TEN-E funds.

According to the EU Directive on the electricity market liberalization, certain infrastructures can benefit from special privileged conditions to attract necessary investment. The project did in fact benefit from an exemption to third party access until 2013, which was approved by the European Commission. The guidelines for the TEN-E have also identified a southern interconnector for the Baltic republics, i.e. the link connected Poland and Lithuania.

SEB SELLS REAL ESTATE IN BALTICS

The *SEB* group has made a strategic decision to sell its property holdings in Estonia, Latvia and Lithuania. This is in line with *SEB* general strategy aimed at concentrating on the main banking business, i.e., provision of financial services to clients.

The property holdings comprise one sale and lease-back portfolio of 47 properties and one commercial portfolio of 16 properties. The total book value of both portfolios amounts to EUR 104 million.



Innovations and small business



By Olga Pavuk,
Professor, Baltic International Academy (BIA)

The previous round-table on “labour market” issues organised by the BC and BIA and subsequent discussions published in the BC-23 have shown that the labour shortage problems both in Latvia and other new EU members can be solved through the use of innovation technologies. So to say — by the knowledge rather than numbers! The innovative issue has become most urgent for the SMEs, the sector which attracts presently the biggest share of workers. “Innovation and small business”, that was the theme of a new round-table which took place in BIA last November.

It has to be pointed out that the innovation issues has come into Latvian business lexicon only a couple of years ago. Unfortunately for long time the theme was not within the national economy priority development list.

BETTER LATER THAN NEVER

During last year the innovation theme has become quite popular in the country, e.g. last October within the “Riga-2006-innovation days” program a business leaders’ forum was organised by the Latvian Employers Confederation and Microsoft Latvia. Microsoft’s Regional president for Europe, Middle East and Africa, **Jan Mulfight** presided over the forum. During another conference “InnoLatvia 2006” organised last November in Latvian capital Riga by *InnoEurope* and *Hansa Conferences*, Economy Ministry’s representative promised to at least double the number of Latvian innovation enterprises. In order to reach the aim, the government promised to increase funds for R&D in private and public sectors by 0.15% of GDP, thus by 2010

the total amount of investments to Latvian innovation sector will reach 1.5% of GDP.

Among the countries that joined the EU in May 2004 and the two new member states from 2007, Latvia occupies the 10th place as to the innovation technology development, with index 0.2 (at the level with Malta). To speed-up innovation process, according to Economy Ministry, a new document was prepared by the ministry named “National innovation system: strategy and decision-making plan.” Among the priorities the following spheres were mentioned: education, science, high-tech technologies, efficient use of human resources, infrastructure development and services.

SCIENCE AND THE STATE

There are numerous highly qualified academics in Latvia capable of producing new and compatible ideas. It would be good if these people cooperate with the business sector with the consequential advantage for both sides. First, labour productivity and product quality would increase; second, scientists could earn on their ideas. So far most of them are forced to work in foreign companies instead.

At a conference “Innovations = profit” organised by the Latvian Employers Confederation in 2005 Latvian Academy of Science’s president **Juris Ekmanis** argued that in order to be competitive on world market the EU member states had to invest in innovation and technology at least 3% of GDP. In Latvia the present level is 0.44% (remember Latvian promises to add to science development 0.15% of GDP yearly). Then, in seven years Latvia can catch-up with Czech Republic, which already today invest in science about 1.4% of GDP. The question is still, where would Czechs come to in the meantime? Another question is interesting as well: how far would Swedish economy go if presently it sells to the world 370 patents yearly (compared to Latvia with 1 patent in two years)?

WHAT’S TO BE DONE?

The answer to this question was given by the Latvian Technology Center’s director, **Janis Stabulnieks**. Already in 1993 the Center tried to gather under its roof what was then left in the nation’s decaying science, and with the collective efforts it managed to collect some funds for innovation and research. The first year’s result was quite miserable: for each invested lat the profit was just 33 santims. The Center somehow survived during turbulent years and presently its scientists’ profitability increased to 4 lats for a lat in investments.

Dr. Stabulnieks during last several years tried to explain the public the importance of innovation technology centers and business-incubators. Long since he suggested getting away from the linear innovation structures based on the following principle: the researcher brought his genuine project, we introduced it to the market, then we wait until another project arrives. Now we changed it into the “programmed innovation principle”: conceiving the idea-implementing- further researching.”

LIGHT AT THE END OF THE TUNNEL

There are in Latvia, somehow, positive examples of successfully implemented R&D projects. As a rule, these are projects of the scientists from the national Academy of science who managed to turn to applied science and cope with the industrial sector.

Thus, in 1994 biologist **Bronislav Pitran** established the Biological Research

Center. In ten years' time the center went through state's registration and got a new and respectful title — Biomedical European Academy, BMEA. Its aim and purpose was to develop scientific projects and produce new type of selenium-based stuff based on own original preparations. It is due to the Mr. Pitran's new achievements the country has acquired a program dealing with the human selenium deficit.

Another example — a unique for Latvia enterprise — *Biotechniskais centrs*. First, it produces unique bioreactors; there about 15 similar productions, mostly in the old European countries. Second, the company with just 11 employees has managed to export its products, make profitable deals and compete with experienced Western partners. Mr. **Juris Vanags**, the newly start-

up company's director underlined the company's advantages in the simple way: we could start production almost immediately based on the experience of our predecessors, including access to modern technologies and looking into the future.

Then another, a unique example, too — *Biosan* company headed by a biologist, professor **Vasilij Bankovskij**. Among the most interesting items in the present company's production there are devices for clinic biochemistry and immunology, gene-diagnostic, etc which are used in various spheres of human activity, as well as medicine, veterinary, agriculture, criminology and fundamental science. The company's turnover increased from 138 th euro in 1998 to 2.8 mln euro in 2006 with 75 people employed in the firm.

Quite remarkable that the company's own research and outcomes were the background of its prospects. In 2000 a private investor from Latvia gave a strong financial impetus to the firm which increased production and its profit to 864 th euro. But real breakthrough occurred in 2005 when a joint venture with the famous in the world *British Grant Instruments* was concluded. In 2005 *Biosan* was awarded a bronze medal for year's best innovative export product in the country. In 2006 the company was named the best innovative company in the country's capital, the title inaugurated by the Riga City Council. The company's head has had a privilege of being invited for gala-lunch arranged on the occasion of the British monarch's visit to Latvia in summer 2006. Mr. V. Bankovskij took part in the present round-table discussions. •

The origin of ideas

By **Vasily Bankovsky**,
PhD., President, *Biosan*

In my presentation, I will present a picture of how Latvian science survived during the years of re-gaining independence based on my own experience. Moreover, the way the genetic-scientist turned into an industrialist.

BACK TO THE USSR

During the Soviet times, a visible share of scientists in the former USSR represented an integral part of the global search network for the new alternative, environmentally clean renewable sources of energy.

In Riga, in the "Recombinant physiology laboratory", which I was heading at the time, at the Microbiology Institute in the Latvian Academy of Sciences we were creating recombinants of various micro-organisms, introducing into them new genes and turning metabolism reactions from one substance into another. Without doubt, it was high-tech at that time: three Moscow-based institutes, e.g. Moscow State University, Institute of Molecular Genetics and Institute of Industrial Microorganisms; all of them formed the Moscow project branch of the USSR's high-tech and they have been performing its own sector of the entire project. The latter was dedicated to cloning cellulose-degradation genes up to the level of so-called "centerabolite-piruvate". My laboratory was responsible for a small part of the problem resolution, i.e. cloning the end line of the research chain — transferring piruvate into alcohol (ethanol). Thus, we have been an integral element of a big fun-

damental science's matrices delivering research to an applied level. We knew that there were big factories already waiting for our research to be completed in order to start industrial implementation and production. The project should have been a great breakthrough, i.e. bio-ethanol production based on ecologically clean poly-sacharide hydrolyze; some other by-products of agricultural production could be used as well. Now it seems unbelievable how perspective our research had been — we started to make alternative energy sources in 1985-1993. Presently, in 2006-2007, the problem is becoming even more urgent; but then it is not any more our problem...

EAST OR WEST: TO CHOOSE FROM

In Europe, these kinds of problems have been concentrated in a German institute; therefore, due to the Latvian perspectives into united Europe, nobody wanted any fundamental research, everything was cracking into pieces and my laboratory was disintegrated. I was facing a new problem: either to stay in Latvia or go to Germany; I decided to stay. I stayed because I wanted to assemble the valuable assets left from the past for the future of high-tech in Latvia. I called the project *Biosan*, which was sup-



posed to grow in the atmosphere of complete erosion and devastation.

First, I turned for help to some clever and experienced people. One of them was former director of Latvian research institute attached to the famous telecommunication factory (VEF), Mr. Valdis K. Sedvald, a highly professional person.

At the former premises of his institute, I guess, there is presently McDonald's. It seems that in all previous hi-tec premises (hi-tec industrial complexes) we have presently hotels, supermarkets and all kind of things that resemble our understanding, at that perestroika-time, high-tech state-of-art, or rather life styles according to high standards.

Anyway, without orders from the USSR' military sectors industrial complexes being placed at the time in Latvia collapsed releasing, at the same time, huge

human resources. What happened next was predictable and quite primitive, i.e. it was cold, we were hungry and we were fighting for the decent place under the sun. Many tragic situations happened at that time which was called “perestroika” or “beginning of independence,” the time when we tried to save for research the last part of valuable human resources.

Therefore, instead of the familiar dilemma “either-or” I faced another one of the type “and-and”. It was in fact possible in Latvia due to the 800-years country’s tolerant history proceeding under the “and-and” motto later on interrupted by the unsuccessful but rather devastating “either-or” experience.

MARKET: WHAT SHALL WE DO?

The equipment we produce in *Biosan* is rather complicated and belongs to the specific market segment called “bio-scientific equipment” and its sub-section — equipment for the molecular genetics. Most of this stuff did not exist in the market, but these technologies existed in my head or in prototypes, which I managed to implement, as that was my laboratory’s obligation. As soon as these technologies were in great demand around the world, we were producing such equipment. Hence, molecular genetics has been going on.

It was the golden period on gene engineering development period in the USSR and I was a constituent ingredient in this genetics’ game...

I was lucky enough to be able to work in certain adjacent spheres, including integration of biology, physics, mathematics, engineering, as well as human management, i.e. to work with people and create temporary project teams. This experience I gained in the former Soviet, i.e. good education (free of charge) and traveling around the Union — these were the expertise, which I could explore at my advantage later on...

However, in order to go on I needed financial support. The only body I knew could help me was the Education Ministry; I went there to ask for grants... I have to mention that at that moment I went already bust; I had a debt of one million “transitional currency units” (the currency existed between rubles and present lats): we bought equipment for the optical-mechanic plant producing first at the time equipment devices for HIV-diagnostics. That was the credit from the previous Soviet-time arrangement. Soon it was clear that such innovation direction was not politically correct at the time. As a result — bankruptcy! People in the bank said: return money, or you’ll die...

The grant I was asking in the Ministry was for the project, which aimed to “connect” genetically biology, chemistry and medicine. It was a success — I got a grant of 9 th lats for 3 year-period, which was regarded as a big sum then... The first thing I did, I bought a modern computer, the rest I “returned” to my creditors and they let me free!

Nevertheless, we still needed money and we tried to trade with anything feasible on the market. We chose furniture. Together with a friend of mine from Lithuania, we started a firm selling quite good office furniture. Business went on good enough, so we earned some money and got some understanding of how to work on the market. The profits earned we partly invested in furniture business, partly into our future scientific project. At that moment, I have realized that I must make my own production, which neither political power, nor any political force will be able to dismantle. In this way I, unfortunately, became an industrialist.

INDUSTRY REQUESTS INNOVATION

Step-by-step we created our own production base, which is presently the main line of order for innovations. As soon as scientific instrument making in biotechnology is in great demand in international market, our capacities are growing by 40-60% yearly. Thus, initially received 3,000 lats as credit turned into 2-mln lat yearly turnover, calculated as pure export.

The *Biosan* production scheme works pretty simple: constituent parts are coming from the airport, and then they are immediately assembled into a finished “product” and exported further on immediately. Everyday we send 5-6 loaded trucks, representing various transport-logistic companies. Thus, in one unit we represent both the customers of new technologies and modernizers of the existing products.

At the same time we are facing extreme competition, the market just went crazy, we have to constantly follow the trends, checking the market’s pulse, constantly investing.

Public institutions do not have time to follow all these processes as they work “on lower frequencies”. We are at least twice mobile; we ourselves decide the rate of re-investments, which at the present stage of company’s development do not exceed 10% of our total turnover. This is what we re-invest into fundamental science, into our future.

We are lucky at present: after 15 years of wasted time, the country has experienced a wave of foreign and local investments,

including those into the high-tech field. In the new situation, Latvian Investment and Development Agency (LAIR) decided to provide support for our projects as well. *That was my old project, the one previously rejected, i.e. equipment devices for HIV-diagnostics, which then we realized together with my Russian partner from Moscow.*

However, let us turn to the former Soviet high-tech model, or matrix, though first something about the Western one.

WESTERN HIGH-TECH MATRIX

All my attempts failed to integrate into the Western high-tech model. Three old “wise-men,” so-called science experts from Denmark, were invited to evaluate all projects. My project was evaluated and assessed in a rather straight form: what you suggest was quite dubious, and generally Latvia was not regarded as the place for fundamental science development, in particular in this direction. That was difficult to agree with by the definition, as in my project I was dealing with stress-bioreactors, and in general, with the middle-XXI century research; exactly the things that presently are regarded as future framework for meta-biomimetics.

Bottom-line, I was told that I had to work along established European high-tech directions (read-matrix), therefore I had two options: either immigrate or return to a more primitive innovation level. Amazing that in this way western experts dealt with the really wonderful scientific achievements. These were so-called external factors in Latvia; but there were some internal factors as well; I will not tell about it now, better some other time.

RUSSIAN HIGH-TECH MATRIX

Something about Russian hi-tech: there were very good customers and quite serious research institutions. They like the people in the Baltics; they respect me too, as I was a PhD student there, and was recognized as an equal partner. For example, it’s not a big deal for me to arrange a meeting with a Russian health minister, often on a very informal manner. In Latvia, it is a very big problem: once I tried and called his secretary. “Who are you and what do you want?” was her question.

My name did not say anything to her, which meant that as soon as you were not among the recognized party ranks and you were independent — nobody wanted to talk to you. However, if you depend on the party interests, then you’ll be accepted, though to a certain degree. Primitive socio-genesis! But this is the

present day situation in Latvia, whether we want it or not.

SOME CONCLUSIONS

One conclusion is that Latvia is not accustomed to high technologies. My example clearly shows that with a high grade of certainty. Therefore, we ourselves have to order such technologies...

We are trying to integrate with our British colleagues. We have established a British-Latvian joint venture and we work with Cambridge company "Grant Instruments". They regard us as so far at the level of "low high-tech": in the meantime, this relationship is productive both from the financial (several hundred thousand lat for a project) and the market point of view. After a certain "sanitary period" of about 3 to 5 years a sort of "middle high-tech" support could be envisioned (making for example, about 1-3 mln euro for the projects like robots for DNA-chips' diagnostics). That's it...

The "highest high-tech level" for Latvia represents 30-50 mln lat investments for sequencing a genome for country's citizens. It's hard to believe that present leaders will agree on that as there will not be a western 50%-support for the project (I wish, I'm mistaken).

Real integration into high-tech matrix looks the following way: the West invites us on the low high-tech level, but we are not very much happy about it... The East, which invites us on the high level, is not only regarded as "politically dangerous" but it does not want to support "foreign" institutions in a NATO country... What options are left? We have a middle high-tech level, the one we can deal with in Latvia by our own.

Here we have both, i.e. the inflow of young specialists and finally the EU financial support. On top of it, we have some financial groups, though not very big ones, able to risk a support through various venture funds... We are deemed to stay as a middle class hi-tech player in Latvia; there is no other way out!

Presently *Biosan* is divided into three groups:

- Science and laboratory with 70-100% of state support;
- Main company core-production with 50% support from a private investor;
- Marketing with 10% and services with 45% from the contracts concluded.

These integral groups have been created step-by-step from an initially primitive company; ideally, it's going to be a holding with the abovementioned percentage share of the constituent parts. This is how I see the company today. The person who will have such a chain at his disposal, controlling it will be the master of things.

All what I explained here has become possible only because Valdis Sedvald once rendered me that experience as a genuine knowledge. As an obedient student during all three years I was tacitly listening to all what he was saying, trying to put it all into the practice. So, as you might see, is not my invention, after all... •

Creative projects needed

By Valdis Avotins,

Director, Innovation Department, LIAA

The system of innovation support is being created presently in Latvia, which includes such spheres as education, science and infrastructure stimulating knowledge commercialization. This approach represents a new step towards innovations. Latvia needs people ready to develop ideas.

First of all we have to be precise in the terminology we are using. If we talk about science as a process, then it means that at the end of the line we have research, publications, patent or a discovery. That is, we have a process in which financial resources are invested, mainly by the state, and as the result we have a new knowledge.

Innovation is a process in which knowledge and new data are transferred into a market product. In this process the end result is generally measured by the commercial factors.

What is the present state of Latvian science? There are about 5,000 people working in universities and scientific institutions. If we compare our human potential with that, for example, of Technical University in Stockholm, where the staff is bigger than in the whole scientific establishment in Latvia, then there is ground for worries.

No doubt, there are talented people in Latvia who according to the creativity test, exceed the level of most western coun-

tries; these people have already proved their validity. Based on data from the Academy of Sciences, there are about 5-6, maximum seven centers of excellence in Latvia, which can compete on a global level. At the same time the government support for science development is measured by just a few hundred million of euro.

There are some negative aspects as well: researchers' average age is too high. In 2005 only one doctorate thesis was defended. This is neither enough for science development nor for simple rehabilitation of scientific potential.

Looking at Latvian enterprises, according to the latest State Statistics' account, about 17.5% of innovation companies produce about 42% of the country's turnover. That means that companies using innovations are much more competitive than any average firm.

Certainly, our aim is to increase both the quality and the number of innovative companies. As to the structure of companies, there are more than half among big firms falling



within the innovation group, while among middle-size companies (up to 50 workers) there are only 14%. The difference is clearly seen. Of course, in big companies, such as *Telecom*, the potentials are greater and they can concentrate resources to create innovative products. Small and medium enterprises, as a rule, do not have such potentials and they deserve the state support.

We are most of all interested in the companies that during the last year created and implemented in Latvia new products; there were only 4.7% such companies out of the total. We are lagging far behind in this respect the average European level (15%). It has to be admitted that rather quick results can be achieved by the technology transfer.

I have come to a conclusion that the two substances, i.e. scientific environment and businessmen are functioning in the parallel spheres; therefore the cooperation and mutual contacts are at a minimum. One of the priorities today is to increase the private

but a creative entity anyway. In Europe, for example, there are only five really impressive innovative projects, one of them is *Scype*, which has become a good advertising tool for Estonia, and it's good for the country's image.

forces work perfectly well, providing freedom for business. The state has to interfere only in the spheres which can not themselves tackle the problems. For example, it's a big problem how to finance new and rapidly growing technological enterprises. As a rule, they are financed either by business-angels or by venture funds.

Latvia was the first country among the EU member states to get her plan adopted by the Commission concerning future usage of the EU structural funds for 2007-2013. Among others, two important documents were adopted, regulating funds expenditures on such programs as, i.e. "Entrepreneurial activity and innovations" and "Infrastructure and services". According to the EU structural funds' commitment appropriations, about 60.2% funds in the first program (out of the total of 743.7 mln euro) will go for the support of innovations and science; and about 36.4% will go into business activity's development. Appropriations for administration will account for 3.4% of the total, or about 25 mln. euro.

capital impetus, such as *Biosan*, and in this way stimulating those 4.7% innovative enterprises. The question is how to do it?

Innovation enterprise could be any company with a good system of innovative management regardless of the industry sector. It could be a musical studio, as well,

Important to remember that, from one side, such values as market economy and private property have already entered into our life and became its background. On the other hand, we do not have to interfere into these values' functioning, neither into the spheres where the market

In comparison to 2003 when Latvia was at the lowest ranks in the list of countries supporting entrepreneurship, present day situation has visible positive changes. Therefore less support is rendered to capital investments and more for science and innovation support. 2006 was a Rubicon year when our country has turned from some individually active innovative businessmen into a presently developed system being circulated around innovation support including such sectors as education, science and infrastructure stimulating commercialization of knowledge. Latvia needs people ready to develop ideas. •

Whom the Latvian science serves?

By Raita Karnite, Doctor of Economics, Corresponding Member of the Latvian Science Academy; Director, Economics Institute, Latvian Academy of Sciences

The number of scientific establishments in Latvia, as well as the number of scientists has been growing rapidly during last years. But still the issue of national science's mission is very urgent; it's becoming a pressing problem to provide closer science-national economy connection, together with an issue of whether funds available for science development will lead to Latvian economy's progress.

In the EU's Lisbon Strategy, adopted at the intergovernmental conference in March 2000 two main aims for the member states' development have been formulated: to streamline economic development coped with increased employment, and to make the EU economy most competitive in the world up to 2010.

Lisbon agenda expressed confidence that the mentioned ambitious aims could be reached by investing into information and communication technologies (ICT), as well as providing for innovations, in particular in science-pertinent spheres.

UNFORTUNATE DOCUMENT

The Lisbon strategy has been openly recognized as a major failure in the EU planning and decision-making; even the stringent optimists do not any more believe in its implementation. Most publicly accepted strategy's failure is rooted in the member states' inability (and the synergy effect) to implement the strategy aims. Although one of the positive aspects of the Lisbon strategy was an additional attention,

together with the necessary resources, to science development.

In Latvia the Lisbon strategy was included into the National Development Plan, nation's main planning document. But formulating aims is one thing, and their implementation is often quite another one. Each EU member state, in order to fulfill the strategy requirements, has to fulfill two main Lisbon requirements: first, national economy has to implement and actively use innovations, and second, science (national and any other) must adequately supply new knowledge.

PRIORITIES IN ECONOMIC DEVELOPMENT

Since the 1990s "big changes"; the growth of Latvian national economy has been instigated by the "conjuncture" sectors of economy. Initially, it was sectors based on natural resources, i.e. mainly wood, later — on sectors based on various kinds of financial transactions, e.g. banks, intermediaries, real-estate deals and connected fields, such as construction and trade. None of the pre-



vious "main economy sectors" used local science achievements, though it is there that about half of nation GDP was made. These sectors, for sure, provide goods and services on the local market, but they do not serve as a driving developmental force in the context of the Lisbon strategy.

It's wellworth mentioning that 172% of Latvian GDP is presently produced in transport, communications and utilities (electricity, gas and water supply) sector, and 19.8% — in services. Innovations are needed there but local science achievements most often are not used.

INNOVATIONS AND PRODUCTION

Most important innovations are in production sectors, i.e. agriculture and industry; in these sectors some 16.3% of

national GDP is produced (12.7% in industry and 3.6% in agriculture and forestry). Introduction of innovations into agro-sector is presently hindered by lack of a recognized strategy and funds.

Latvian industry has a multi-sectoral structure; at the same time, industrial companies are small and they do not have adequate resources for innovations in order to sustain competitiveness. Thus, they are forced to find other solutions, e.g. sell the company, accept foreign investments or perform sub-contractors' functions. In all the cases the fate of such companies becomes dependent on the partners; innovations are sought generally in the partner's country. It can be concluded, after all, that the process of innovations' implementation in the national Latvian economy is quite problematic.

LATVIAN SCIENCE'S MISSION

Adequately complicated is the situation in Latvian science from the supply side. Several times since 1990 the science's institutional structure has been modified, as well as scientific institutions' status and the system of their subordination.

The present new system was conceived in order to stimulate competition

and development, though in reality the effect was quite the opposite one, i.e. the division between the state and science occurred. Scientific community could not accept state authority; as soon as state bodies did not feel responsible for the national scientific strategy; the latter then transformed to scientists' self-governing authority — Latvian Science Council.

On the other side, a really independent science self-administration was not feasible either, as the Science Council could not operate financial issues, which was a decisive element in the strategy. Governmental and policy alienation off the science management produced the science's mistrust towards the state; the latter in return refused to support dubious and unimportant projects. Based on sole scientists' initiative it was impossible to implement the science achievements into national economy.

Neither the national science's priorities, nor the structure of national economy is presently coordinated; there isn't even a plan how to make it. As a result, businessmen can't find scientists for the future innovations and the scientists can't find businessmen to offer their research.

There are, of course, some positive examples of implemented innovations, but quite a few ones.

It can be acknowledged that at the moment Latvia joined the EU the national system of science had been institutionally arranged, though badly coordinated and weak due to constant changes and lack of resources. Latvian scientists managed to acquire both the international cooperation traditions and adequate knowledge, but as soon as science sector functioned independently of the public economy the process of knowledge implementation was and still is rather restricted.

In 2004 the number of employees in the Latvian scientific sector slightly increased (by 5%) and the total number of scientific establishments — by 32%. State subsidies to science increased too, alongside with the businessmen's interest in national sciences' achievements. These are the positive factors, though the issue of the Latvian science's mission is still not clear enough. Neither is the apparent the problem of science's connection to economy, nor the effect of public scientific funds onto national economy development. •

EU science and technology

Innovations and SMEs development

By Eugene Eteris,

Professor, European Integration Institute, Denmark

During last years in particular, both in Brussels and in the EU-27 capitals the discussions went on about innovations, increasing production and services' efficiency and competitiveness of goods produced in Europe. The challenge is not at all difficult to implement as Europe possesses all the necessary means to reach the goal, e.g. resources, qualified personnel, adequate funds, etc. Just strong impetus is needed.

THE MARKET FOR INNOVATION

In the contemporary world "specialization" in goods and services has moved on the level of regions and continents, which is important in order to manage globalisation processes. We can easily suggest that Asian continent, most certainly, has taken leadership in manufacturing of cheap and therefore quite competitive light consumer goods. American region is probably being concentrated on basic science and research; here there are more Nobel laureates that in any other place in the world in science, technology and medicine. European region, it seems, is anxious to take leadership positions in various knowledge industry sectors. As to the African and Latin American regions, they seem to be for a while a home for various natural products.

It has to be mentioned specifically that this approach is extremely schematic and hypothetical; but one thing is probably clear enough, i.e. the regional politicians' desire to concentrate on "specialization." As to the general approach to business, we do not have to exaggerate the "novelty" of the approach; it's enough to enter the "Euronews" video clip in order to see that old habits die hard: "buy better — sell more"; which is in fact the old adage — buy cheaper and sell at a profit! The question then comes, is there any room for innovations in such a scheme?

INNOVATION "INDUSTRY"

The notion "innovations" has entered the EU lexicon in the 1990s, when



the TEU treaty was signed in February 1992. Interesting to note that innovations entered the treaty's section on "Industry." That has meant that the member states wanted to put this sphere of the EU economic activity into the area of shared competence. The latter, as it concerned innovations, actually meant quite specific arrangements in between the EU and the member states' integration. In the TEU, Title XVI "Industry"; it was said in this regard, that "the Community and the member states shall ensure that the conditions

necessary for the competitiveness of the Community's industry exist" (art. 157, p. 1).

Quite remarkable are definitions the EU's legislator used in the Treaty (art. 157, p. 2) to describe the aims of "industrial activities" set in the system of open and competitive markets:

- speeding up the adjustment of industry to structural changes;
- encouraging favorable conditions and development for SMEs initiative, and cooperation between them;
- fostering better exploitation of the industrial potential of innovation policies, research and technological development.

The Council may take decisions on specific measures in support of member states' actions in industry and innovations unanimously or in qualified majority.

It is quite remarkable that the Treaty formulated the European innovation and industrial policies in a flexible and versatile mode; it's true, in fact, that it's difficult to formulate universal

approaches to the notions of competitiveness or/and innovation. And this is the specifics in both industrial and innovative approaches in the Union, i.e. the

- **About 75 mln SMEs in the EU-25 produce nearly half of the block's GDP, which equals to about 500 bln euro of goods and services yearly.**
- **Generally SMEs are companies with less than 50 people employed.**

Community takes the responsibility "just" to coordinate member states efforts in competitive sectors. It is the member states that decide what and how they want to develop their industrial and innovative policies.

EUROPEAN RESEARCH AREA

Modern challenge for SMEs is to find a way to contribute to European industrial and technological development. Europe has been good in research and innovations

providing leading positions in various fields. However these activities lacked adequate cooperation. In the 6th framework program for the EU research and technology (2002-2006) the Union's efforts have been concentrated on bringing R&D and innovations in line with the internal market for "four basic freedoms". The concept was called European Research Area (ERA) and was aimed at both better coordination and convergence of innovation from national into European level.

In the 7th framework program (2007-2013) the ERA's activities will be continued; the program's budget is about 70 bln euro, which twice the size of the previous program.

Within the structure of the EU framework program (adopted under the co-decision procedure) there are specific programs approved by the Council acting by qualified majority. One of the latter is a program to support SMEs development and cooperation. •

Country's image as a factor in a company promotion

By Vsevolod Katchan,
Professor, BIA

It is a well-known fact that Western countries are very cautious about Latvian companies, though the latter are not any worse than their Western counterparts. What's the problem, and what can be done from the public relations' theory point of view?

Just an example, to begin with: about 15 years ago a Japanese *Toyota*, while working on its Lexus model promotion, made a research and found out that its corporate image as a Japanese company badly affects potential customers' preferences. The latter was associated with the creation of a group of representative cars, first of all with European producers, mainly Germany and England. Customers in Europe and America approached Japanese car makers differently, i.e. as producers with other opportunities and possibilities, both economic and innovative.

What, then, the *Toyota* company did? After serious assessment of the revealed potential clients' perceptions, the company elaborated a special marketing program aimed at selling cars using a separate dealer's network, and at the same time starting to formulate Lexus as a separate brand.

This way, step-by-step a car was promoted on major world markets which is presently regarded as the most prestigious car. And Lexus-brand most

people approach as "Japanese super — Mercedes".

What does the above-mentioned example show? First, that people's attitude towards a company and, correspondingly, to its product or service is formulated to a great extent by stereotypes acquired about the country producing goods rather than personal experiences. As analysis have shown, in the situation when potential customers are not familiar with a country's production then the country's image can play a decisive role in customer's preferences.

Second, if a country's image stereotype is "transferred" into both product image and producing company (such brands as Apple, Boeing, Ford, IBM etc. were formulated to a great extent under the influence of American image) then the known trade mark or a brand can positively affect the image of a whole country.

Thus, Nokia has changed during the last decade to a great extent customers' attitude towards Finland. Brands like



Canon, Fuji, Honda, Nikon, Panasonic, Sony etc. during last 50 years drastically changed Japanese image. Thus, branding, either as a certain good's image promotion or a trade mark promotion, can be regarded as an activity of strategic importance for the whole country.

Third, in the system of interconnected image-forming factors the aggregate corporate image is affected not only from the country and brand's image but from the image of an economy sector as well. The latter in a certain country can be both a very advanced sector and known in the whole world.

Thus, French model designers in the customers' consciousness are

associated with the advanced couturier; correspondingly, an appreciation is formed in the consumer's mind that French dress-producers offer something up-to-date and fashionable. Customers expect from German engineers something reliable and technically perfect, e.g. motorcars and vehicles. Swiss bank, in the same token, aroused in the customers mind associations of the best place to keep their accounts.

What, then, a company can do if the country's image is hardly known and unrecognized, and the sector in which it functions does not possess rich

traditions known in Europe and the world? First of all, with the help of researchers and experts the company has to find out which strong features the country's image possesses in the minds of the potential consumers of the company's goods or services.

Therefore, the first principle of correctly formulated marketing communications is to find out and efficiently apply in the marketing programs the model-image of a country, region or a city.

Then comes another important question: how does the government help the company to acquire a new and more representative image? In case a govern-

ment does not provide any assistance, the company can turn for help to employers associations and other non-governmental bodies able to assist financially certain PR-program promotion.

And last but not least, we have to keep in mind that the country's image can change quickly. Some experts say that the goods with the brand "Made in Poland" or in other eastern-European country a while ago aroused the impression of bad quality. Nowadays these countries' image has changed; a reflection of this are growing satisfaction with the Volvo buses made in Poland. •

Innovative IT-decisions in SMEs

By Vladimir Strelchonok,
Professor, BIA

Practice has shown that inadequate structure of education and training in subject-matter analysis specialists exist at certain stages in the IT-business-decision-life-cycle. The latter presupposes analysis of the company's business proceedings through formalizing the process' description and drawing information flow diagrams. Adequate knowledge can be provided only by specialists in the subject field going deep into understanding of information technology issues.

The IT application in SMEs activity can be approached from two main directions:

- IT as a business-solution which helps to modernize SMEs technology;
- IT as a product that represents and promotes SMEs on the market.

The second aspect is resolved by modern marketing instruments with due account of high-tech product's peculiarities.

IT AS A BUSINESS-DECISION TOOL

Let's have a look at SMEs business-decision process within a company's micro-environment and use of Internet resources. As *Netcraft's* analytical reports show during last years (the company is involved in internet research) we witness a massive SMEs influx into Internet. Already in November 2006 the number of sites has reached 100 mln. Two reasons stay behind this fact: massive use of blogs and SMEs introduction through net. The same trend is seen in Latvian SMEs where almost each small company, using hosting service, is represented in the internet. Main reason behind such introduction is to promote company's goods and services in the market.

To my mind, the resources and advantages provided for in the net are not used adequately by the SMEs. One of the perspective directions might be the creation of "cybernetic" SMEs associations according to economy sectors, which both helps to provide additional stimuli in SMEs sectoral development (synergy effect) and SMEs viability as a damping layer between the big business and market variations. The second direction, which takes into consideration our customers' mentality, might use "virtual presence" technology in the work of internet-shops and SMEs internet-representations.

As to the use of IT-technology in the SMEs internal activity, the following fact is to be mentioned. According to theory of "stability strategy" elaborated by the Harvard Business School professor **Clayton Christens**, which detects technology development and its effect on the market, the following correlations have been identified:

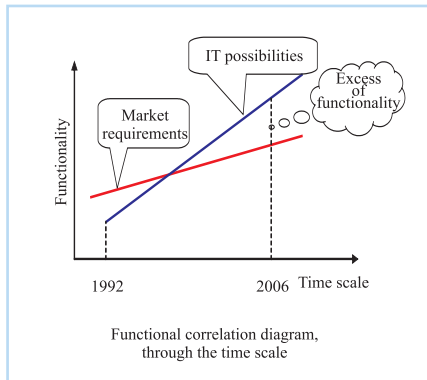
According to the functional correlation diagram, the SMEs demand is situated in the area where the supply of functional IT business-decisions greatly outweighs the company's required functional



limits in IT-decisions. In such cases the company is not interested in additional expenses due to the excess of functionality; hence, the company is not eager to install a universal IT-decision scheme.

INTEGRATED IT-TECHNOLOGY

The way out of a deadlock can be found in creating an integrated IT-technology taking into consideration a company profile and demand, and the existing management system. The practice has shown that in the functional/expenses context these IT-decisions are preferable in comparison to universal IT-decisions. This conclusion is proved by the growing demand since 2000 for Rapid Application Development methods (RAD) in the Latvian market. This methodology is aimed at creating IT-business solution in constant developer-customer's relations; during short periods, it can most thoroughly



transpose existing technologies in the world to a certain company's require-

ments. Most important for SMEs is an originality factor which can be delivered only through RAD methodology; the latter can provide for the creation of an original integrated IT decision.

At the same time, the GAD method's practical implementation has shown an inadequate system of specialists' education and training in companies' subject-matter analysis, particularly at important stages in the IT-business decision life-cycle. The latter presupposes analysis of the company's business processes through formalizing the process' description and drawing information flow diagrams. Adequate knowledge

can be acquired only by specialists in the subject going deep into understanding of information technology issues.

Taking into consideration that more than 90% of all registered companies in Latvia are SMEs, it's becoming an acute issue to insert deeper knowledge of IT business-decisions into high schools' programs for training business specialists. These programs would activate SMEs in Latvia.

At the same time, such possibilities in Latvia exist only in the Baltic International Academy (BIA), where the program "Entrepreneurial activity" quite perfectly functions. •

"Controlling" methods as an instrument to secure business transparency

By Inesse Rotanova,
MA in Economics, BIA's lector

Both SMEs and big companies need purposeful planning and management. From this point of view, controlling represents an innovation management technology for SMEs; its introduction would assist in creating optimal company's future.

Every company's owner wants to see its business successfully developing in a long-time perspective.

PROBLEMS

Any company's management urgently needs information-analytical and methodological support in the process of management decision-making, as well as control over all company's functional activity spheres. Such support is deemed to be secured by the company's controlling system.

Most business leaders are familiar with the problem of finding necessary information in due time about company's financial and business activities. In order to reach an optimal manage-

ment decision with a view to long-range company's aims adequate and precise data are needed. Besides, shareholders would like to see their business prosper, and that the company's development shows constant growth.

Ordinary accountancy reports (being the background of management information) quite often seem inappropriate from the urgent management decision's point of view, because they represent information for the previous accounting period, e.g. a month, or so.

Management accountancy is more connected to the significant financial categories, whereas control is limited to comparison of planning and real figures. Both SMEs and big companies need purposeful planning and management. From this point of view, control-



ling represents an innovation management technology for SMEs; its introduction would assist in creating optimal company's future.

MAJOR "CONTROLLING" INSTRUMENTS

- Management accountancy,
- Budgeting,
- Activity-based costing,
- Target costing,
- Material & requirements planning,
- Company's activity financial analysis,
- Cost-volume-profit analysis,
- Gap deviation analysis,
- Portfolio analysis,
- Strategic & dynamic methods in investments accounts through balanced scorecard.

CONTROLLING SHORT HISTORY

The "controlling" origin lies in the system of state administration. Back in the XVth century in the British King's authority there was a post of a "Controllour" with the task of performing money and merchandise documentation and control. In its modern meaning the term "controlling", as the one depicting company's tasks description, has appeared in the USA at the end of XIXth century when a post of a controller was created at the Atchison, Topeka and Santa Fe Railroad Co. in 1880 and in *General Electric Co.*, in 1892. The controlling in Germany appeared in the second part of XXth century when the new management system (oriented at the highest accounting centers) showed up in various German companies in 1960s. Introduction of controlling in Germany, Austria and Switzerland was mainly due to the works of Albrecht Daily, "controlling" founder and Controller Academia creator.

WHAT'S HAPPENING INSIDE A COMPANY?

In the lack of adequate resources, being through the “growth stage” in their development and entering “maturity” stage, most companies have experienced the urgent need in increasing activities through finding new internal resources. Introducing the controlling system helps both to make the business transparent and provides owners and top managers with information of what's happening in the company. More than that, controlling allows efficient management of expenses which is one of the key factors in reaching company's aims.

Controlling system's introduction in a company will definitely lead to transformation and optimization of the whole system of economic and financial accounting, and provide for a new information flow system, as well as allow for:

- Prediction of the company's activities and outcomes;
- To plan company's activity with the aim of increasing efficient use of company resources;
- Timely access to adequate information necessary for taking management decisions;
- Effectively use tax planning methods and optimal taxation schemes.

In order to make an effective management system in a company, it is necessary to use adequate analytical methods and some additional instruments. In a wider sense, controlling is at the same time a system that secure that the company's outstripping anti-crisis management. As to securing company's financial stability and strengthening and developing anti-crisis potentials, controlling system provides for timely estimation and removal of company's weak places, to withstand unfavorable factors in inner- and outer-environment. •

The business confidence index: notion and meaning

By Vjacheslav Davidov,
Docent, BIA, Director, BIA's Management and Entrepreneurship Laboratory

Business confidence index (BCI) allows to reveal the present business climate and to find out the mood of economically active part of businessmen in Latvian micro- and small-companies.

As a background for BCI's analysis we used and adapted corresponding businessmen's mood analyses methodology developed by the European Commission and OECD. Contrary to mentioned indexes, our BCIs are limited to Latvian micro- and small companies; these indexes play an active role in understanding the trends which take place in the country's business environment. The BCIs help better understand economic and social problems in our society.

BIA's laboratory aimed at management and entrepreneurship analysis monitored about 3,000 Latvian micro- and small-companies, which is about 5.3% of the total number of companies registered in the Latvian Company House.

Such selection of 5.3% is capable of providing reliable analysis for monitoring and creating BCI for micro- and small-companies alongside the following economy sectors:

- Industrial sector (providing 10% of national GDP) which included the monitoring of more than 350 companies; they account for about 5% of the total number of Latvian industrial companies;
- Construction sector (providing 5% of national GDP) which included monitoring of more that 200 companies;

they account for 5.5% of the total number of companies in this sector;

- Commerce and trade sector (21% of the national GDP) more that 1050 companies monitored, which is 5% of the total companies in the sector;
- Service sector (64% of the national GDP), more that 840 companies were monitored, or 5% of the total in the sector.

BIA's laboratory provides constant monitoring (once in 3 months) of the above mentioned companies, beginning from 4th Q in 2005. The business confidence index (BCI) approval took place at an international conference in Latvia, “Science and innovation in Zemgale” which took place in Jelgava on 17 February 2006.

Since the 2005 fourth quarter enough information has been assembled already in order to form a reliable BCI assessment tools by the end of 2006.

The BCI are defined as an arithmetic media on answers to a number of questions specifically elaborated for each economy sector. Questions are presented in a special form and respondents provide written answers. The companies usually get the forms through BIA's under-graduate and master students or by fax and e-mail from the laboratory. Afterwards some ran-



dom checks can be provided by the phone calls.

Then weighted validity between the positive and negative answers is made. Thus, if questions have three alternative answers, i.e. positive (P), neutral (E) and negative (M), then the balance (B) will be calculated as

$$B = P + M.$$

This equation is used only with the 3 answer's options. When the questions have 6 answer's options, the balance is calculated on the following equation:

$$B = (PP + 1/2P) - (1/2M + MM).$$

If all the respondents provide negative answer, then the answer is lower than 100; in case all the respondents give positive answers, the BCI will be higher that 100. •

Innovations in mass-media management

By Anita Daukshte,

Deputy Chef-Editor, Neatkariga Rita Avize, BIA magister student

In spring 2005, professor **Eli Noams** from California University published an article "Bad news for news" in a respectful British daily *The Financial Times* which made a devastating blow for the world's publishing industry.

In this article he pictured an end to the printed media claiming that every-day's papers will soon disappear giving place to the modern means of communications, e.g. internet, audio, video and mobile phones, etc.

ADAPT OR DIE

Already in spring 2006 he published an additional article in the same daily on the same subject adding that there was still some good news, which he presented in the following way:

- The readers' growth using on-line versions does not compensate for the diminishing number of printed editions' readers;
- Papers' electronic versions suggest the following options: to make their product more diversified and efficient, which ultimately would change the economic approach to making and distributing news;
- The papers would need enormous volumes of information in order to satisfy the audience's desire in "personified" information; as a result the two kinds of papers' providers will appear, i.e. providers of special information and news' portals.

The professor's main outcome suggests that present dailies will become multi-media institutions.

It could be so, as the modern paper's industry's motto is: either adapt or die. It's true that the internet caused great economic harm to the companies involved in the news.

COMPETITION BETWEEN THE PAPER'S MEDIA AND THE INTERNET

During the XX-century's last decade it was recognized that a broad range of products delivered by various mass-media increases the validity of a certain media-company on the market. Presently, another activity's aspect has become a decisive factor, i.e. the media-company's ability to work in the multi-media market. During last several decades the paper's industry was suffering severe blows from competitive elec-

tronic mass-media; the loss of readers' subscriptions has led to necessary investments into new production technologies. World global media companies have constantly adapted to secure their influence on the readers audience, mainly by introducing new technology, which provide for the integration of the printing and on-line publishing versions. Thus, recently the British media-company *Guardian* announced its new slogan: "the net is above all" and began to publish its main information materials first in the internet-version. Another media company **Rupert Murdoch** started to do the same, adding to it the TV-service.

TO HOLD THE AUDIENCE'S INTEREST

The traditions to read the news have changed in time and media-companies are trying to manage the situation in order to constantly hold interest of various audiences' groups.

Main problem is to keep the interest of the business groups and the audience in the age group 15 to 25 years old. Mass-media provides variety of news interpretations (which is still the main media product) in different "channels"; e.g. in press, in internet, on regular and channel-TV, on radio and mobile connections, in order to attract all audiences' age groups.

Almost seismic changes in the news' industry provided for the five major principles which the modern mass-media shall account for:

1. To calculate its target audience;
2. To make "hot news" and optimize working procedures;
3. To develop new media channels;
4. To experiment with the new methods to present the news;
5. To publish "generated ideas" and readers' opinion.

Such approach, often called — work in multi-media environment — provides the media leaders with the task of introducing various organizational changes which can facilitate a complex



media-company's work along the different "channels".

SOME THOUGHTS FOR REFLECTION...

The internet's blow on traditional mass-media has already led to certain deliberations both on the internet advantages and that of the traditional media. The main problem seems to be the following. As is well known, any media-business sells two products: the information contents (for readers and viewers) and the audience (for advertising agencies). The main task of the "old" mass-media groups is to secure profits from advertising, to increase its online readers and, by neutralizing viewers' dislike to the mass-advertising, still force the readers to pay. Some doubts began to appear about the idea to collect payments for presenting online information. Thus, the leaders of the *New York Times*, American publisher have invented their own online version — *TimesSelect* based on the subscription payment. In 2005 this information source collected 6 mln dollar's profit, though in January 2006 the growth stopped.

In fact, the example depicts a typical situation when the readers are not ready to pay for the online version. What seems completely crazy, was the editors chose to place the texts without any advertising; hence, neglecting to profit from one of the most valuable sources of profit for the media. So far media business could not tackle the cumbersome situation and could not provide a feasible solution for introducing successful innovations in these spheres.

NEW IDEAS

Some experts note, at the same time, that the mass-media in future will be forced to become venture entities and invest heavily into innovations. Thus, *Guardian* suggests a kind of “after-lunch papers” which can be downloaded from its internet versions. The *Washington Post*

at its homepage provides for electronic play-out of the texts. The media-mogul R. Murdock, being concerned about the idea of holding the teenage audience, is acquiring companies that are presently successfully developing second generation computer technologies. Recently, he has bought *kSOLO-site*, which allows the

users to create themselves karaoke-versions of the most popular songs.

Main future media innovations will be connected to the readers, users and consumers’ opportunities to influence and affect the mass information contents: this is one of the main conclusions about the forces that are guiding present mass-media. •

Entrepreneurial university on innovations’ market

By Ludmila Selivanova,

Doctor in Economics; IBA, Docent

It turned out that the most efficient systems for training specialists in innovation economy, as the world experience has shown, was usually established when the right time and right place for such specialists emerged.

UNIVERSITY AS ENTREPRENEUR

Until XXth century neither European nor American universities have been the subject of economic relationships. But then the university’s role has changed and some started to establish science-developing institutions, which proved to be highly profitable. Thus, the Silicon Valley has been actually established on the basis of the US Stanford University’s potentials, presently becoming the world’s best regions in PC’s innovations, in software and internet-business.

What distinguishes, so-to-say regular university from that of a university-business center? First of all the latter has a rather big and strictly defined spectrum of R&D work. Second, as an independent commercial “company”, such university’s activity is generally based on economic feasibility. The change in the university’s “profile” can lead to completely new stile of management with the new organisational structures, responsible for technology research, market analysis and promotion. Third, the potentials for success can greatly increase if such university is placed in the environment with the high level of entrepreneurship and research. Such universities have to instigate, by different means, their strategic investors’ efforts to create the whole R&D infrastructure, e.g. business-incubators, techno-parks, venture funds, etc. And they have to work quite intensively in that direction themselves.

DEVELOPMENT TERRITORIES

Experts predict that the competitiveness of national economies in the XXI century will depend on the creation of a number of efficient innovation centers and regions to concentrate tens of industries from a single or several economy sectors. In such infrastructures when “new ideas just

hanging in the air” the companies are deemed to increase each others competitiveness; the number of customers increases due to enlarged customers’ options provided by clusters. However, in each cluster there is usually a “focal” enterprise, a sort of successful company which proved perspective in a sector’s development by its own active progress. Then, for such a sector several favorable development conditions are elaborated by the state; other companies are being attracted to the “focal one” forcing all together generate new ideas, create around them more new companies, providing for additional synergy effect.

Somehow, innovation territories recently are being more actively oriented towards creating small firms with 3-5 employees; such flexibility, ability to quick



changes, if needed, either to grow up or disintegrate, make them more competitive.

The principle of cooperative entrepreneurship among business, state and universities is presently used as a basis for creating new innovation territories. But the central role in this triangle is definitely occupied by a university. •




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Innovation performance: legal background

By **Alexandr Baikov**,

Doctor of Laws, Daugavpils University, Legal department head at JSC Severstallat

There is no doubt about the science and technology policy being the basis of economic development in any country. At the same time Latvia still does not have a straight legal background nor a rather definitely described framework regulating public relations concerning both the implementation of science-technology achievements and streamlining R&D progress, with innovations becoming a driving force behind the two.

To innovate, by definition, means making changes, introducing something new; the latter is in itself a process for substituting an old and previously existing object with a new one embodying new information. Therefore, innovation activity or performance is an activity aimed at both creating and implementation of an intellectual product, i.e. bringing new and original ideas to practical use in the market as a new or ready-made product.

LEGAL DEFINITION

The “innovation’s” legal definition is given in the Latvian Law on “Scientific activity” adopted on 14 April 2005, describing it as a new idea in the sphere of science, technology, social, cultural and other spheres of human activity, as well as research and implementation embodied in a new product or service. Though, it seems that the law does not provide for strictly legal notion of innovation performance.

The immanent essence of all “products” of intellectual activity is being divided into a product of science or a discovery/invention, which is subject to, correspondingly, either international and the EU legal norms regulating copyright and other laws, or that of patent legislation as well as other norms regulating various innovation activity’s stages. There are numerous examples of both, e.g. Directive 2001/29/EC of 22 May 2001 on harmonization of certain elements of copyright laws and adjacent legal rights in information community, Latvian Law on copyrights of 6 April 2000, Latvian Law on trade marks and geographical origin of products, Latvian Law on industrial design of 29 October 2004, etc.

As a starting point in innovation activity’s optimization, the Latvian Law on patents can be mentioned, which regulates the relationships between the “objects” of R&D activity, public authorities and consumers of R&D outcomes (as products and/or services). The legislation regulates the relationships taking place on all the “intellectual” stages of innovation process.

Therefore, there are bodies that safeguard and ensure the innovation activity, i.e. public bodies, special organisations created with the aim of stimulating innovative companies, those that coordinate innovative activity, providing support and financial assistance.

Among such bodies a specific one can be mentioned, i.e. the Council on cooperation among businessmen and scientists with the aim of developing methodology of cooperation with scientific entities, created in 2005 in Latvian Chamber on industry and trade.

Among the “subjects” taking active part in innovative activity (either fully or in part) can be mentioned:

1. specifically established bodies for various kind of innovation activity created in different legal forms. The developed countries provided us with different non-traditional forms, such as techno-poles, science and technological parks, scientific incubators, etc.
2. engineering, implementation and venture (risk) funds and companies.
3. “subjects” that take partial participation in innovation activity, e.g. scientific personnel, experts in science establishments, scientific unions and organisations, Latvian Academy of Sciences.

“OBJECTS” OF LEGAL REGULATIONS

As to the innovation activity, its objects, generally speaking, would be “intellectual product” and “ready-made product”.

As a classification item, the mental activity’s products are defined by corresponding legal protection means, as is noted in the Latvian Law on authors’ rights and copyright.

Innovation activity does not end with the creation at the “intellectual” stages a certain intellectual product which is, in fact, an ideal object, after all. During subsequent “material” stages involving R&D process, future product will “take a material form” either by way of creating a new product-model or by way of new technology to produce already known products or/and materials. Thus, at the “material” stages the objects of innovation performance will



become either new or modernized products, materials or technologies.

The stage at which the practical implementation of a scientific innovation is reached will be completed by the innovative product’s mass production. Only after this production stage the intellectual product can be regarded as an innovative one being ready to proceed to the market as a new good, work done, service performed or new technology.

FORMS OF INTERCONNECTIONS

During innovative activity various forms of cooperation among the participants can be observed; they can be divided along a couple of legal regulation levels, i.e. a) public law level, and b) private law level.

One of the most common means to protect the owners of intellectual property products’ property rights is an obligatory legal mechanism based on an agreement between the information owner and the person who intends to acquire it. Among the contractual forms of innovation activity on the private law level the following three shall be mentioned:

1. contracts on the preparation of R&D projects, on research and technology projects which are done at the stage of fundamental and applied stages of research;
2. author’s agreements, though quite often scientific work is done while performing contractual duties at the company’s premises or by a special agreement with the employer;
3. license agreement according to which the right to use a protected research item is entitled to another person within the terms prescribed by the agreement. •



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When drizzle investments in the Baltics will turn into heavy rain?

By Alexander Fedotov, *Latvia*
Sigitas Pasilaitis, *Lithuania*
Dmitry Kulikov, *Estonia*

It seems that only Estonia can ride high investment horse having most favorable investment climate among the three Baltic States. Foreign direct investment per capita in Estonia reached 8,347 euros in the first quarter of 2006, which is more than four times the amount in Latvia and five times higher than in Lithuania. There are some reasons behind that situation and the two other states are optimistic to catch up.

WHAT DOES ENDANGER INVESTORS IN LATVIA?

According to Latvian Central Statistics Office information, foreign direct investments in Latvia reached 378 mln lats in 2004 but fell to 354 mln lats in 2005. However, all indicators suggest that 2006 will beat the records set two years ago. The six-month results in 2006 showed that 455 mln lats have already been invested in Latvia. But still the country lags behind Estonia by foreign direct investments (FDI). In 2005 FDI per capita were 7,900 euros in Estonia but only 1,700 euros in Latvia. Will this year be a turning point?

The main FDI sources in Latvia at the end of 2005 were Sweden (13.5%), Germany (12.9%), Estonia (9.1%), Russia (8.6%), the Netherlands (8.6%), Denmark (8.5%), Finland (6.6%), the USA (5.9%), Norway (5.3%), the United Kingdom (3.8%) and other countries (17.4%).

Ongoing projects. Andris Ozols, director of the Latvian Investment and Development Agency (LIAA), told the *BC* that 19 foreign investment projects for the total amount of 150 mln lats had been arranged since 2003, when the government agency was established in its current form.

In addition, foreign capital is present also in the registered capital of joint-stock companies. Latvian companies already in operation are being bought as well. For example, *Danish Brewery Group* bought in 2004 a controlling share-stake in *Cido Partikas Group*, Latvian mineral water, juice and beer producer. The same trend applies to many Latvian companies working in the food industry. They are being bought by either foreign concerns or investment funds.

As to construction of new production facilities, some of them have already been put into operation, such as *AKG*, *Jeld-Wen*, *Dianas Svecas*, *Metalplast*. Others are still in the stage of development. LIAA receives yearly about 120-150 various applications for projects' investments annually. Two-thirds of them are received by LIAA's representations abroad and the rest are processed by the agency's office in Latvian capital Riga.

Five investment projects were prepared in 2006, and two of them have already been made public. Belgian company *Malmar* plans to build a trailer-frames making plant and a painting shop in the territory of the Ventspils free port in north-western Latvia. Investments are

planned in the amount of 5 mln euros, and 50 jobs will be created. Another project with total value of 0.7 mln euros is being carried out in Jelgava city in central Latvia. Danish company *Smurfit Kappa Group* will open a production line for making cardboard packaging in the territory of the former *RAF* minibus plant, creating jobs for 50 people.

Nevertheless, those capital investments seem minimal on the overall European level. Most investments in Latvia (over 36%) come from Sweden, Germany and Estonia. In generak, foreign investments in the EU from countries outside Europe have increased significantly: from 57 bln euros in 2004 to 70 bln euros in 2005. Latvia gets only crumbs from the common pie, regardless of its broadly advertised advantages. It is regarded as a major Latvian politics' failure to reject



ANDRIS OZOLS: LIAA receives applications for 120-150 various projects annually.

FDI for the pulp-mill plant near Krustpils in eastern Latvia, proposed by the Finnish investor, *Metsaliitto*, intended to invest about one billion euros.

It might seem that all conditions have been created for local and foreign investors: e.g. there is a public system for foreign investment support in Latvia. It includes such measures as a reduced corporate income tax rate (15%), existing four free economic zones and a support for business through the EU structural funds and municipal funds. Most successful in this regard were municipal governments in Jelgava, Liepaja, Ventspils and Aizkraukle.

Red tape and corruption. Foreign investors are generally deterred by local realities. For example, **Jaak Vende**, board member of the Estonian real estate company *Manutent OU*, argued that paperwork procedure in Estonia is simpler and quicker. Some roadblocks occur because of deficiencies in Latvian legislation, e.g. among other things, it accounts to transactions with land plots. So far much of land in Latvia is still being leased which causes problems when taking a loan for construction because banks refuse to grant mortgage loans for leased landplots. In addition, it is very difficult for foreigners to follow all the changes in regulations, said **Juris Dreimanis**, a representative of the Lithuanian

company *Hanner Real Estate*. It is therefore not a surprise that Latvia ranks 24th among 175 countries according to the World Bank's *Doing Business Report*.

However, for investors the project implementation costs and the availability of qualified labor force are regarded as much more decisive factors.

Personnel and infrastructure. The labor force deficit in Latvian industry is constantly growing. The demographic situation is getting worse alongside the continuous outflow of labor to other countries: according to some estimates, as many as 100,000 Latvians are working abroad. Kinds born in the early 1990s are coming into working age now; at that time the birth rate in Latvia was extremely low.

As a result, there is labor shortage in all sectors of the economy. Managerial staff can be imported, of course, but work force has to be found in the country. **Andris Vilks**, *SEB Latvijas Unibanka* analyst argued that this was the reason for failure of many quite promising industrial development projects. Thus, the British company *International Greeting* after long deliberation canceled its project for construction of greeting-card production line in Liepaja which costed the country 30 mln euros of investment. The humanities' trend in primary education at the expense of technical subjects has resulted in shortage of engineers and technicians in Latvia, even if compared with other Eastern European countries, such as Poland or Slovakia. Official unemployment rate in the latter two countries is around 15% but close to zero in the Latvian capital Riga. Presently Latvia attracts investors by cheap labor force but this advantage may soon disappear with the growth of inflation and living costs.

Underdeveloped infrastructure represents another bottleneck. **Dainis Stikuts**, a representative from *Hansabanka*, said that this problem prevented capital investment flow to provincial towns. Bad roads make difficult goods delivery to ports and

deter labor force mobility. Moreover, the central government and local authorities are not yet ready to allow foreign investments in this sector due to internal weakness and lack of self-confidence, said **Guntars Kokorevics**, a representative of the French company *Dalkia*. For this reason, investments are allowed only in sectors playing insignificant political role, for example, in real estate.

Most attractive investment spheres.

According to LIAA's director, foreign capital favored mostly information technologies, aviation sector, manufacturing industry, production of construction materials and consumer goods, the hotel business and financial services. One of the major deals closed recently falls into the latter category: international investment company *Amber Trust II S.C.A.* bought 48.99% in *BAN Holdings*, gaining also indirect control over insurance company *Baltijas Apdrošināšanas nams*, being part of the holding. The new investor's presence, helped the insurance company to increase significantly its registered capital by 703 th lats, to a total of 2.77 mln lats.

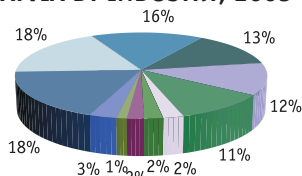
Such deals however reduce the general investment flow into the country. **Aigars Kalnins**, account & payment balance section deputy head in the Statistics Department of the Bank of Latvia, said that it all happened because of dividends paid to foreign shareholders. Thus, dividends have increased from 107 mln lats in 2004 to 137 mln lats in 2005; which means that the capital is flowing out of the country. The largest amount, 92 mln lats went to Germany.

Latvia's accession to the EU and the common trade area facilitated influx of foreign investment. Investment climate remains favorable in general, mostly due to competitive tax policy and open market economy.

LITHUANIA PREPARES FOR A BREAKTHROUGH

Foreign investments in Lithuanian economy have long served as an item of

BREAKDOWN OF INVESTMENTS IN LATVIA BY INDUSTRY, 2005



■ Financial services
 ■ Other services
 ■ Wholesale and retail trade
 ■ Processing industry
 ■ Energy and infrastructure
 ■ Real estate
 ■ Construction
 ■ Transport and logistics
 ■ Agriculture, forestry and hunting
 ■ Hotels and restaurants
 ■ Other sectors

Source: Central Statistical Bureau of Latvia.

LARGEST INVESTMENT PROJECTS IN LATVIAN INDUSTRY CARRIED OUT WITH LIAA'S SUPPORT

Facility	City	Investor	Investment, EUR mln	Number of jobs	Time of commissioning
Car radiator plant	Jelgava	AKG AG (Germany)	20	250	Spring 2005
Chipboard plant	Aizkraukle	Jeld-Wen (USA)	50	100	January 2006
Agricultural machinery plant	Olaine	Ballinadee Engineering Latvia (Ireland)	2	60	2005
Thermoplastic parts plant	Liepaja	Metalplast (Denmark)	1	50	Q1 2005
Oil and gas pipeline binding plant	Jelgava	Torgy Mek (Norway)	0.5	25	Autumn 2005

Source: LIAA.

heated debate. Every new publication of statistics, especially compared with neighboring countries, only adds to high tones. However, it seems that the situation in the Lithuanian investment market might drastically change in the near future.

Lina Domarkiene, Lithuanian Economy Ministry's secretary, told the *BC* that the Lithuanian authorities, with the experts' assistance, have thoroughly analyzed the conditions of the investment climate.

"Lithuania and the other new EU member states have to find a way to attract potential investors, to make a difference in the general European background," said L. Domarkiene. "At the same time, however, it is the right time for the EU itself to think how much the existing situation on the international investment market corresponds to the EU interests, why main investment flows head for China, India, Russia, Ukraine and Latina American countries, the developing countries able to offer cheaper labor force.

As to the Baltic States, we have moved very quickly from the category of developing nations to the category of developed nations, even though the economic situation has not changed much. The GDP growth was not really that great but the country's status has

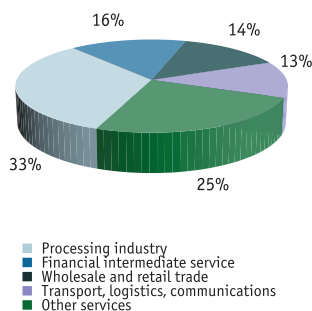
changed. And global investors find developing countries more attractive at the moment."

So the time has come to analyze the problem of investments not only at the regional but at the EU level as well, said the Economy Ministry's representative. As to Lithuania in particular, the country's authorities think that Lithuania needs a special program for promotion of investments.



GEDIMINAS KIRKILAS: If Lithuanian government fails to significantly improve anti-corruption activity within a year, so I have to resign.

BREAKDOWN OF INVESTMENTS IN LITHUANIA BY INDUSTRY, 2005



Source: Central Statistical Bureau of Lithuania.

Clear enough, investment climate can be constantly improved. According to L. Domarkiene, one can always find something in the laws, taxes, bureaucratic procedures subject to improvements. For example, it takes about five days to start business in the US but in the EU it takes, on average, 37 days; in Lithuania the process takes 26 days.

The share of foreign investors in Lithuania in 2005 by the country-principle was the following: Denmark — 15.2%, Sweden — 13.6%, Russia — 12.9%, Germany — 11.6%, Estonia — 8.2% and Finland — 8.1%.

Investment program. "The Investment Promotion Program's activity has been going on for about a year, said the Economy Ministry's secretary. "Investors themselves are actively participating in the program, for example, the Investors' Forum, which unites foreign investors working in Lithuania. The program provides for a whole set of measures for attracting foreign capital investments. These measures can be divided into three segments.

The first includes legal framework improvement for foreign investments, which should simplify and resolve a number of issues when starting a business, allotting land, settling other formalities.

The second segment contains tax issues. The introduction of the ceiling for social insurance contributions should be mentioned first here. This measure is aimed at keeping in Lithuania highly-paid and therefore highly qualified personnel, as their salaries would be subject to the social insurance tax only up to a certain level and this tax won't be encroaching on the remaining part of their salaries.

This idea somehow has both its supporters and quite tough opponents in Lithuania; the debate is still going on.

The third segment deals with the mechanism of financial instruments, specifically for foreign investors, which would create incentives for investments in innovative and knowledge-intensive projects. Priorities in Lithuanian economy development will be identified for participation of potential investors; the latter would then be able to receive various allowances and subsidies."

According to the authors of the program, the industrial-production parks which are to be developed over the next two-three years are expected to provide due assistance. The development of such parks has already begun. The program also contains a number of proposals for further development of the free economic zones in Klaipeda and Kaunas.

LARGEST INVESTMENT PROJECTS IN LITHUANIA

Company	City	Investor	Investment, EUR mln	Number of jobs	Time of commissioning
Mazeikiu nafta	Mazeikiai	PKN Orlen (Poland)	2116	3500	2006
TEO LT	Vilnius	Amber Teleholdings Consortium/ TeliaSonera (Sweden/Finland)	590	2800	1998
SEB Vilniaus Bankas	Vilnius	Skandinaviska Enskilda Banken AB (Sweden)	250	2240	2000
Bite GSM	Vilnius	TDC/Tele Danmark A/S (Denmark)	174	n/a	2000
Neo Group	Klaipeda	Neo Group (Austria)	145	220	2005

Source: Compiled by the author.

It was planned that the government would complete the program at the end of 2006.

Free economic zones. “After examining and studying the investment conditions in Lithuania, foreign investors often turn around and settle in neighboring countries. While Lithuania is losing in competitiveness, our authorities would not move a finger to rise from the bottom part of the list of countries most attractive to investors.”

This was the citation from a Lithuanian daily *Verslo ziniuos* recent publication. Moreover, the critics have statistics at their hands: FDI per capita in Lithuania was 1,601 euros at the beginning of 2006, which is one of the lowest figures in the EU. For comparison, FDI in Estonia was 7,700 euros at the same time.

Nevertheless, it would be a strong exaggeration to say that the Lithuanian authorities do not care about the FDI situation. The situation with the free economic zones could be taken as an example; these zones have been established with the general aim of attracting foreign capital investments.

It was planned that Lithuania would have five free economic zones, including Zokniai village near Siauliai city, which was supposed to attract mainly investors interested in the opportunities offered by the local airport. It was built for the needs of the Soviet long-range aircraft with the idea in mind that even the Buran space shuttle could land there.

But the Zokniai Free Economic Zone's project, together with two other free special economic zones (SEZ), died even before it was born. Kaunas SEZ, which for long has had problems with buying land from local owners, almost followed the same trend, though in 2006 the Kaunas SEZ was able to take a serious step forward, trying to catch up with Klaipeda SEZ, boosting several years of real business activity and billions of litas in investments.

The autumn of 2006 brought the news about inauguration of several projects in the Kaunas SEZ: thus, Lithuanian company *LEZ Kausta logistika* has found a tenant in Finland for Class A warehouse management with the area of 13,000 sq.m. A Scandinavian carparts producer is also willing to build a plant in the Kaunas SEZ; the amounts of those deals have been kept confidential so far.

Production. The situation in separate industries is quite remarkable for consideration, first of all in energy. In this field Lithuania can hold certain advantages. Thus, here there is *Mazeikiu nafta*, the only oil refining complex in the Baltic States, acquired by the Polish concern *PKN Orlen*; and the project of a new nuclear power plant, which would replace the existing Ignalin? Nuclear Power Plant to be shut down soon.

Judging by the interest foreign companies and some countries have shown in the new nuclear power facility it will also affect drastically the FDI statistics, i.e. the new nuclear power plant construction might cost about 2.5-4 bln euros.

There are some positive examples in other industrial sectors too. Thus, the Norwegian company *Verdispar*, which is involved in the real estate investments, recently announced its plans to invest in Lithuania over 150 mln euros in the near future.

The IT market also has some bright prospects, according to experts from the Lithuanian investment banking company *SEB Vilfima*. A real boom can be expected here very soon due to increased foreign investors' interest in the market.

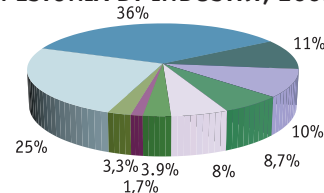
Country's regions are becoming more and more active concerning investments. For example, the authorities of the Marijampole city, which lies on the route of the presently constructed European highway *Via Baltica*, have said that foreign investments in the region already exceeded 100 mln litas.

Image-making efforts. There is another fact, which shows Lithuania's attitude to attracting foreign capital. Lithuanian Parliament's foreign affairs committee has approved a draft strategy for upholding Lithuania's image, which should, among other things, widely open the country to foreign investors.

The draft strategy was presented by a consortium headed by a non-governmental organization *Europos namai*. The strategy is built on the main postulate: Lithuania is a modern, influential and liberal democracy in the present and will be in the future. The strategy's initiators have admitted that *Europos namai*, which developed the image-making strategy at the request of the Lithuanian government, had had to deal with the opinion of Europeans which often still regarded Lithuania as one of the former backward post-Communist countries. Although Europeans think that Lithuanians are working-hard-people with entrepreneurial spirit, European businessmen are reluctant to invest in Lithuania for the fear of corruption.

The problem's concern does exist among the Lithuanians, though they do not intend to live with it. Thus, Lithuanian Prime Minister, **Gediminas Kirkilas** said in November 2006 that he would step down, if the government failed during the coming

BREAKDOWN OF INVESTMENTS IN ESTONIA BY INDUSTRY, 2005



Source: Central Statistical Bureau of Estonia.

MOST INTERESTING INVESTMENT PROJECTS IN ESTONIA

Company	City	Investor	Investment, EUR mln	Number of jobs	Time of commissioning
Galvex Estonia OU	Harjumaa province	Silver Point Capital (USA)	240	160	2002
Estonian Cell	Kunda	Heinzl Group (Austria) Larvik Cell (Norway)	166	60	2005-2006
Linstow Tallinn OU	Tallinn	Linstow (Norway)	38	n/a	2002
Pharmadule OU	Juri	Pharmadule Emtunga (Sweden/UK)	10	200	2005
UVZ&AVR	Ahtme	Uralvagonzavod, AVR Transservice (Russia)	8	100	2004

Source: Compiled by the author.

year to gain significant improvements in anti-corruption work.

NORTHERN NEIGHBORS HELP ESTONIA

Speaking about Estonian economic growth, Prime Minister **Andrus Ansip** recently referred to Portugal and Greece where interest rates fell after the EU accession, causing growth of lending credits and, consequently, economic growth. As soon as foreign investments in those countries reduced, that caused economic cooling, which lead to deficit in their national budgets. What can Estonia offer today? How attractive is it to foreign investors?

FDI per capita in Estonia reached 8,347 euros in the first quarter of 2006, which is more than four times higher than in Latvia and five times higher than in Lithuania. As compared to the similar period last year, foreign direct investment per capita in Estonia has grown 43.8%. Total amount of the investments reached 11.224 bln euros.

Reasons for success. Experts think that country's geographic proximity to Scandinavia is one of the reasons for the large amounts of foreign funds invested in Estonia. Nordic investors prefer particularly investments in the Baltic States and, first of all, in Estonia. As a factor attracting foreign capital to Estonia has also been mentioned abandoned tax on reinvested profits.

A glance at the geographic origin and proportion of the investments suggests that the main investors, i.e. Sweden and Finland have to a certain degree lost their positions but they still account for a large share of foreign capital brought to Estonia. Swedish businessmen have contributed 54.5% of all foreign direct investments. This is due to the fact that the leading Estonian banks — *Hansapank* and *SEB Eesti Uhispank* belong to Swedes, and a lot of Swedish money has been invested in the telecommunication companies too.

The rest FDI has come from Europe. Finland is in the second place by investments in Estonia (20%), and the banks (*Sampo*, *Nordea*) still dominate. But Finns have gone further than Swedes and invested in retail trade and electronics industry; for example, the *Elcoteq* plant, which makes spare parts for mobile telephones.

The remaining one-third of all investments in Estonia is distributed among other EU member states, e.g. Denmark, the United Kingdom, Germany, Italy, the Netherlands and Austria.

In addition to the above-mentioned countries, the US and Norwegian FDI should be mentioned. Russian investors are rather cautious about working in Estonia, and their share is just 1.6%. Some analysts presume that Russian capital originates from offshore zones or under the titles of foreign companies, though the amount of such investments is insignificant.

Major share of investments has gone into the financial sector, first of all, to banking, as well as to other development sectors, e.g. transport industry, communications, processing industry, commerce and other business activities.

What makes Estonia so attractive?

Foreign capital enters Estonia for several reasons. First, foreign business people are attracted by cheap labor, which is becoming a relative factor today, as Estonian wages have been growing steeply lately. Regardless of the fast-rising wages, Estonia still remains rather "cheap" as compared to developed European countries. In addition, labor productivity is also growing.

Increased Estonian residents' purchasing power and their willingness to invest available assets have been attracting increasing number of foreign investors. If previously profits grew in the financial sector, now commerce and services are taking the lead.

Russian business becomes more active. One example is a successful joint venture, *AVR&UVZ* rail car assembly plant in the Ahtme village in north-eastern Estonia. Russian companies are

investing money in the Estonian transport infrastructure, e.g. recently complete construction of a new sea port in Sillamae. Cooperation in fuel and energy industry is expanding. Thus, the Russian company *Gazprom* is a major shareholder (37%) in the Estonian natural gas company *Eesti gaas*.

Russian Ambassador to Estonia, **Nikolai Uspensky**, answering the question of a reporter from the Estonian Russian-language newspaper *Sootechestvennik* about the dangers of Russian capital "expansion" in Estonia, said that the subject had indeed been circulated in the reports of "the appropriate authorities." He continued: "the very formulation of the issue suggests Estonia's fear for her security. I think that similar speculations are being used to induce fear in the public." The Russian ambassador said that any talks about expansion were ungrounded because Russian investments in Estonia were too small — 162 mln euros or 1.6% of the total FDI.

Uspensky rejected the prevailing allegation that Russian businesses were using offshore zones of third countries to pour Russian money into Estonia. "I do not think that the influx of Russian capital to a country is dangerous. It was said by K. Marx long ago that capital has no nationality. The market economy being built in Russia is based on the principle of free movement of capital. Any textbook on economics would say that capital's import and export is a profitable business," said the ambassador. •




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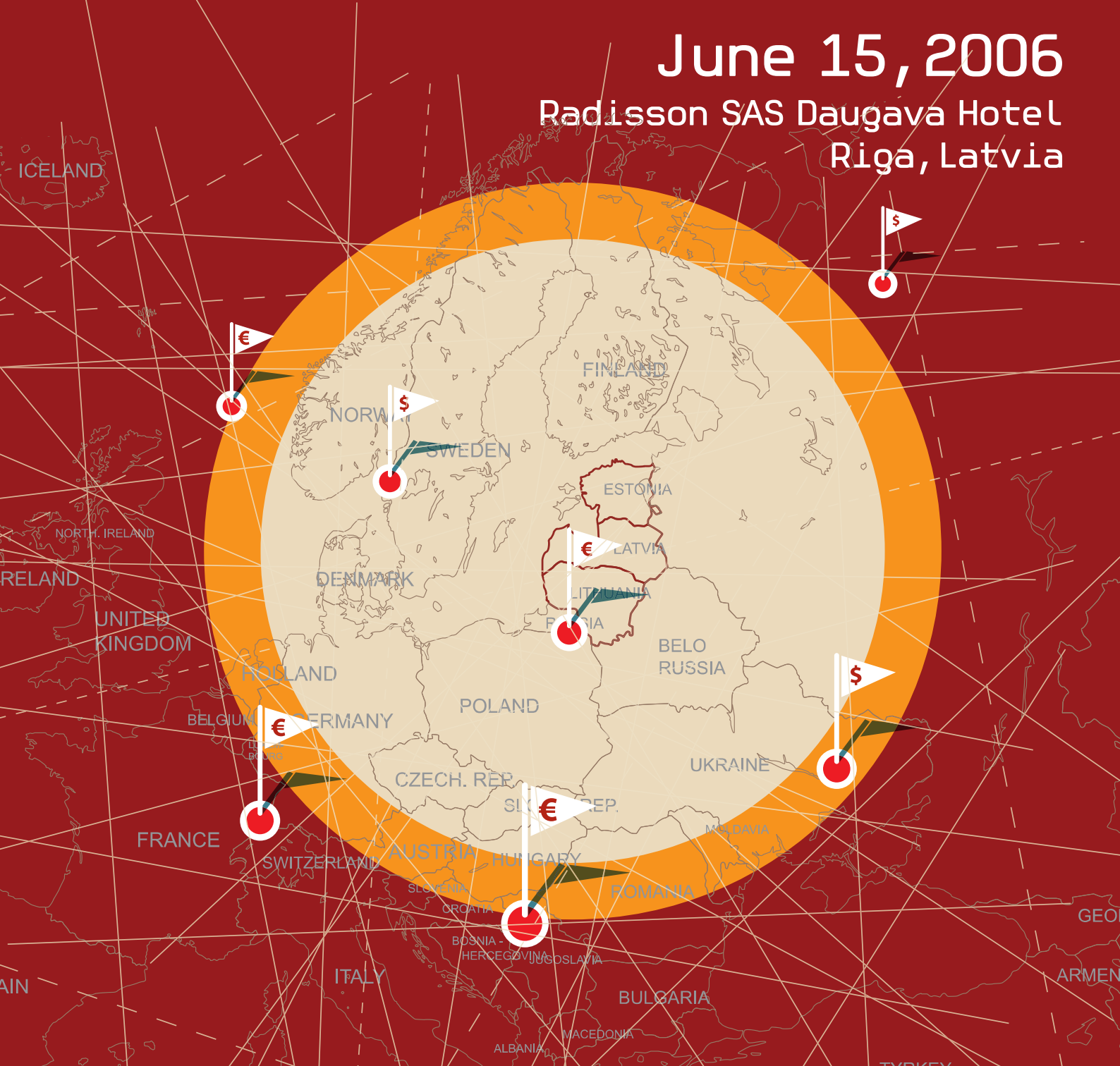
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Energy efficiency: EU's requirements and construction practice

By Eugene Eteris

Energy efficiency issues have been presently in the agenda of both the EU and the member states. Hence, was the interest aroused for the conference devoted to these issues; participants of the Baltic States and other European countries, e.g. France, Sweden, Finland and Belarus took part in the conference arranged during last fall in Riga. Main item under discussion was the energy efficiency (EE) in the construction industry, most actively developing sector both in the Baltics and in other EU states as well.



International conference, BENEFIT-2006 (Buildings' energy efficiency in the Baltics) was organised by the RMS — Riga Management School; it had been working for only one day but proved quite successful. Besides a plenary session devoted to the EE's economic aspects in the Baltics, there had been three sections: 1) EE-certification in construction sector, 2) EE issues in engineering, heating and ventilation, 3) houses' insulations and energy-audit.

EU APPROACHES TO ENERGY EFFICIENCY

The EU has turned to the highly important energy conservation issues only recently. Hence, the attention which the new Commissioner on energy issues, **Andris Piebalgs** (himself Latvian), is displaying towards energy conservation and efficiency. His devotion has become quite complicated as formally speaking energy policy has never been within the EU's exclusive sphere of competence. As it is written in the Treaties, "...the Community shall establish a series of guidelines... envisaged in the sphere of energy infrastructures... for projects of common interest" (TEU, art. 154-155). This means that this sphere is an area of so-called

shared competence. Therefore, the issues of efficient use of available energy resources are mostly within the domain of the member states' policies and the Union is generally using directives as the major regulatory instrument (See more on: europa.eu.int/comm/dgs/energy). As is well known, a directive is leaving to the national authorities the choice of form and methods to reach the desired aim (TEU, art. 249).

In June 2005 the European Commission published first draft document on EE with the aim on reducing energy consumption in the Union by 20% up to 2020, compared to present consumption level. If the aim is reached then the harmful air emissions can be reduced by half, and the economic effect yearly can be at the range of 60 to 100 bln euro. It was acknowledged too that the wastes associated to energy delivery are presently at the level of 35%; the energy wastes are quite big in construction sector as well.

EE IN CONSTRUCTION SECTOR

About 40% of all the energy consumed in Europe is used in buildings, either for heating and light or for air conditioning and ventilation. It is in buildings where most

energy is wasted and this energy sector is the major source of CO₂ pollution. About 13% of all the residential buildings in the EU-15 are multi-stored ones and about one-third of them are in the new EU members.

At the conference's opening ceremony, **Maris Kuchinskis**, Latvian minister for regional development underlined that the Baltic States had all the opportunities to gain leading positions in resolving energy efficiency problems. At the same time, **Andris Shteinerts**, Section head for construction standards in Economic Ministry's construction department explained the difficulties the construction industry was facing while implementing Union's Directive 2002/91/EC.

EE CERTIFICATION

Standardization and certification concerning efficient energy use is implemented along two major directions:

1. Certification of construction mechanisms, various appliances and tools. Several quality directives have been already adopted in the EU concerning, e.g. kitchen appliances (Directive 92/75/EC), water heaters (Directive 92/42/EC), refrigerators and freezers (Directive 96/57/EC), light bulbs (Directive 2000/55/EC), etc. These directives form a general legal base for efficient energy use in residential construction.

2. General efficiency certification in buildings. One of the recent directives in this regard (e.g. Directive 2002/91/EC) is devoted to calculation of "energy-consumption-levels" in buildings, as well as efficient use of energy. The directive is based on elaborated EU general energy consumption standards for houses, on minimal standards in new construction and refurbishment, on introduction of energy certificates in construction (such certificates will follow the tenants and owners' contracts), as well as on regular certification of buildings' ventilation and heating systems. For example, for buildings of more than 1,000 m² the alternative heating options shall be provided before the construction begins.

From purely legal point, all EU member states were obliged to introduce the mentioned standard in January 2006; but the states can postpone the directive's implementation for at least 3 years, while informing the Commission about the reasons for delay. •

HUNTING LATVIAN AMBER

Representatives of Latvian tourism companies explained that most incentive tours are organized for tourists from Western Europe and non-CIS countries, i.e. managers and shareholders of large corporations, etc. At the same time, there is a growing interest in the Baltic States from tourists in Russia and Ukraine.

Large Latvian companies with foreign and local management staff have long learned from foreign colleagues' experience in this regard; organization of incentive tours to reward the staff is being considered a reflection of a good style.

The average length of a European-type incentive tours is 3-7 days. The minimum cost of the tour — from 215 euros per person per day. Tourism operators say that this is the amount usually spent by the European clients. Tourists from the former Soviet countries can often afford about 1.5 times more.

"Active development of incentive tourism in our country began after Latvia's accession to the EU, said **Ugis Vitolins**, director in Latvian Tourism Development Agency. As a strong argument in favour of the priority in business tourism development and incentive programs, their less dependence on the season variations is usually mentioned. The occupancy rate in the hotels in Riga is 90% during the summer months while the yearly average is just 37%. Bringing clients during the low season would help to increase the total number of tourists."

Mr. Vitolins said that the decision about the destination of the incentive tour is made by a narrow circle of people, contrary to the ordinary tourism where the decision "to go or not to go" is made by each tourist individually. The right marketing arrangements can yield a better result at a lower cost. It is the company *Inspiration Riga's* responsibility, which operates with public, municipal and private funds.

"The tourists' interest towards Latvia is certainly growing up due to adequate infrastructure development. However, we still lack a conference center that could accommodate 5,000 people at a time. This has been suggested, and several sites are competing among themselves. And we are particularly happy to see that private investors are willing to invest in the project," said Mr. Vitolins.

There is no accurate statistics about the number of incentive tours organized in Latvia. **Igor Klappenkovs**, director of *Inspiration Riga*, said that the 12 largest Latvian companies



YEVGENIJ DREMLYUGA: Incentive events, as a rule, are offered on a turnkey basis.



States of

By **Anzhela Rzhishcheva**, Latvia
Sigitas Pasilaitis, Lithuania
Dmitry Kulikov, Estonia

The notion of incentive tourism appeared on the global market in the 1990s. In order to attract and reward the staff for good performance with the specially arranged tours, in the last 3-5 years, this type of tourism has been actively developing in the Baltics.

Latvia, which has specialized in incentive tourism had received 14,594 guests. They serviced 143 groups with up to 49 people, 75 groups with 50-250 people and 4 groups with more than 250 people.

"Professionalism of the organisers is very important in incentive tours' preparation, said Mr. Klappenkovs. We have published a special booklet about the main sites — historic and cultural, which could be used as a basis for creating an incentive product. This gives foreign visitors an idea about Latvia but then all depends on the provider's incentives. For example, you can organize an incentive tour in Liepaja on the western coast and have the guests to hunt for amber on the seaside, or you can take them to the Riga Central Market Place, where they would feel the local atmosphere, buy the local foodstuff and afterwards try to make Latvian national dishes together with the chef at the restaurant in their hotel."

"There has been a steep growth of incentive tourism after Latvia's accession to the EU, said **Yevgenij Dremlyuga**, tourism product specialist with *Baltic Tours*. But the first tours, which would more or less fit the description of incentive tourism, started appearing at the end of the 1990s. Those were short trips, including some theatrical or thematic performance and a dinner. Now Latvia offers a whole range of incentive options. This is the service on a qualitatively new

CINEVILLA: the moviemaking city in the region of Tukums in Latvia makes people return a century back.



the heart

in the late 1970s. The idea behind it was that companies were rewarded thus encouraging them to productive work in the future. During last Baltic States too.

level, which requires creative approach to planning and organization along with increased value and uniqueness of the product. As a rule, incentive events are offered on a turnkey basis, which means that the receiving company

INCENTIVE TOURISM SITES IN LATVIA

- The Old Riga tour
- Art Nouveau in Riga
- The Rundale Palace
- The Jurmala Sea-side Resort, a Jewel in Latvia's Crown
- The Latvian National Opera
- The Gauja National Park
- The Sea-Side Region of Kurzeme
- "Hunting" amber in Liepaja
- The Latvian Occupation Museum
- The retro tour - a day in a Soviet prison in Liepaja
- Veteran-Cars' Parade
- Bobsled riding in Sigulda
- Flying in the vertical wind tunnel in Sigulda
- Excursion to the Riga Central Market Place
- Latvian Hollywood, CINEVILLA movie town in Tukums
- Spa center in the Marciena Manor
- Latgale, the Land of Lakes

Sources: *Inspiration Riga, Latvian Tourism Development Agency, authors' own sources.*

assumes responsibility not only for organizing the incentive tour in general, but also takes care of details such as original souvenirs and publication of a special tour-newsletter."

Modern incentive tourism's offers have become more refined. For example, one of the events includes rental of a streetcar adorned with the corporate symbols taking the entire group on a journey through Riga while waiters in ethnographic costumes serve drinks and food. On the other hand, a barbecue can be organized on the beach with all the attributes of a European restaurant — tables, cutlery, service and musical accompaniment by a folklore group.

Dozens of examples of interesting incentive tourism offers could be mentioned. The tourism operators develop and implement various novelties in this field (though they fall into the category of commercial secrets), said Mr. Dremljuga.

"Speaking about peculiarities of the incentive tourism in Latvia, I would like to note that Latvia still is comparatively "untouched"; and its historical heritage is still largely unexplored by foreign tourists, with of course its recent Soviet past. Where else but here one can stage a militarized show with the Soviet-era vehicles, uniforms, and see how it feels to be locked up in a military garrison-jail with the consequential food, etc. But still, incentive tourism trips depend on their target audience," said Dremljuga.

The same opinion is shared by **Iveta Kravale**, director of *Meeting Tour Travel & SPA Consultants*, who has been specializing in serving tourists from the former Soviet Union for the last 11 years.

"Incentive tourism in Latvia indeed emerged in the early 1990s, she said. In the last two or three years Russia, Ukraine and Belarus have also become interested in the Baltic States as a place for holding conferences, seminars and incentive programs."

In the early 1990s, Russian companies tended to reward their employees by sending them, for example, to the United Arab Emirates or "old Europe"; but the times and tastes have changed. I do not think that it is all because Latvia joined the EU. It is easier for us to understand our guests and really offer our guests the best we have, to show that they are sincerely welcome here.

Frankly speaking, we happen to see sometimes a wary attitude too. However, it is understandable, because people did not choose this trip themselves; their bosses offered it to



IVETA KRAVALE: The main incentive tour's peculiarity rests on the participants' direct involvement in the event.

Element of surprise

“The specifics of our business lies in the fact that we do not only organize conferences, seminars, incentive tours and take care of logistics, but we also handle the issues related to air and railway transport, booking hotel’s accommodations, etc.,” said *Baltic Travel Group*, Chairman of the Board, **Vlad Koryagin**. Moreover, if the client wishes so, the event can be held in Latvia, Lithuania or Estonia, or any other country in the world. Responding to the demands, since the middle of 2006 we started to cooperate with local clients interested in organization of similar trips.

Speaking about development of incentive tourism in the Baltic states, I have to say that prior to 2003 the infrastructure of hotels, conference halls, cafes and restaurants was underdeveloped; and this also referred to Riga airport, which did not have many direct flights. Foreign visitors frequently had a very vague idea about Latvia and other Baltic states. Latvia’s accession to the EU, construction of new hotels, which meet the European and world standards, and creation of *Inspiration Riga* helped to attract business tourists. The NATO summit, which took place in Latvia in November 2006, is a good example. Such major event definitely raised Latvia to a new level in conference tourism.

As an incentive tourism destination, Latvia certainly is not an exotic

country and cannot boast hot climate. However, we have many advantages: geographic position almost in the middle of Europe, well developed air connections, high quality services at hotels, restaurants, etc., competitive price-to-quality ration as compared to the Old Europe and, for tourists from the East the customary language environment. However, one often has to sweep away the mass media stereotypes about people in Latvia allegedly refusing to speak Russian and cold-shouldering visitors from the former Soviet Union, etc. At the same time, Latvia is a surprise in itself for Western tourists. Many of them had not expected to see here European-level services and living standards.

In order to attract clients, one needs creative thinking to add to the existing tourist attractions in the country a certain element of surprise, something not available to ordinary tourists, a strictly individual approach, a unique product as there are no two identical incentive tours.

The main thing is to create atmosphere of an unforgettable festivity so that guests’ positive impressions would linger for long. Original solutions are offered depending on the business profile of the company for which the tour is being organized. For example, guests can be picked up at the airport by vintage cars, a theme costume party in an ancient castle with



VLAD KORYAGIN: There aren't two identical incentive tours.

Medieval-style dinner. Or it can be nice presents, such as Riga souvenirs prepared for congress participants.”

How do you succeed in competing with other Latvian companies?

“Information about Latvian companies specializing in business and incentive tourism is available on the Internet, in the *Inspiration Riga* homepage, as well as in special booklets published by this organization. The choice is up to the clients.

Of course, professionalism, the specific offer (and the manner of its presentation), the ability to arrange everything quickly matters a lot. Our business is often affected by factors such as the visa regulations, availability of a certain number of rooms at a hotel, airfares, etc. Nevertheless, incentive tourism in Latvia is developing at a dynamic face and is looking forward into a successful future. •



A FORMER MILITARY GARRISON'S GUARDHOUSE IN LIEPAJA: Presently a popular incentive tourism site.

them. Nevertheless, how good it feels to see the ice breaking in two or three days! Then you know that you have done a good job.

The main peculiarity of the incentive tour is that it requires immediate participation, Mrs. Kravale continued. Therefore, it is important to take into account the age of our tourists and their occupation. Detailed description about our incentive tourism programs is, after all our expertise. I will only say that medieval costumes’ tours are among the most popular programs. Visitors love the Cesis castle, bobsled rides and flying in the vertical wind tunnel in Sigulda. Add to it professionalism and imagination of our experts and a visit to a most ordinary location can turn into an incentive trip.

I cannot help mentioning the difficulties that sometimes occur. You can manage, for example, to settle complicated visa issues due to good cooperation with the consular staff, but there are some problems that need to be handled on the level of the Riga City Council. This is about meeting the tourists at Riga railway station. A parking lot for tourist buses should have been built there long ago. The tourist offi-

cials have told about it Riga City Council many times. Regretfully, nothing has changed so far. I hope very much that the situation will be solved in the nearest future in a manner favorable both to tourists and to the city budget, which will receive additional revenues. Incentive tourism in Latvia is an actively developing sphere”

THE VILNIUS' GHOSTS

If one tries to search in Lithuanian mass media publications about local incentive tourism, nothing can be found during the last year or two. The sector is mentioned in media, of course, but it somehow failed to receive adequate interest.

Moreover, Lithuanian State Tourism Department does not keep any statistics on the incentive tourism as the sector has not been singled out in the reports, said **Lidija Luksyte**, CEO for foreign affairs at the department.

However, the reason for this is not a negative attitude by the authorities or business circles to expanded tourism opportunities for those who would like to combine leisure and resolution of some management issues. In Lithuania, as seen from meetings with different representatives of the tourist sector, it is thought that the country needs developed and expanded opportunities of the local tourism and its active promotion. Moreover, the number of tourists, both foreign and local, who used those services in Lithuania, is the only criterion for the success or failure in this field. There

would be no use in the country trying to improve one specific sector, while other, neglected sectors, would weigh down heavily on the overall country's attractiveness for tourists.

“Active offering of incentive tourism services in Lithuanian began some 5-6 years ago, Mrs. Luksyte told the *BC*. Since then our options have multiplied both in number and in quality. Add to them “natural” advantages, such as close distances, which make it possible to combine in one package a conference in Vilnius and tourist attractions in other parts of the country. Or the possibility can be mentioned: to take off in an air balloon almost right from the hotel in a picturesque location in Vilnius, where company guests are staying or working.”

It is difficult to argue with Ms. Luksyte, i.e. indeed, there are not many capitals in Europe, where it can be done. Lithuanians also have a knack for using military sites inherited from the Soviet army, which are now often visited by foreign tourists.

Frankly speaking, some such facilities remain outside the usual tourist routes. There is a large military town near Kaunas, which has a huge runway, underground premises, which still have to be explored in full and other features that a group of enthusiasts has so far failed to put on the tourist market. The problem lies, first, in bureaucratic obstacles.

As to other services, Lithuanian companies have demonstrated rich imagination. By way of example, Mrs. Luksyte mentioned a visit to Vilnius by a rather mixed tourist group

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from Western Europe. Their bosses have given these people an opportunity to make any wish and chosen the Lithuanians to fulfill them.

A 60-year-old woman ordered 30 cocktails and a private service by some handsome men. Her male companion wished to fly a fighter airplane. Other wishes also were equally exotic; nevertheless, they were all fulfilled.

Speaking about exotic entertainment, Vilnius has a very special beer bar where a bar counter is wheeled on the bicycles' frame. Visitors combine pleasure with workout by drinking beer and pedaling thus being aware that they lead a healthy life. The bar, at the same time, is moving around the city streets and in that way one can take a city tour at the same time if, of course, one is fit enough for that.

The lake Plateliai in northwestern Lithuania can also be mentioned. It is a favorite place for diving fans both from Lithuania and from neighboring Latvia and the Kaliningrad region. A cross has been put up on the bottom of the lake with help from local monks, and every year there is an underwater Christmas tree, complete with decorations.

Petras Staselis, *Liturimex* company's representative, agrees that large number of tourists are really attracted to Lithuania by exotic features.

"Our main clients are tourists from Germany, the United Kingdom, and Poland. In addition, all of them are interested to a greater or smaller degree in exotic things, said P. Staselis. For Western visitors Lithuania is an exotic place and they often expect to see here, so to say, not a civilized country, to put it mildly; though Polish tourists are becoming more specific in ideas. For this reason, they can make an informed choice between, let us say, a tour around nightclubs in Vilnius and the extreme driving school in Druskininkai. Or a walking tour through the Lithuanian capital at night as part of the architecture and history program called *The Ghosts of Vilnius*."

Mr. Staselis said that *Liturimex* has regularly participated in international tourist fairs and always tried to produce a special package of incentive-tourist offers. If all the offers were put together and printed on paper, they would take up some 40 pages.

Yet, of course, it would be an exaggeration to say that this kind of tourism in Lithuania was going on perfectly successful.

Both the number and capacity of conference halls have significantly increased in Lithuania, in particular in the capital city Vilnius. Mr. Staselis said that there was still a shortage of conference facilities, especially those, which can accommodate a large number of guests.

This opinion is shared also by **Inga Shvetkauskaitė**, assistant to the director of *OM Baltics DMC*, one of the leading incentive-tourist companies in the Baltic States.

"There is a shortage of both large conference halls and big hotels, said Mrs. Shvetkauskaitė. Our company has had



LIDIJA LUKSHYTE: Incentive tourism's options have multiplied both in number and quality.

problems when 650 people arrived for a conference but it was impossible to accommodate them all in the same hotel."

As *OM Baltics DMC* operates in the three Baltic States, its representatives can claim that Lithuania (both Vilnius and Kaunas) are losing out to its neighbors as far as air connections with the rest of the world are concerned. Thus, Riga airport in the Latvian capital has more opportunities (wider choice) for transporting passengers from, let's say, France, the United Kingdom, the US and Belgium, i.e. the countries, which are the main sources of tourists who combine business with cultural and informative programs in the Baltic states.

"We strive to give our clients as much as possible for their money," said Mrs. Shvetkauskaitė. Therefore the time factor is extremely important for us, we cannot lose much time moving about and waiting."

It should be said that it is not only the local tourism companies which deserve the merit for the significant increase in the number of tourists using incentive programs in Lithuania recently, as was noted by all reviewers. Big Lithuanian businesses have also turned attention to this sector.

Personnel Department Director, **Jolita Lauciuvienė** in *SEB Vilniaus bankas* said that six years ago the bank came up with the idea to organize summer sport festivals that would help to consolidate the staff and promote the values of the financial group. This year representatives from the *SEB* bank-groups from both Lithuania and other countries — Sweden, Estonia, Latvia, Germany, Ukraine and Russia gathered on the Lithuanian beaches; similar events are being organized now every year.

Mrs. Lauciuvienė said that the bank always approved local staff initiative in organizing various tours and events to discuss business ideas, exchange experience and at same time working on team spirit development and the ability to work together. Moreover, the opportunities of *SEB Vilniaus bankas* to implement similar activities are growing with every year.

Here is just one of the recent examples showing that the Lithuanian authorities pay close attention to development of incentive tourism, even though it has not been made a separate category in statistics.

An international conference "Aviation Tourism in Lithuania: Problems and Prospects" was held in Lithuania in mid-November last year. Representatives of the government agencies agreed at the conference to work towards revival of aviation tourism. Even though there are 26 airports in Lithuania, the sector cannot yet claim of being particularly successful.

BONUS TRIPS IN ESTONIA

"The beginning of the incentive tourism in Estonia dates back to 2001 when the first company focusing on this kind of tourism started operations", wrote **Liina Klamp** in her graduation paper "Incentive Tourism in the World and in Estonia, Tallinn 2006".

According to Mrs. Klamp, **Meeli Jaaksoo**, Tourist Office chief specialist in Tallinn City Enterprise Board, has "borrowed" the idea at an international fair on conference- and incentive- tourism. A little bit earlier, in 2000 Europeans showed an interest towards post-Soviet countries. Anticipating the future demand on the market, the board published in 2002 a journal *Incentive in Tallinn*. It was a supplement to another publication, *Tallinn Conference Directory*, which offered information about the tourism companies working on the market and their services; its third issue was published recently. The

number of companies advertising themselves has increased to 62.

Incentive trips are being composed in close cooperation with the client's intentions. It is a well-considered program consisting of several incentive services. Tallinn City Enterprise Board has created a website for clients interested in tourist attractions offered in the country: www.tourism.tallinn.ee.

Piret Kallas, research coordinator at Tourism Development Center in Estonian Enterprise Service said that, regretfully, there is no statistics on incentive tourism, therefore it is quite difficult to give an account of the sector's activity, e.g. about the clients and their countries of origin. "It is rather a new business in Estonia. Serious efforts to develop incentive tourism have been made only during last 3-5 years, said Kallas. Usually locations offering attractive, exotic and exclusive tourist services are chosen as bonus trips' final destinations"

So far, potential tourists are not very well informed about Estonian potentials to offer, therefore, the number of foreign trips to the country is limited, said P.Kallas. Nevertheless, there are great opportunities for new experiences in Estonia: thematic tours, concerts, sport events, extreme-type sports, army-style treks, gourmet tours, etc. Tourist companies specializing in this kind of tourism and other services offer bonus trip packages. The range of services is constantly growing.

"It is to be mentioned that the Tallinn city planning, its buildings, fortifications and parks were done by Germans, Russians, Swedes, Finns, Italians and Estonians. Due to the rich architectural, historical and cultural heritage, Tallinn is so attractive for various incentive programs," wrote **Irina Svidlov**, chief specialist in the Marketing Department in the Tallinn City Enterprise Board, for the Russian magazine *Business Travel*.



PIRET KALLAS: There are great opportunities for new experiences in Estonia.

Contrary to the conference tourism, incentive tourism does not require specially built facilities. It is the existing peculiarities of the country or the city, their natural resources, etc. that attracts incentive tourists.

Personal approach and attention to detail, these are the main features valued in incentive tourism. Estonian companies offering services in organization of incentive programs try to follow the rule.

Incentive programs have a great variety of themes: art and music, historic tours, city tours, extreme sports and adventures, sea tours, national traditions, relaxing tours, team-building tours, gourmet tours, "looking into the past" around Tallinn, etc.

I. Svidlov said that a common city tour can be spiced up also by an "accidental" encounter with a chimney sweep (from 40 euros) or, for example, swordsmen in Medieval costumes fighting between themselves (from 60 euros).

Speaking about advantages of organizing incentive programs in Tallinn, the Tourist Office representative listed a number of benefits offered by Estonian companies including close distance to Moscow (1.2 hours) and just 2-3 hours of flight to any location in Europe, compactness of the country, great choice of accommodations, numerous spa hotels, good price-to-quality ratio.

"There is a great diversity of incentive programs. Fairytales can really come true in Tallinn and fantasies that would seem impossible at a first glance can be fulfilled here," said I. Svidlov.

Add to it modern IT solutions and citizens' language skills, including Russian.

The incentive-tourist programs' basic principles do not change much; its themes have also been established through years, though still variations of the themes and programs are possible depending on the clients' wishes. "Recently I personally participated in a creative incentive program that left me with unforgettable impressions," wrote I. Svidlov.

An individual often has a variety of hidden talents that one might even not be aware of. Creative incentive programs literally help their participants to discover their very sensitive and concealed sides.

Guided by professionals, they can try their hand at silk painting, pottery and woodcarving, sculptures modeling and making collective paintings with every participant contributing to the canvas, adding what they see as the most striking details or emotions about Tallinn. •

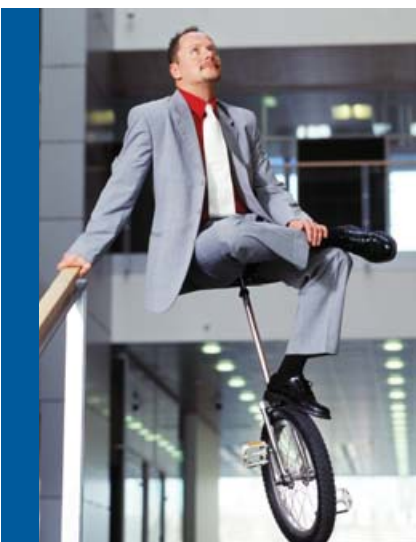
Why do some people enjoy their stay in the Baltics more than others?

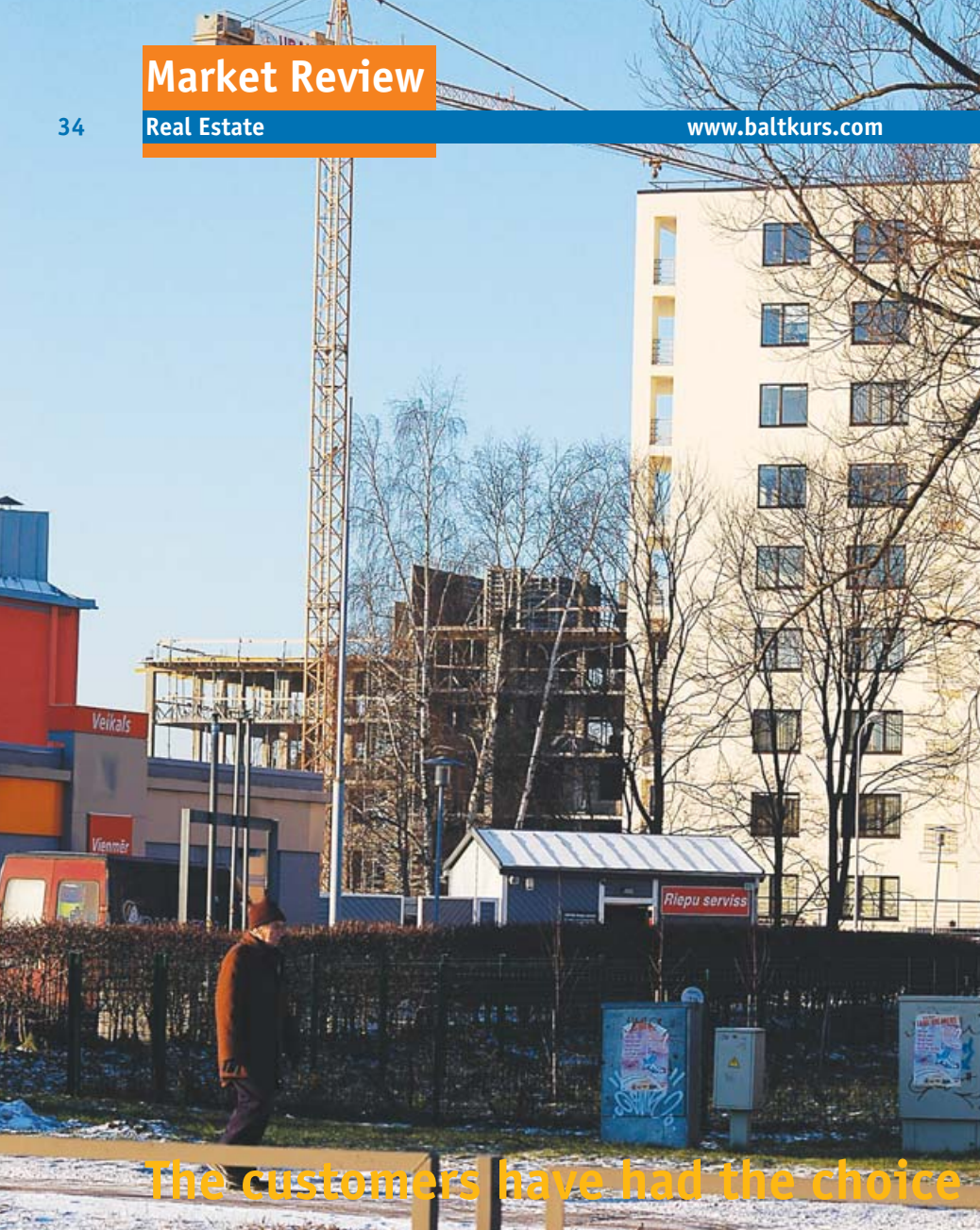
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The customers have had the choice

By Helene Vilcene

Tension on the Baltics' real estate market, which has recently experienced quite turbulent development, clearly bounced back. With about a dozen per cent yearly increase in housing prices in Lithuania, Latvia and Estonia during a couple of last years, 2006-year's statistics is much more moderate, especially during the last six months. Customers today are not any more rushing into occasional residential apartments giving preferences to quality premises with the durable rent. Present review is prepared with the assistance of the *Ober Haus Real Estate's* advisors.

Before the outset of summer the housing market in Lithuanian, Vilnius and Estonian, Tallinn capitals apparently "cooled down", e.g. customers' interest in the market substantially declined as compared to the previous months, therefore no price changes either in Vilnius or Tallinn were generally observed.

STABLE SITUATION IN RIGA...

Only in the Latvian capital, Riga prices gradually went up even during summertime, although at a substantially

lower pace. In Riga, with the monthly rise of 5% before May, during summer the boost in housing prices started to slow down significantly: the average apartment prices growth was 2% in June, 1.3% in July, and 1% in August. However, during the last six months real estate prices in the Latvian capital increased quite substantially, i.e. by about 20%.

Owing to persistent price increase (though, obviously slowed down), one can reach the conclusion that Riga has become a non-disputed leader among the other two Baltic States' capitals.

Here apartment prices for both new and old buildings are 10-15 per cent higher on average than in Vilnius or Tallinn. Prices for semi-finished newly built apartments in Riga's residential areas in September ranged from 1,400 to 2,100 EUR/m². Prices for old construction apartments fluctuate from 1,200 to 1,700 EUR/m².

A definite stability in the real estate market in Riga can be observed at the end of 2006. The real estate price growth in most of the city's regions has practically stopped. There is a leveling-up of apartment prices between the most prestigious and less popular regions. During November 2006 a regular apartment's price increased by 2.2% and the square meter's price reached 1,520 euro.

...AND A SLIGHT REDUCTION IN VILNIUS...

Present picture in the Lithuanian capital Vilnius is somewhat different. Starting with the first quarter of 2006, housing prices in Vilnius stabilized and without any substantial variation were nearly at the same level during last six months (March through April) as it was early in 2006. Prices for new construction apartments were declining during the period and even slightly increased in some cases. Prices for the majority of old construction apartments also remained stable, although those for less liquid apartments in old pre-cast buildings (most often built before 1980) in residential areas dropped at the range of 5-10%.

The same situation has been observed in the supply side for apartments: while earlier the potential buyers could not make a deal with a lower price, neither managed to reduce the price by 300 to 600 EUR, today a 1,500 to 3,000 EUR price-cut is possible. For this reason a broader interval of prices for old construction apartments can currently be observed on the market. This, however, does not lead to the firm conclusion that prices for old construction apartments have decreased, because prices for more demanded apartments in better locations or in better-condition buildings (not older than 30 years) have not altered and have remained at the same price level.

Prices for old construction apartments in pre-cast buildings in residential areas in Vilnius during summer ranged from 950 to 1,500 EUR/m²; in brick

buildings to 1,600 EUR/m² (depending on the location and finishing state). Prices for new construction semi-finished apartments in residential areas fluctuated from 1,050 to 1,850 EUR/m², and sometimes could even jump to 2,000 EUR/m² and more.

Prices for new construction apartments (semi-finished) in the central part of Vilnius and in the Old Town range from 2,300 to 5,200 EUR/m² and have also remained stable for the last six months.

The apartment prices in Vilnius' old buildings (before 2005) in November reduced by 2%.

...WHILE THE DEMAND FOR GOOD APARTMENTS IN TALLINN IS GROWING

Compared to last year's rapid boost in prices and residential sector's development, the present situation in Tallinn and in Vilnius no longer resembles the boom during last few years. For this reason no substantial price changes for apartments in the centre of Tallinn have been observed in the last six months. Prices for older construction apartments in the central part of the city range from 2,200 to 3,200 EUR/m². Prices for new construction apartments normally fluctuate from 2,800 to 3,500 EUR/m².

However, prices for old construction apartments on the outskirts of Tallinn dropped by up to 10-20% in the last six months. This price decrease in Tallinn is viewed as a totally normal phenomenon since at the end of 2005 and the beginning of 2006 prices for old construction apartments were almost no differ from those of the newly built. Currently, prices for old construction apartments in Tallinn's residential areas are from 1,200 to 1,500 EUR/m². Prices for finished new construction apartments located outside the city centre normally range from 1,500 to 1,900 EUR/m².

Although the supply on the apartment market meets the demand (with supply of old apartments slightly exceeding the demand) the supply on the individual dwelling's market cannot satisfy the high demand. The country's growing economy conditions coupled with the citizens' increased possibilities and needs, urge people in Tallinn sell older housing and search for new construction apartments or individual dwellings. For this reason the sector has witnessed 15-35% higher prices based on a year-on-year comparison. For instance

the house, which costed 160,000 EUR last year, costs presently 225,000 EUR.

SIMILAR DEVELOPMENTAL SCHEME

The current market situation review in the three Baltic States' capitals has shown that despite the slight differences the development of the housing market has been almost similar in these countries. Owing to record-breaking low interest rates, particularly favourable borrowing conditions, growing economy, rising salaries and optimistic views upon the future, all three Baltic States started facing a great demand for housing (for both apartments and land plots), which at first could not be met by a rather slowly growing supply.

Therefore during 2003-2006-period the Baltic States experienced housing boom, which resulted in double or even triple price increase for residential premises. The enormous price growth attracted to the market both new developers, investment companies but also speculators whose activity substantially contributed too to the truly impressive price jumps in the last few years. The most rapid rise in housing prices has recently been observed in Lithuanian and Latvian capitals, being somewhat slower in Tallinn because here prices before the onset of the boom were higher than in Vilnius or Riga.

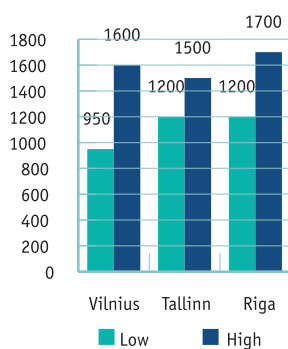
However, starting from the spring of 2006, the situation on all three Baltic States' markets substantially cooled down due, again, to quite apparent reasons: growing interest rates for housing loans from early 2006, the rapidly increasing supply of new construction apartments, the already sufficiently high level of housing prices and the

strongly decreased activeness of speculations on the market resulted in more opportunities of choice for buyers, whereas high prices and still growing interest rates forced potential buyers to review their possibilities from a more reasonable angle.

It seems therefore natural that states with comparatively small differences in their political, demographic and economic situation nearly at the same pace stepped into the new phase of market development. Today's buyers no longer rush to buy houses or apartments at first glance and start giving more thoughts to quality and long-term prospects of purchasing housing.

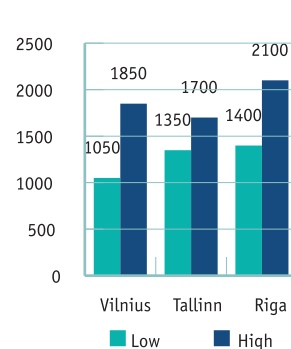
It can also be observed that although the supply of apartments on the market (especially old construction) basically meets the demand, there is still shortage of individual dwellings and land plots for the construction of such houses. Owing to the extremely high level of profitability in the construction of residential buildings, big developers placed less attention to construction projects for individual dwellings and semi-detached houses, which caused lower competition in the segment as compared to the apartment market. Therefore a glimpse on the prospects for Vilnius and the capitals of other Baltic States leads to the conclusion that the most severe competition in the future shall remain in the residential building sector. Abundance of new projects, high price levels and buyers' growing experience shows that this segment should greatly focus on construction and environmental quality, whereas saturation on the market of private and semi-detached houses is definitely not expected so far. •

PRICES FOR FINISHED OLD CONSTRUCTION APARTMENTS IN RESIDENTIAL AREAS, EUR/M²



Source: Ober Haus Real Estate.

PRICES FOR SEMI-FINISHED NEWLY CONSTRUCTED APARTMENTS IN RESIDENTIAL AREAS, EUR/M²



Source: Ober Haus Real Estate.

The EEC Treaty: 50-years jubilee

By Eugene Eteris

On the contemporary global economic scene the European Union has occupied an honorable place together with the other two "heavy weights", i.e. the US and Asia. It's quite remarkable that the present EU uniting already 27 member states is actually associated on the international arena with that of the whole European continent. As to the GDP produced, the two leading world regions, the US and the EU, are moving head-to-head creating about 10 trillion USD a year, each. The main reason behind the EU becoming the leading economic power in the world was the true success of the European integration efforts during the last half a century.

The advances of more than half a century European Union's integration started with the first cooperative efforts and attempts in early 1950s with the European Coal and Steel Community Treaty which entered into force on 23 July 1952 (the Treaty was concluded for 50-years period and therefore expired in 2002).

The successful achievements of the initial cooperative efforts in the two commodities have lead to creating of another two Communities: European Economic Community (EEC) and European Atomic Energy Community (both Treaties were signed on 25 March 1957 and entered into force on 1 January 1958).

It has to be acknowledged that these three Communities' treaties alongside the Single European Act (signed in February 1986 and entered into force in July 1987) and the Treaty on the European Union (signed in February 1992 and entered into force on 1 November 1992) created the background of the present day's European integration theory and practice.

THE "COMMON MARKET" INTEGRATION CONCEPT

Already in the preamble to the EEC Treaty of 1957 the six founding-states have been "determined to establish the foundations of an ever closer **union** among the peoples of Europe". More that 40 years later the notion "union" has acquired a completely different meaning. But 50 years ago the six founding states "decided to ensure the economic and social progress of their countries **by common action** to eliminate the barriers which divide Europe" (bold — EE). Several other "political intentions" in the preamble have been transferred into legally binding articles in the Treaty.

Thus, in the first part of the treaty (in art. 2) called "principles" very modest Community's aims have been formulated: "it shall be the aim of the Community, by establishing

a Common Market and progressively approximating the economic policies of the member states, to promote throughout the Community a harmonious development of economic activities, a continuous and balanced expansion, an increased stability, an accelerated raising of the standard of living and closer relations between its member states".

Presently valid text of the Treaty is enriched by various supplemented aims, which is quite fair for the developing Communities. Alongside the activities of the Community have been increased from the 11 original to the present 21. Probably the main issue is not the number but the intensity with which the whole integration process in different economic sectors is going on.

THE NEW IMPETUS

In the EEC-57 Treaty the economic integration was understood in the terms of "general aims" and "the activities": the former were quite modest, e.g. the common market creation and progressive approximation of the member states' economic policies; the latter were quite ambitious even for that historic period, e.g. ensuring competition rules, approximation of municipal laws, creation of a European Social Fund, etc. Although all the main activities' ingredients were present: elimination of customs duties, establishment of common customs tariff and common commercial policy, common agricultural and transport policies, establishment of a European Investment Bank, etc.

As to the Treaty on the European Union (TEU, signed on 7 February 1992, entered into force on 1 November 1993) its importance had been enclosed in a new impetus into the EEC integration model. As it was said in the preamble to the treaty, "marking a new stage in the process of European integration "ending the division of the European continent and the need to create firm bases for the construction of the future Europe".

Quite remarkable were the political aspects in the new treaty:

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- to achieve the strengthening and the convergence of the member states' economies based on the economic and monetary union including a single and stable currency;
- to promote economic and social progress for the peoples of Europe taking into account sustainable development principle (within the context of the internal market accomplishment), reinforced cohesion and environmental protection;
- to implement policies ensuring advances in economic integration accompanies by parallel progress in other fields.

All these policy points have been transferred in the treaty into definite aims and activities.

COMPETENCE DIVISION

It has to be pointed out that as long as the Communities' integration spheres did not exceed 8-10 directions, there has been no need for a specific division of competences. Initially, most important was the directions for the allocation of the Community's budget resources. From the very first EEC steps, these resources were allocated generally on a few directions, e.g. agricultural policy (almost half of the budget), customs union, commercial policy with the third countries, environment protection.

After the formal common market completion and EMU's creation in 1993 when the EU aims and activities greatly increased the necessity aroused as to the division of competences between the Union and the member states: who is doing what and with what intensity. Besides, the general trend in the Union's development has changed, i.e. from the previous "ever closer union" the activities turned onto "united in diversity" principle.

Thus, only later on in the EU draft Constitution (December 2004), yet to be ratified by the whole Union member states, the efforts have been made and agreed by the 25 member states to formulate three spheres of competences: exclusive (those spheres where the EU institutions played major roles), shared (where the EU and the member states made some cooperative efforts), and additional or supporting competences (where the countries were independent in their decisions and the EU institutions only coordinated their efforts. There were about five sectors in the exclusive group, more than ten in the shared and about seven in the supporting group of competences. To be continued. •

German EU Presidency: priorities and ambitions

By Eugene Eteris

The German Presidency's program for the period 1 January to 30 June 2007, called "Europe — succeeding together", slightly reminds already existing EU motto: ever closer union. Both seem reaching towards the same aim — making the EU successfully closer together. Is it a play with words or with big country's ambitions? No doubt, Germany, together with the UK and France, is the driving force behind all the Union's achievements, both economic and political.



The presidency's program is built on the work of the Finnish presidency and takes account of the Commission's strategic work program for 2007. In short, it is composed of 4 main items:

1. Further developing the EU's institutional and legal framework; this item's purpose is to continue the EU reform process: mainly to explore possibilities for the improvements and reviving the EU Draft Constitution;
2. Shaping Europe's economic, social and environmental future;
3. Strengthening the EU area of freedom, security and justice;
4. Shaping the EU common foreign and security policy; external economic and development policy. In details the program can be seen at: www.eu2007.de.

Behind the program lines, some other, i.e. more practical priorities can be specified, such as reduction in the EU farm spending, conflict resolutions on energy issues with Russia and Poland, cuts in CO₂ emissions and the breakup of European energy giants (including Germany's *E.ON AG* and *RWE AG*). If these plans are accomplished, it will leave Ms. **Angela Merkel** as the bloc's most influential leader.

"TEAM PRESIDENCY"

In order to be more efficient, as well as to share the responsibility for ambitious goals, Germany is cooperating with two other consecutive presidency's countries over the period of 18 months, Portugal and Slovenia. The "team presidency" aims, purpose and procedures were approved in June 2002 by the European Council in an attempt to lend continuity to the twice-yearly rotation of the EU Presidency. However for the first time an official Council's program has been adopted this year, extending the "team work" to June 2008. The 3 member states (Germany, Portugal and Slovenia) have drafted a joint program approved by the Council last December.

Setting joint priorities the "cooperative or team presidency" included the following main spheres:

- General economic policy coordination,
- Growth and Jobs; employment and sustainable development,
- Research, knowledge and innovations,
- Competitiveness,
- Energy, transport and environment,
- Social policy, health and consumers.

The 18-month Program is designed to increase the continuity in the European

Council's work. But it seems that there is something more behind this "team arrangements"; i.e. step-by-step preparation for much longer EU presidential terms, actually, envisaged in the draft Constitution.

GERMANY'S DOUBLE RESPONSIBILITY

The tasks of the EU presidency are complicated enough to make the country's officials busy. But that's not all, in fact, Germany has a double presidency: the country is heading during 2007 the G-8 club, another key international forum. For the first time the heads of state/government of the world's six leading industrial nations (US, the UK, France, Germany, Japan and Italy) started to discuss global economic issues in France in 1975. Then Canada joined the club in 1976 and Russia in 1998. The European Commission is also represented at all G-8 meetings.

This G-8 presidency imposes on the country the global responsibility, a heavy burden to carry through, as well (see: www.g-8.de). The general themes of the G-8 agenda will focus on ensuring stable conditions in the global economy, improving global trade, financial relations and investment conditions. It will seek to strengthen G-8 efforts to assist disadvantaged sections in the world population, in Africa, in particular. Some other global themes will be covered concerning foreign relations, global security and regional development.

TO COMMEMORATE THE 50TH ANNIVERSARY

Germany assumes the presidency at a festive moment in region's history as Europe is preparing to celebrate the 50th anniversary of the creation of the European Communities (Rome Treaties). A special ceremony will be held in Berlin on 25 March.

The past half a century reveals a truly success story for the EU: enlargement from six founding members to 27 and forming the largest internal market in the world, European integration achievements, the EU as a community of shared values and European social model, among other things. Why could not we make it for at least another 50 years, asked Chancellor Merkel in her presentation in Strasbourg in mid-January? Really, why not, Europe has all the chances. •



EU regional energy issues and the Baltic States

By Eugene Eteris

Energy issues in the Baltics go hand in hand with the general process of energy market development in the EU and other European regions. Within this process two major trends have appeared, i.e. attempts to synchronize the EU energy networks and measures to increase energy efficiency. At the same time, the EU internal market in energy is a far away dream as many member states still hold monopolistic grip on resources. The Baltic countries' integration into the EU energy system proceeds with certain difficulties; the analysis of some acute aspects of the complex regional problems in the Union is presented in the present third and concluding article (previous see in *BC-22* and *BC-23*).

Internal Union's energy market is still, to a great extent, divided along national, regional and sometimes, sectoral lines. As to the latter, there are four main "market sectors"; i.e. electricity and gas, nuclear energy, solid fuel and oil market. The inherited specifics and differences in each sector often just complicated regional integration.

THE EU ENERGY SYSTEM

During the last several years the Commission has been trying to reassure the member states about the necessity of creation an internal energy market; so far with no avail. The Commission brought about 50 cases in the EU courts against countries violating the "freedom of energy market" rules. In full extent these rules are supposed to take effect from the end of 2007.

The difficulties to follow the rules stem not only from the traditional national energy monopolies. For several years the process of "synchronization" of the market is going on, first of all in electricity market. But still it is too difficult to overcome barriers existing among already functioning international electricity monopolies in Europe. There are, in fact, three such monopolistic groups:

- European coordination union for electricity supplies (UCTE) uniting 21 countries in "old Europe". In November 2006 the system has been tested during cold month and did not pass the test: in about six countries for several hours the electricity has been switched off.
- Scandinavian combined energy network (NORDEL) uniting some Northern countries.
- United Energy System (UES), the former Soviet Union's system, or that of CIS.

To arrange a kind of "synchronization" among them is quite possible though rather difficult. Another problem lies in the fact that often electricity networks are coupled with gas and other sources of energy. In some countries 2-3 monopolists manage the whole national market. Thus, in Germany the three "majors" are *E.ON*, *RWE* and *Vattenfall* with corresponding market capitalization of 77, 47 and 10 bln USD. In France there are two main players, *EDF* and *Gaz de France*, with corresponding market capitalization of 90 and 32 bln USD. Russian "networks" so far, according to Reuter's estimates, are evaluated at about 29 bln USD, which is not at all at the top European level. But Russia's energy potentials are really great, as about one-fourth of the global gas deposits are in Russia and as to the oil it yields only to Saudi Arabian and Iraq.

There are reasons to believe that in the near future, somewhere in 2008, the UES will be included into the European system together with the Baltic States. There is not much time to wait but there is plenty of work ahead instead.

BALTIC COOPERATION

There is no doubt that the Baltic countries and Poland have to be included into the European gas network; the question is just when? Even German chancellor, **Angela**

Merkel argued that the Baltic States' inclusion into the EU network would be quite problematic and did not promise to solve the issue during the country's EU presidency period in the first half of 2007. At the same time the chancellor wholly supported Russian-German gas-pipeline under the Baltic Sea which the three Baltic States and Poland seriously criticized. Polish defense minister, **Radek Sikorski** in April 2006 compared the pipeline with Molotov-Ribbentrop pact which secretly "divided" the territorial influences among the Eastern European states at the 2nd World War. Though it sounds rhetoric but some states do not apprehend such "egoistic agreements" between Germany and Russia on oil supplies. The latter, according to the agreement, is ready to finance all pipeline land-works on both territories at the cost of 2-2.5 bln USD.

Several experts agree that the Baltic States can tackle their energy policies better if they take some coordinated actions; but that is not happening so far.

ENERGY AND EURO

Political aspects of the "gas ingredient" have not been adequately assessed in the Baltics, though the issue is closely followed by the EU officials. It has become evident that recent Lithuanian failure to join the euro-zone was rooted in a drastic Russian Gazprom price increase (with some negative effect for Estonia as well). Though Lithuania "didn't pass the test"; i.e. required 2.7% of national inflation level by a fraction of a percent, the leaders in the EU had been fully aware that the nation's economy was still rather weak if it depended so much on only one export item.

BC'S COMMENT

The EU requirements concerning euro-zone inflation are quite flexible. There is a basic requirement, which is 2% of inflation growth limit during last two years. But an additional aspect shall be taken into account, i.e. from the level of three EU countries with lowest inflation level. On top of the basic level, a 1.5% "additional" points are reserved. And that was exactly what happened with Lithuania's "required" inflation level of 3.5-3.6%; actual inflation level in the country had been 3.7% in 2006. It is wellworth mentioning that about 10 years ago the country's inflation level was at thousand percent. At the same time, Lithuania has fulfilled all other euro-zone requirements, e.g. country's

public debt is about 20% (EU average is 60%), budget deficit is lower than 2% required by the EU rules.

POSSIBLE SOLUTIONS

It is quite clear that energy efficiency can serve as a viable instrument in resolving energy supply problems both in the EU and the Baltics. Recent international conference held in Riga last November showed that energy saving programs in construction can definitely help in resolving energy supply. But it's only one "sectoral" approach; what else can be done?

In the beginning of 2006, during the Vilnius meeting of the heads of the Baltics' energy companies, a declaration was approved concerning common approaches to energy development in the three states actually for the first time in the Baltic's modern history. Two main issues had been underlined: a) how these states with their limited resources can join the existing EU energy and competition structures, and b) new nuclear power station construction in Lithuania, which not only cover the electricity needs in the country, but can help other countries, as well.

Former political leaders, prime ministers and presidents in the Baltics and Poland have expressed a solid concern that "efficient use of energy and further diversification of its supply-these were the major problems for Europe" (*The Financial Times*, 17 January 2006).

EFFICIENCY APPROACH

The year 2006 was a breakthrough time in energy efficiency approach showing the way to a completely new resolution of the Union's energy problems. A new plan elaborated in the Commissioner's **Andris Piebalgs** D-G is quite impressive. Suffice it mention that 20 per cent reduction in energy use would save about 100 bln euro yearly in the EU budget.

Already since 1998 the Commission adopted several decisions on regulating trans-European energy networks (so-called, TENs), first of all in electricity and gas. But still the results were more than modest. Experts believe that the EU Commissioner for competition will try during 2007 to liberalise the market concentrations and secure energy supplies.

As soon as energy issues are within the shared competence in the Community, the prices for gas and electricity have

shown enormous fluctuations. According to *The Economist*, February, 2006, the cheapest gas is in Spain, Finland and Belgium (about 2-2.5 euro-cents), 4.5 in Germany and about 8 cents in Denmark. The cheapest electricity in the EU is in Sweden and Finland (about 4-5 cents/kwt), most expensive — in Denmark and Germany (8 cents) and Italy (9.5 cents). In Denmark and Sweden excise duty on gas is 50% while in the EU on average — only 20% (lowest excise duty is in the UK — about 5%). At the same time, gas prices in the Baltics are six times cheaper than in Denmark.

It's becoming clear why Germany is so anxious to search for new sources of gas supply and why the EU is trying to reduce electricity prices relying on electricity networks' alliance.

ALTERNATIVE ENERGY: LATVIAN EXPERIENCE

Among major directions in the EU energy policy great attention is devoted to environmental measures closely tight up with the development of alternative energy. Good initiative was shown by the Latvian government which in October 2006 adopted a new plan for using renewable sources of energy. Thus, according to the plan, about half of energy used in the country by 2010 will be produced by various renewables. It is decided that renewable energy sources in the total energy balance in the country will be at the level of 35%, and the share of biogas and biopetrol — about 5.7%.

These measures would reduce both country's dependence on imported energy and toxic air pollution. For practical implementation of the program valued at 255.5 mln lats the EU co-financing is envisaged which will cover about half of all expenses. •

APPROXIMATE GAS AND ELECTRICITY PRICES IN EUROPE, EUROCENTS PER KW/H

Country	Gas	Electricity
Italy	4.0	9.5
Denmark	8.0	8.0
Germany	4.5	8.0
Belgium	2.5	7.5
The Netherlands	3.5	7.5
Spain	2.0	7.0
United Kingdom	3.5	6.5
France	2.8	5.5
Finland	2.2	5.0
Sweden	4.3	4.2
<i>In comparison — USA</i>	2.3	6.2

Source: The Economist, February 2006.

The Northern Dimension

By Eugene Eteris

The Northern Dimension (ND) as a political-economic concept covers a broad geographic area, stretching from the Arctic and sub-Arctic to the Baltics' southern shores, and from North-West Russia in the East to Iceland and Greenland in the West.

MAIN ND'S OBJECTIVES

The Northern Dimension addresses special regional development challenges in the European North, including disparities in standards-of-living, environmental and nature protection, nuclear waste and waste water management, insufficient transport and border-crossing facilities. The ND also intends to take advantage of the region's rich potentials, e.g. in terms of natural resources, economic dynamism, and cultural heritage.

The ND intends to promote security and stability in the region, helping build a safe, clean and accessible environment for all people in the northern Europe. The ND has to address the challenges arising from uneven regional development, and helping avoid the emergence of new dividing lines in the enlarged EU.

Since 2004 the ND has increased considerably its importance. Thus, eight EU Member States (Denmark, Germany, Poland, Lithuania, Latvia, Estonia, Finland and Sweden) are presently surrounding the Baltic Sea.

DIMENSION'S HISTORY

Recent changes in the northern Europe's geopolitical map, e.g. the Baltic States' independence in 1991, Finland and Sweden joining the EU in 1995, and Estonia, Latvia, Lithuania and Poland joined the EU in 2004. These events greatly increased the Northern and the Baltic States "presence" in the Union, which substantially increased the common EU border shared with the Russian Federation.

The Northern Dimension as an important topic for EU policy was first recognised at the Luxembourg European Council in December 1997. In the years which followed, the concept became more concrete. The Vienna European Council in December 1998 adopted a Commission Communication on a "Northern Dimension for the policies of the Union." Then in May 1999 the European Council adopted "Guidelines for the implementation of the Northern Dimension," and in November 1999 at a Ministerial Conference on the

Northern Dimension an "Inventory of current activities under the Northern Dimension" was adopted. In June 2000 the first "Action Plan for the Northern Dimension (NDAP) in the external and cross-border policies of the European Union," valid for 2001-2003, was adopted.

Second Northern Dimension Action Plan (NDAP) was adopted at the European Council in Brussels in October 2003, for the period 2004-06. NDAP's implementing progress is periodically reviewed by meetings of Senior Officials and of member states' ministers.

Annual reports on NDAP implementation are produced by the European Commission; in addition, the Commission has since 2004 hosted on its website a comprehensive "Northern Dimension Information System"; presenting information on a wide range of ND's activities carried out by all the ND partners.

In November 2005 the ND's ministerial meeting approved unanimously "the Guidelines for the development of a political declaration and policy framework document for Northern Dimension policy from 2007." These Guidelines represented the agreed new basic ND action plan opening a new phase in the ND's policy. The parties agreed that the ND was a shared regional policy with the EU — Russia Common Spaces, keeping own specifics, i.e. full membership of Norway and Iceland, special environment concern and health issues, protection of indigenous peoples, etc.

THE ND ADMINISTRATION AND FINANCING

The ND is a common undertaking of all its parties: the EU Member States, Iceland, Norway, Russia and the European Commission. Its success depends on the active participation of all actors involved, whether at the national, regional or local level, among the business community, or among civil society in general. The NDAP provides a framework for all stakeholders, setting out strategic objectives, priorities and concrete activities based on the following principles: inclusive participation, sub-



solidarity and complementarity, with an effective division of labour and overall coordination and monitoring.

The ND provides a common framework for the promotion of policy dialogue and concrete cooperation. Its added value lies in the synergy and coherence that it creates across the activities implemented by all partners.

Each partner operates independently and finances own activities. As to the EU, ND projects are funded through existing financing instruments relevant to the region, including notably the *Tacis* and *Interreg* programs.

The northern European regional organisations have a particularly important role to play, e.g.:

- the Council of the Baltic Sea States (CBSS),
- the Barents Euro Arctic Council (BEAC),
- the Arctic Council (AC),
- the Nordic Council of Ministers

Various international financial institutions and private partners play important role as well, e.g. the European Bank for Reconstruction and Development (EBRD), the European Investment bank (EIB), the Nordic Investment Bank (NIB), the Nordic Environment Finance Corporation (NEFCO), the Nordic Project Fund (NOPEF).

Note: Present article is based on a recent EU General Report-2005 — <http://europa.eu/generalreport/en/2005/rg120.htm> •

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Let the money talk

By Olga Pavuk

Last November the 2nd Latvian-Belarus financial and investment forum took place in Minsk under the motto: "Belarus-Latvia, a year after: The dialogue is going on. New horizons". About 140 businessmen and a dozen of journalists came from Latvia, including the Baltic Course's journalist. More than 250 participants from two countries took part in the forum.



IN THE FORUM'S PRESIDENCY: Belarusian's Ambassador in Latvia, Alexander Gerasimenko, Belarusian Economy Minister, Nicholaj Zajchenko, Latvian Economy Ministry's state secretary, Caspars Gerhards and Latvian Ambassador to Belarus, Ms. Maira Mora.

At the same time, the 2nd bilateral Latvia-Belarus Intergovernmental Committee on economic, science and technology cooperation took place during the forum days. As an outcome of the Committee's work, the two states' representatives, Latvian Economy Ministry's states secretary, the head of Latvian delegation and chairman of the bilateral Committee, **Caspars Gerhards** and Belarusian Economy Minister, **Nicholaj Zajchenko** signed several agreements and treaties including Science-Technology Cooperation Agreement between Belarusian Science and Technology State Committee and Latvian Education Ministry.

Great assistance to the forum's work and the Latvian delegation participants was rendered by the Latvian-Belarus Society for the promotion of economic rela-

tions between the two countries and other bodies, e.g. DVINA, which provided for a better information support for cooperation. In fact, it was actually DVINA that in November 2004 was an active participant in organizing Latvian Business Days in Belarus and afterwards organizing Belarus journalists' visit to Riga and was behind the 1st Latvian-Belarus financial and investment forum in 2005.

During their stay in Belarus, Latvian journalists visited main country's enterprises, e.g. famous *Minsk Tractor Factory*, *Belarusian Machine-Building Plant*, *Amkodor*, *Belarusian-Potassium Plant*, agro-firms and tourist companies. The *BC's* correspondent took part in the forum's discussions, visited *Belarusian-Potassium Plant* and participated in the Intergovernmental Committee meetings.

The *BC* has had a very positive approach towards major economic developments in Belarus; the magazine followed the republic's achievements in economy, e.g. first *BC's* reports appeared already at the end of 1990s. Through reports from Belarus enterprises and meetings with the Minsk City major and the country's president (prepared with assistance from Belarus Embassy in Latvia) the *BC* tried to provide its readers with the true picture of events taking place in the country. The *BC* staff numerous visits to Belarus helped to follow the way the citizens' life was progressing.

Besides the general information that follows below on the *BC's* impression about the forum, the readers can find additional material in this *BC* issue concerning Belarus economic and market developments from the *BC's* colleague and friend, **Gregory Zubarev's** interview with the Belarusian Economy Minister, NicholajZajchenko.

IN THE COUNTRY'S CAPITAL

Some years ago the *BC* already wrote in one of the reports from the capital about "the big City Lights": That was the time then we saw the country's capital covered in light at night after so many "darkening" years. During this visit Latvian journalists taking a first stroll through an evening city were completely bewildered by the city's beauty.

We were glad to witness a very quiet city's atmosphere, both in day and night's time: during the day people were busy-filtrating from subway stations to offices and apartments; during evenings plenty teenagers and young people were strolling around without fuss or bustle, though we could witness bottles and beer cans in peoples' hands.

The city is full of youngsters: there are 40 high-education facilities in the capital (out of total 55 in Belarus with the total enrolment of about 383 thousand students; in 1990-91 there were 33 high-education facilities with 188 thousand students for the total country's population of 9.8 mln.

Universities and colleges in Belarus are state-funded; by the president's decree the share of privately-paid education can not exceed 30%. Various new educational forms are present in Belarus today, e.g. colleges, gymnasiums and lyceums, which did not exist just a decade ago.

Occasionally, science development in Belarus is not kept in the background, contrary to the situation in Latvia. The state constantly increases the budget allocations for science support: in 2005 — 244,5 bln rubles (about 114,2 mln USD), and in 2006 — 310 bln or about 145 mln USD. It's almost 27% increase. In the new 5-years plan for 2010 the budget R&D allocations will almost double, compared to 2005.

AT THE FORUM

The forum's work took place in the newly built National Library, which costed the budget about 200 mln USD. Some other prominent buildings were constructed during the Republic's independence, e.g. new central railway station, circus building, sport-stadium, etc.

Practically all the people taking part in the forum expressed their cooperation intentions, suggesting constructive dialogue. Probably only Latvian Ambassador's comments in Belarus, Ms. **Maira Mora** were a sort of "a fly in the ointment"; she is being famous for her skeptic stance towards events in Belarus. She mentioned, among other things, big red-tape obstacles, e.g. difficulties in both creating and closing companies, high taxes in Belarus, and state-imposed patronage over farmers or kindergartens.

In the ambassador's short interview to the BC she warned about increasing Russian energy tariffs which would make a devastating blow into country's economy (the first warning proved true, but not the second). However, some Latvian businessmen recalled with appreciation the ambassador's helpful assistance.

Some concern about the possible increases in energy tariffs was raised during the forum; some discussion went on in the media, as well. Both scientists and the public officials were discussing the ways out of the critical situation. One of the scenarios was unveiled by the National Science Academy president, **Mikhail Mjasnikovich** at an international conference on prognostics in state approaches to social-economic development. He said that the country was planning to start nuclear power station construction in 2007, according to innovation program development in Belarus for 2006-2010. Media-sources mentioned remarks made by **Sergey Kirienko**, Russian Nuclear Minister on the Russia's readiness to assist Belarus in such a nuclear plant construction.

Various forum participants touched upon urgent investment policy issues in Belarus. Thus, **Oleg Zinovjev**, director,

National Investment Agency said that the country has explored a system's approach to foreign investments with the priority for "strategic investors coming to the country with serious and long-term perspectives".

The situation in the country's industrial sector was described by **Nikolaj Starodinov**, head of the international department in Belarus Industry Ministry. There are presently about 300 big industrial plants in the country; most are situated in the capital. National industry exports its products to about 100 countries; among which Latvia occupies 7-8th place. For example, popular heavy-trucks *BelAZ* cover about 30% of the world market in this sector. Minsk tractor factory's machines (MTZ) are exported to 60 countries, including Latvia (together with about 30-40 mln USD worth of metals). Among civil-engineering, Belarus exports to Latvia elevators and their services.



MINSK: The new National Belarus State Library.

N. Starodinov underlined that the country invested about 330 mln USD in innovations in 2005, out of which only 0,5% were foreign investments. Forum participants were supplied with information materials on legal aspects for investments in Belarus, as well as on the country's most interesting investment projects and free economic zones in the country.

A possible scheme for Latvian-Belarus business cooperation was suggested by **Vadim Jaroshenko**, director, Latvian Corporate Finances Company, *Laika Stars*. The company, by the way, provides credit consultancy assistance for Belarus Finance Ministry, and according to press, expects to take part in 50 mln euros syndicated credit.

PRIVATISATION ISSUES

Main approaches to privatization opportunities in Belarus were explained by **Vladimir Kovalevskij**, deputy-director, State Property Fund in the Belarus State Property Committee. The Belarus-way of privatization, he underlined, was to assist in creating socially-oriented economy. Therefore, the sell-out of bankrupt companies started in the country only in 1998 and with securing all employees' rights. Presently more than 4 thousand property objects have been privatized in Belarus, which is about 40% of all enterprises (about 70%, in commerce and trade). One of the country's peculiarities in privatisation was creation of holding companies; this way a lot of obsolete companies had been saved without privatisation while increasing companies' outputs. Inefficient factories in the various country's regions had been sold to national giants (MTZ, MAZ, BelAZ, etc.); the procedure proved that by creating holdings it was possible to "save" problematic and obsolete enterprises. All that was possible only under one condition, i.e. the enterprise was managed and administered by the state.

The privatisation tempo has been reduced presently; there is a list of enterprises not entitled to privatisation in the near future. Mr. V. Kovalevskij explained the situation with the so-called golden-share rule used in exceptional cases; the rule envisaged a special state competence for joint stock companies' management introduced by the country's president in 1997. At present the golden-share rule is applied in 11 enterprises, which is less than 1% of the total number. This rule's application for Belarusian banks was evoked recently.

As to the financial sector, the National Bank's first vice-president, **Pavel Kallaur** explained that there were 30 banks in the country with the total assets of about 12.4 bln USD (Latvian banks' assets, to compare with, have 15.7 bln USD). In 4 banks the dominant position belongs to the state; their assets account for 83.8% of the total. In the other 26 banks the foreign capital is present; in 9 — up to 100%. Mr. Kallaur underlined that the state dominance in 4 banks will remain until 2010; afterwards all banks in the country will satisfy international financial services' standards. Further international banks' involvement in the country is not, though, planned.

IN SOLIGORSK

Another striking impression which accompanied us during our stay in the country was almost sterile purity both in the city

and even in the distant suburbs, for example on our way to *Soligorsk*, about 130 km from Minsk. Most journalists have been impressed by the perfect state of the country's roads. And so have been most Latvians



SILVINIT PLANT: The famous red-potassium salt.

saying traveling in Byelorussia that the country's roads were at the level of European standards. The roads are refurbished with the budget support. It seemed in addition that the corresponding infrastructures have improved too, i.e. numerous gas stations on the road, various cafes decorated in national symbols. It was interesting to see big stones along the roads blue-painted with signs "Beware nature" or "Forest is our national heritage", together with summer tents for tourists, also blue-painted.

The small township *Soligorsk* (the name stems from potash salt excavated in the region), with its about 100 thousand inhabitants is situated about 130 km to the south of the capital; average citizen's age is 33.5. Looking at this modern town it's difficult to imagine that about 48 years ago there was nothing at the place; the initial construction began in August 1958 when the 1st red-potassium salt factory was built. Since then several enterprises processing potassium have been erected. In 2005 the turnover of one of the biggest in Byelorussia plants — *Belarusianpotassplant* (*Belaruskalij*), reached 1.1 bln USD. Out of 7.1 mln t potash fertilizers produced a year about 2.1 mln t was exported to China. There are about 19.2 thousand workers at the plant and one fourth of them reside in Soligorsk.

We visited another company involved in potash processing, *Silvinit*; Mr. **Vladimir Shpakovskij**, the head of the company's 2nd General Department and the chef-engineer, **Vladimir Pavlukovich** showed the visitors around and explained the way the red-potash-

salt is processed. Then company's vice-director, **Anatoly Mashlaj** explained about a variety of company's other activities: out of 16.9 thousand employees about 2.3 thousand are engaged in the company's sanatorium *Berezka* (which means, birch tree), own green-house and meat-processing unit, company's farm and small hotel, restaurant and kindergarten.

"Our high wages keep people in the factories, explained our guides. The workers can get from 800 to 1500 green-backs per month, the highest wages in the whole CIS-network" (even in the US miner's wage is about 19-backs per hour).

It's wellworth mentioning the *Belarusianpotassplant's* enormous 50 ha agro-farm complex; a couple of years ago the company invested big sums in order to make presently modern meat farm with 5 thousand beef-cattle and piglets brought from Holland. We were told that there were about 120 such enterprise-farms in the country.

On top of this, the SPA-sanatorium *Berezka* is to be mentioned, with super-modern equipment for water- and mud-treatment, with unique salt-rooms (sodium chloride and red-salt, *silvinit*) for breath and lung-sickness treatment. The 18-day treatment in the sanatorium (all included) for non-resident would be about 600 USD, and a little bit less for the company's employees.

SOMETHING IN CONCLUSION

Scientists say that potassium deposits in the country will last for the next 90 years. These fertilizers are badly needed in developing agro-business in China, India, etc. More than third of the salt produced in Soligorsk is exported to Europe

through *Kalija parks'* terminals in Latvian Ventspils-port.

Each forth railway carriage at Latvian railways and each third ship in Latvian ports is to a certain degree, involved in Belarusian cargos' transfer. As to the presently reduced *silvinit's* transit through Ventspils-port terminals, *Silvinit-company's* chef-engineer, **Vladimir Pavlukovich** said: "Belarusian potash-company sells its product, first of all, in a way which is most profitable for producers. It is not us that change Ventspils for Klaipeda, it's the result of the stevedore-companies' tariff-policy actions".

About new policy towards stevedore-companies, the forum's participants were informed by **Vladimir Demidov**, chairman, board-of-directors in JSC group, *BelneftechimBaltic*; above-mentioned *Belaruskalij* is a member of the group. He underlined that through Ventspils-port about 3.5 mln t potash-fertilizers was transported presently and about 1 mln t through Klaipeda-port. He added: "It's quite strange, but exporting through Klaipeda is presently cheaper than through Ventspils, though *Kalija parks* has greater facilities and Ventspils port is more suitable for us; the situation needed some corrections somehow? Another fact: 54% of Belarusian oil-products is transferred and exported through Latvian ports, another 14% is exported through Klaipeda and 13% through Tallinn; the conditions in Estonia are actually better today than in Latvia. "Let the money talk", suggested Mr. V. Demidov and proposed for the Latvian port authorities a sort of profit-sharing agreement. •




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Belarus takes a step forward to meet the needs of investors

By Olga Pavuk

One of the participants to the II Belarusian-Latvian Financial Investment Forum, Chairman of the Board of the venture capital company *PriBalt SIA* **Rihards Svelpe** is sharing his experience on Belarus with *BC*. He believes that the Belarusian market is friendly and open for foreign investment, there is also interest on behalf of international investors about this country. Latvian company *PriBalt SIA* is willing to help the realisation of this interest into real life.

Have you actually visited Belarus and what led you to participating in this Forum, Mr. Svelpe?

I have only been in transit through Belarus before and I was invited to the Forum by the Embassy of Belarus to Latvia in order to introduce the Belarusian community to a new instrument of financing — venture capital, and, of course, we were taken to the Forum by our own personal interest in new markets for investment familiar to us.

What is of interest in Belarus from the point of view of venture capital?

By approaching the issue globally it is a transition economy and a market that is still considerably free from competition. A market that is still in need of both financial and non-financial investment, a market where the capital demands exceeds supply.

On the other hand, from our point of view — the point of view of Latvian investors, this is viewed as an expansion of our business horizon and scope of activities, and I am not afraid to admit — within our own market. Why our own market? We have exited from the same country and we have not after the huge union had fallen apart broken our relationship and are continuing our cooperation. It has never actually ceased. Yes, the circumstances have changed, the conditions are not the same. And we aren't what we used to be too — we have joined the European Union, and NATO. But I think that this has only added value to our relationship.

What areas of activity would the primary objects of interest to venture capitalists?

As of today I would prioritise as follows — first of all it is the financial, the banking sector. Of course, strategic areas need to be mentioned as priorities — wood-processing and oil-chemical industries. However, apart from the financial sector, I would simply like to outline individual projects and funding of business activities aimed at ensuring the average level of income to the population.

What is the reason behind it?

I will explain — the financial sector in Belarus is in the early stage of development.

Interest rate is 14% per year. There is no mortgage crediting. Other instruments of financing, for example, leasing has just emerged. The first impact is shocking, I would say. The Executive Director of a leasing company by sharing his experience said that there were no bad loans and that people are executing their payments on time. A Managing bank executive of an international financial institution showed statistics of micro-crediting in Belarus and the percentage of delayed payments is negligible. And he was only speaking about delays not exceeding one month. By trying to find out the reason there is only one answer — financial exactness is a peculiarity of the Belarusian population.

Referring to strategic industries — I don't think there are commentaries to that. The only thing is you need to remember that these industries are first of all being considered by all including the local businessmen. Maybe it is necessary to admit that the peculiarity of the wood-processing sector is the fact that forests can be available through state owned forestries only.

Answering your question on why I would outline certain transactions without specifying the area of activity I would like to give two reasons for that. First of all, you should remember that I am representing the interests of venture capital holders, meaning those of financial investors, and I don't have any restrictions that are characteristic of strategic investors. Second, transactions in perspective companies operating in a stable and perspective area of business may be easily and quickly be disrupted by people or they may become absolutely unattractive in the context of certain circumstances or conditions. The main interest of investors is profit though.

What else needs to be considered when investing in the Republic of Belarus?

You should understand that the level of government control is still very high in Belarus. This would not make business impossible but you should adjust your business-thinking. As the Chairman of the Latvian Delegation with experience in international investment said there were the two following



principles: “everything that is allowed is possible” and “everything that is not forbidden is possible”. So if you follow the first principle in your activities there would be no problems occurring. Likewise in the international law theory and practice it is advised to base your activities in unclear situations on the goal and the underlying assumption of the legislative body who is issuing certain laws and regulations instead of overintellectualisation.

I would like to draw the attention of businessmen and investors on the following peculiarities: the income of population in Belarus is more evenly spread among the inhabitants and the 80/20 principle may not turn out to be relevant. This has by the way already led to some cases of failure for businesses.

But still, what would be the most important thing that the foreign investors with the Republic of Belarus in view should be aware of?

There is a following proverb: “What looks impossible is not that impossible anymore when you put your hands to it”. The same about Belarus — looks terrible from outside, and extremely risky, but in reality there is reasonable risk regarding the making of profit. Even compared to Latvia I would like to use the term “different” instead of “worse”. What if these scary stories are invented and told to scare off competitors and procure a competitive advantage for themselves in relation to global processes.

What are your personal impressions from the trip to Minsk?

A clean and light city, and kindly disposed people. •

Belarus Economy Minister: “We do not start from the scratch”

By Gregory Zubarev,

Director, Baltic Political consultancy Bureau Grupa Zet

During the 2nd Belarus-Latvian financial and investment forum which took place in Minsk last October, Belarus Economy Minister, **Nicolaj Zajchenko** gave interview to the Latvian radio-station *MIX FM 102,7*, which the *BC* offers to its readers.

ANOTHER PATH IS CHOSEN

Mr. Minister, traditional economic development theories cannot adequately assess present Belarus' economic development directions. At the same time, it's difficult to acknowledge that the country's economy is a centrally-planned one. What then is the specific “Belarusian economic path”?

The independent states which have been formed after the collapse of the Soviet Union have come to understanding that centrally planned economy is feasible only at a stage when a country was to resolve some very complex problems, e.g. national economy construction after the war and that sort of things. Otherwise, human development has proved that market economy is more efficient. Somehow the transition from centrally-planned economy to a market one takes different time in different countries. Even economy scientists approached such transitional periods differently. Accordingly, each country takes its own path; and so we have one too.

And what is so specific about “your way”?

We have some rather specific approaches to the mentioned transitional period's understanding. In a nutshell, it is quite simple: we, to begin with, take as a departure point the economy we are already having rather than the one we wished to have. And from that on, we are making the one which it shall look like. Therefore, we have never confined ourselves to the methods when we would start to build a new economy from scratch, so to say. We thought that adhering to the idea of complete ruining the old economy and afterwards trying to create a new system would be too unbearable for Belarus Republic (BR). Therefore we rejected all the projects, such as “shock therapy” or “we'll be happy in 500 days”. Instead, we regard the potentials created by all the previous generations as our competitive advantage; now we are thinking just how to increase these potentials. No doubt that a key issue in this process is privatization.

What is then the Belarusian privatization concept?

We have installed different privatization tempo in various economy sectors. We have achieved a lot though the so-called “small privatization” in commerce and retail trade sector, in cafes and restaurants, in consumer services. Mainly private companies are presently dominating in such economy sectors as wood- and food-processing. Manufacturing and engineering companies with less than 500 employees are, as a rule, under private administration, as well.

What about the previous years' “legacy-burden”?

These are mainly problems with big companies, so-to-say, leaders in corresponding economy sectors with more than 30 thousand employees. It is evident that we can not experiment in privatizing such giants. According to the national economy policy, the state has created for them the necessary conditions for modernization while turning production schemes towards the new set of com-



petitive outcomes. Such approach proved successful: thus, the companies that were leaders in their sectors in the Soviet time are occupying the same leading position in the new market conditions. Quite remarkable, these companies did not get any specific support. Several quite profitable companies can be mentioned, e.g. BELAZ (Belarusian car company), TV-plant, tires' company and the whole oil-processing sector, to name a few.

Does it mean that the state again is pointing out the big business the way “to the mankind's bright future”, which is now capitalism?

Putting irony aside, it is an acknowledged fact the state's responsibility to formulate the priorities according to which it render assistance to producers, provide cooperation terms, etc. on which is both the economy and the country as a whole can advance further on. Therefore we have created free economic zones; we are happy to see any production initiative and private capital is not exclusion in that direction. We are working presently on the project of creating favorable conditions for the private capital initiatives in developing small and medium cities in Belarus.

Mr. Minister, when a private businessman takes a wrong decision, he himself takes the responsibility. Who takes the liability burden if the state takes the wrong decision? How does Minister N. Zajchenko feel about being constantly right in conducting country's economic policy?

Well, I have to say, that to be mistaken is an integral part of human personal rights. The person being deprived of that will loose creativity approaches to his assignments. So, if a mistake is made due to a sort of objective circumstances, everybody would understand that. And if a mistake is the consequence of the violation of existing rules and norms, than it is approached completely differently and therefore the inevitable remedy or punishment follows.

Isn't this liability burden too heavy for you?

I assume that for every person the more the responsibility burden, the more difficult it is to take a final decision. But on

another side, when the initial ideas turn first into concrete action plans and then into practical implementation one can feel a great satisfaction of what has been achieved. I guess, this is what the unity of opposites' dialectics is about, isn't it.

EFFICIENCY TEST

Are you satisfied with the Republic's achievements, what are the main country's economy indications?

We have achieved a constant economic growth during the last 11 years. During the last decade Belarus has practically doubled her GDP. Responsible currency and credit policy created a solid background for stable and predictable national currency's course. For example, the rate of inflation during 9 months in 2006 was about 3.1% which was less than with our neighbors — Russia and Ukraine. As soon as we have reached our macro-economic targets, we start to turn to new priorities. Of course, we do not forget those priorities that were initially formulated in 1996 by our president, Aleksandr Lukashenko, i.e. export, residence construction and food-stuff. In the previous 5-year plan for 2001-05 two other priorities were added — public health and securing attractive investments.

As to the investments' attractiveness, does not this aim imply the open economy presence?

Yes, it does. More than that, the existing country's production facilities greatly exceed the internal consumers' consumption. Due to the state policy towards people's increasing welfare, the rate of internal consumption has expanded; nevertheless, we export more than half of the food-stuff produced in the country. For us it's important to secure these export market destinations regardless of global competition.

Our internet users often ask: during last years great GDP growth rate is observed both in Belarus and Latvia, often even growth rates are similar; how can you explain that the countries with so different economies have such enormous growth?

During 2005 the GDP growth in Belarus was 9.2%, in 2004 it was 11.4%; in 2006 (for 9-month period) we have had 9.6%. The organic structure of the two countries' economy is different: in Latvia the trend is towards developing service sectors, in Belarus - towards manufacturing and goods' production. Therefore, most vital Belarus GDP ingredients are industry (more than 30%), commerce (about 10%), transport and construction (about 8%), agriculture (7%). In Latvia, and it's quite natural, main GDP growth stems from service sectors. It is in this regard that our economies are different. Each country can show that the GDP growth can be achieved by different means.

How the BR's socially oriented guidelines match with the market economy's tough rules?

We have called our market economy's model a socially oriented one. We have not invented anything new in this regard; it's just that we are happier with the economy model that is based on the society's social stability. That is, the society in which the public revenues and expenses match with what the economy can deliver. Therefore we can say that we have attained social and economic stability in our society. In some cases, the state has regulated the level of private income acquired in the present conditions of prices and tariffs in the country, for example, in the sphere of residential and communal services. Due to that we have increased, however, the opportunities for consumer credits, instead. Nowadays we can say that there is a consumer credits' boom.

Is it, at the same time, the reasons for boom in residential construction?

Well, we have adopted several new regulations that make it easier to get residential construction credits, first of all for young

couples and those with several kids. I have to remind you that there is a big population category in BR that can get the apartments for free.

I have noticed that there are no beggars, homeless or drunken people on Minsk's streets which is a great advantage for your capital in comparison to that of Latvia, for example. However, what's the unemployment level in BR and average wages?

Unemployment level is quite low — about 1.3% as to the economically active population's size. This means that we have some 56,400 persons registered at the unemployment board. On another side of the problem, is the fact that 2-300 thousand work outside BR. We are quite aware of that; so for us the problem is how to provide BR's citizens with an adequate occupation in the homeland. Therefore we are trying to be active in creating new jobs, in particular in small and medium towns where we try to provide the necessary conditions for private business development. As to the wages' average level, which might be in comparison with Latvia not very high, but still it is 291 USD; but don't forget that the purchasing power of that wage is rather high.

How is it compared to the minimum subsistence minimum?

Average wage is more than twice the minimum amount; then, some other factors has to be taken into consideration, e.g. residential rent, and public services as part of the family expenses. During summer time these expenses are about 6-7% of the family budget, in winter time — 9 or 10%.

Can these "funny" figures cover the real expenses?

The state has intentionally created such a system, and there are several subsidies, including budget grants. Tariffs, it's true, are growing but quite smoothly. According to the president's decree the government is not allowed to increase apartment rents and utilities' services more than 5 USD a year.

It sounds strange; what then will happen if president's decrees revoked Newton's gravity laws, would you agree on that too?

I don't think that comparisons with the exact sciences are appropriate here. What is most certain, that the state's role in people's lives can be definitely realized through a varied system of support for various population groups.

That means that the main part of the national GDP is spent to facilitate peoples' social and living conditions. Is there a market mechanism?

We do not have to pray for the purely market mechanisms, do we? We are constantly progressing and so is the citizens' share in apartment's rents and services, though little bit slower. Our intention is that in 5-6 years citizens can easily afford to pay for the apartments and services in full scale. Probably, under one condition that our economy will grow according to our aims and peoples' incomes would grow in line with the GDP's growth rates.

As soon as the state budget revenues depend mainly on the tax collection, in order for an old aunt to pay for her apartment expenses just 6% of her income the state has to install a pretty tough tax policy?

As a matter of fact, we have quite an efficient tax collection system. But what I would like to say is that you do not have to take plainly my reference to the 6%-level in apartment prices; it is an average figure for the whole country. The state takes care of all "communal expenses" that are over 25% of an average wage level.

As soon as we were talking about "our old aunt"; what is an average pension size in the country and how it correlates to the subsistence level?

Average pension in the country is about 125 USD, which is slightly over the subsistence minimum.

I've read recently in the papers that newly indexed pensions have increased by 9%. Is such an indexing procedure included in the law on national budget?

Yes, it, naturally, is. It happens because our economic development is going better than we previously thought, hence, as of 1 November last year the pensions were increased again.

Mr. Minister, during the recent Latvian-Belarus economic forum we have heard a lot of good things about BR's investment climate. At the same time, Latvian Ambassador, Ms. Maira Mora has told about the difficulties businessmen are facing in Belarus: it's time consuming to register a company, a lot of controls and checks, inefficient legislation; then, companies are forced to take care of kindergartens and collective farms. If we look at the global data, Belarus is on 106th place in the world concerning business comfort features. Who would be then stupid enough to invest money in Belarus?

Well, it's true; this was the way your ambassador explained her attitude towards business environment in our country during the forum. As to the information about the 106th place, these were the IMF's data and we treat it with an easy mood. There are other analyses in the world as well, and not less reliable. For example the World Bank praised Belarus among the countries where the process of creating comfortable business environment is going on most actively. However, the regulations for running business are the same for local and foreign businessmen. Latvian capital already is present in about 190 enterprises in Belarus; which is an indication that entrepreneurs can clearly see that there are perfectly comfortable conditions for business in our country. I am far from saying that everything in this field is ideal. I know that Latvian businessmen are also quite critical about Latvian government's way of treating entrepreneurs. We have chosen business development directions at which business activity is more transparent. Probably the level of taxes is really quite high in BR, but that is necessary for the implementation of our social policy. We use various means and instruments in order to modernize both our tax system, social and business environment. A corresponding national Council dealing with these issues is headed by the prime minister. Leading businessmen from different countries are members of the Council and their opinion is taken into consideration. Recent Belarus-Latvian economic forum is just another opportunity to elaborate new approaches for increased investment efficiency in BR.

In the competition between Mars and Mercury, to put all the stakes on the God of commerce is feasible only if one is sure that he wins. How do you assess Mercury's activity in economic relations between our states?

In our bilateral relations the trade and economic side is decisive. The trade dynamics between our countries since 2000 is at the level of 300-500 mln USD. The best year was 2001 with 520 mln USD, then it came down, but presently we are up again. I think in 2006 we'll be close to the best year's indications. We are quite satisfied with the volumes of cooperation, but on another side, we are not really happy with the de-formed structure of our export to Latvia: it's up to 47% — oil products. Hence, our task is to diversify our export to Latvia. Saying this I am very glad to acknowledge that at the same time, BR has a positive trade balance with Latvia.

During 8 months in 2006 trade turnover between our states increased by 16.8%; about 75% in the BR's export are manufacturing goods, in Latvian export (with the same percentage) there are mostly items of commerce and services, which is a pity. At the same time, there is quite good transport infrastructure in Latvia; what advantages can this provide for Belarus?

The issue of using Latvian transit transport connections is very sensitive for us; it's both important for Latvian and Belarus

interests. I always say that it is no good when only one side reaps advantages, an optimal compromise is needed. The present day reality is such that the importance of the Latvian transit corridor has been somehow reduced.

Can you say, why?

It becomes somehow more profitable to transport cargoes to Lithuanian Klaipeda or even to Russian Kaliningrad. Therefore, we are looking for competitive rates both for railway transport and cargoes' processing in the Baltic ports. We discussed these issues in detail at the recent inter-governmental Belarus-Latvian Commission on economic and science-technology cooperation. We expressed for the Latvian side our wish to establish more competitive price rates; otherwise we'll face a dilemma of using appropriate ports for our export.

Among the main BR's export items going through Latvian ports are potash fertilizers and oil-products. In the latter the situation is quite simple and transparent, though as to the export of potash fertilizers we can encounter some questions. And we'd like to find appropriate solutions to these problems.

Do you want to say that Ventspils port with its terminal specially built for potash salt is not suitable for you?

For the time being Ventspils port is best for us, but that does not mean that such situation will stay for ever.

I guess that Ventspils terminal is now the best in Europe. Isn't it that Belarus is sending the Latvian side a kind of message: either to reduce tariffs or we'll go to Klaipeda or Kaliningrad; and the Latvian side holds you tight, i.e. if you don't use our transit rout, forget the terminal?

The question is not that straight so far; I don't think that such an ultimate approach is in the interests of either Belarus or Latvia. I am for the solution which makes it profitable for us to export through Ventspils and for you to reap profits from processing our exports. Without any thoughts of threats, I'd like to note that volumes of goods going through Klaipeda is growing: 2 mln t a year is not a problem for them. It's quite natural that with the increasing competition between the ports the cargo operators would use the ones that can provide better quality at a better price. We do understand, at the same time, that a low price does not necessarily mean high quality. We are quite satisfied with the level of service at Ventspils port; I am talking only about the fact that for *Belaruskalij* company it would be advantageous if tariffs in Ventspils are compatible with that of Klaipeda.

There is another question from our internet users: what are the outcomes of the Latvian and the Belarus railway cooperation, are there any new proposals from both sides?

The two railways systems are cooperating fine, it seems that contacts traditionally are good and regular tariff conferences take place. On our territory, within the general tariff policy framework, we sometimes introduce noticeable deductions in tariffs, in particular when great cargoes' volumes are at stake. The same flexibility we'd expect from the Latvian side.

It often happens that politicians in both countries conflict with business. Is it possible that business, be it private, corporate or public, can lobby commercial interests and avoid politicians' interferences?

It is definitely possible! There are associations both in Latvia and Belarus that unite business circles and having influence on political process. Their mutual contacts, their say in governmental agenda have become an important ingredient in the promotion of business activities. •

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Energy transportation: an important issue

By Olga Pavuk

It's already the third year in a row that businessmen meet either in Latvia or in Riga in order to discuss various cooperation issues. Last November a regular Latvian-Ukraine business forum took place in Kiev.



According to the Memorandum of understanding between the Ukrainian Industrialists and Entrepreneurs Union (UIE) and the Latvian Investment and Development Agency (LIAA), Ukrainian-Latvian Business Forum is organised yearly, since 2004. This forum has become an important instrument for enlarging both the framework and dimensions of bilateral trade and economic cooperation among businessmen in the two countries.

With the mutual support from the Ukrainian Embassy in Latvia and the Latvian Embassy in Ukraine, the 3rd Ukrainian-Latvian Business Forum opened in Kiev on 22 November 2006 in the capital's Trade and Commerce Chamber. The Forum's organizers were from the Ukrainian side, the Ukrainian Industrialists and Entrepreneurs Union (UIE), Latvian Investment and Development Agency (LIAA) and Latvian-Ukrainian Business Council, from the Latvian side.

About 60 Ukrainian companies and 32 Latvia firms were represented in the Forum displaying their achievements in various economy sectors, e.g. wood processing and transport, medicine and engineering, food processing and consumer goods, energy, financial sector, etc. Forum partici-

pants discussed existing bilateral trade and economic relations, their increasing perspectives, as well as creating contacts among businessmen of the two states.

During Forum's plenary session the following both countries' officials participated: **Anatolij Maksuta**, first vice-deputy, Ukrainian Economy Ministry; **Juris Strods**, minister, Latvian Economy Ministry; **Andris Ozols**, director, LIAA; **Anatolij Kinach**, president, UIE; **Tatjana Stepankova**, vice-

president, Ukrainian State Investments and Innovation Agency; **Raul Chichilava**, Ukrainian Ambassador in Latvia; **Andris Vilcans**, Latvian Ambassador in Ukraine; **Vilen Kancerov**, chairman, Latvian-Ukrainian Agency in the Council of economic cooperation.

UKRAINIAN AND THE EU PRIORITIES

In his presentation at the Forum, Mr. **Anatolij Kinach**, UIE's president, underlined that during 2007 the two governments would discuss energy transport issues. Thus in the beginning of 2007 the Ukrainian-Latvian Intergovernmental Commission will take place with the both countries business participants to discuss the energy transport from the trans-Caucasian region and Middle Asia. According to Mr. Kinach, both countries have agreed on a common work program. All the agreement's details will be known by the time the commission starts practical discussions.

Energy issue in "one of the EU and Ukraine priority", Mr. Kinach said. He touched upon problems with the pipeline completion from Odessa through Brody and Gdansk to Plock, and reminded that the EU Energy Commission has already approved the Euro-Asian pipeline's construction providing opportunities to diversify oil and other energy supply to the EU member states.

Previously Mr Kinach repeatedly mentioned the pipeline's strategic importance for Ukraine. The work on creating Euro-Asian pipeline, to his opinion, shall be instigated to facilitate a pipeline to carry Caspian-region oil directly to Ukraine and the EU.

The Forum's fore-runner was Ukrainian President, Viktor Yushchenko's official visit to Latvia during which two countries' presidents discussed the issues of mutual interests: bilateral relations in trade, economy and energy, as well as regional projects in the context of European and trans-Atlantic integration. Ukrainian president underlined deep appreciation with Latvian support for Ukrainian efforts towards European Union integration.

Latvian president, **Vaira Vike-Freiberga** acknowledged that the Ukrainian side can firmly rely in all her efforts for the EU's integration upon Latvian support. As the visits' outcome, three bilateral



agreements were signed: on cooperation in information exchange, on cooperation in emergency situations and elimination of their negative effects, on cooperation in administrative reforms and public services.

TURNOVER GROWTH

Anatolij Maksuta, first vice-deputy, Ukrainian Economy Ministry in his speech underlined the existence of a solid legal background between the two states (there are more than 75 various agreements) which provided an effective and mutually beneficial cooperation that is expanding by every year. During last six years, for example, the trade turnover between the countries increased three times.

In line with trade cooperation goes increasing flow of investments into economy of both countries. Most visible is the financial and banking sector forming a background for implementation of mutual projects. It is in these directions that the countries' governmental officials see main perspectives for further economic cooperation.

Raul Chilachava, Ukrainian Ambassador in Latvia pointed out that "we are slowly turning from a dominating trade and commerce inclination in our bilateral relations (though 0,5 bln USD turnover, in itself a positive sign, doesn't reflect all the two states' potentials) to various cooperative and investment projects, including high-tech cooperation". And he added that there are already all the necessary conditions for that, first of all mutual consolidation at both the government and business community level. The following directions for further Ukrainian-Latvian cooperation have been mentioned in the mutually agreed program: energy, transport, investments, as well as engineering, manufacturing and construction.

Andris Vilcans, Latvian Ambassador in Ukraine expressed his satisfaction with the increasing Latvian companies' interest, in cooperation potentials in Ukraine, in particular during the last couple of years. A good indication in this trend, mentioned the ambassador, was Latvian participation for the first time in the bilateral history in 12th International exhibition "Ukraine-Tourism & Travel" and in 9th International forum "World Food Ukraine".

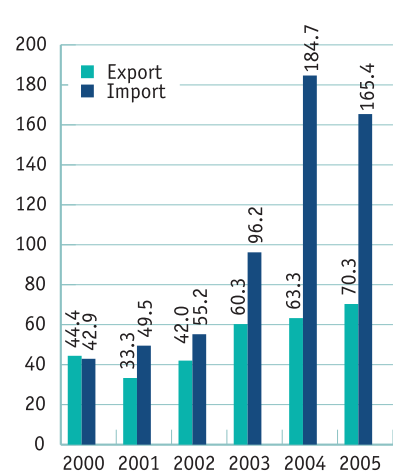
MINISTERS' MEETINGS

During the Forum, a meeting took place on 21 November 2006, between Ukrainian Economy Minister, **V. Makucha** and **Juris Strods**, Latvian Economy Minister. The two ministers discussed the whole spectrum of Latvian-Ukrainian trade and economic relations. The two sides acknowledged positive dynamics in mutual cooperation and agreed to convene the next round, i.e. the 7th Intergovernmental Commission on economic, industrial scientific and technology cooperation in Riga in the beginning of 2007.

REPRESENTATION OFFICE

During the Forum a decision was reached to open in 2007 in Riga a represen-

FOREIGN TRADE: UKRAINE-LATVIA, 2000-2005



Source: Central Statistical Bureau of Latvia.

tation office of the Ukrainian Industrialists and Entrepreneurs Union (UIE), which will be headed by the UIE's representative on Latvia, **Armand Steinberg** and chairman of the Board in *Latvijas tirdzniecības banka*.

After the ordinary administrative hurdles concerning opening of the representation office will be able to offer Latvian businessmen the most valuable asset for any business, i.e. information and contacts.

"Among Latvian foreign partners Ukraine occupies only 18th place in export and 13th place in import activities. Bilateral turnover is only 1,7% in the total volume of Latvian foreign trade. This is not regarded as a satisfactory sign; we hope to change the situation to the better one", said to the *BC* Mr. **Armand Steinberg**. Therefore, the most important task for the

DIRECT UKRAINIAN INVESTMENTS IN LATVIA

Year	Number of investors	Investments, th. LVL
1991	32	4.92
1992	125	182.13
1993	201	445.44
1994	274	1313.30
1995	290	1320.40
1996	292	1446.35
1997	220	1381.25
1998	171	1836.50
1999	178	3739.00
2000	192	3911.12
2001	217	5428.83
2002	235	5093.14
2003	253	5904.96
2004	276	7173.99
2005	300	7069.59
2006*	335	8045.03

* At 14.12.2006.

Source: Lursoft.

future representation is going to be the provision of complete Ukrainian market information. Mr. Steinberg concluded: "I have a lot of friends in Ukraine and at the same time being, so to say, a neutral person, as my bank doesn't have any serious positions in this country. Therefore I was promoted to this post".

Until recently, most economic contacts between the two countries occurred at the level of corresponding Ukrainian or Latvian embassy department. Quite clear, their possibilities are limited. Not all the questions can be resolved by the Latvian LIAA agency either — it is too busy searching for investments around the world. Therefore, a voluntary, non-governmental organisation uniting prominent business-circles' representatives can help quickly find all the necessary contacts. •




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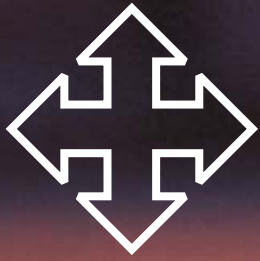
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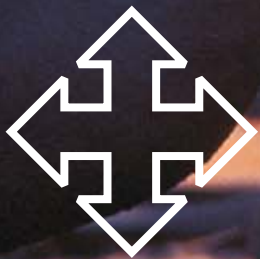
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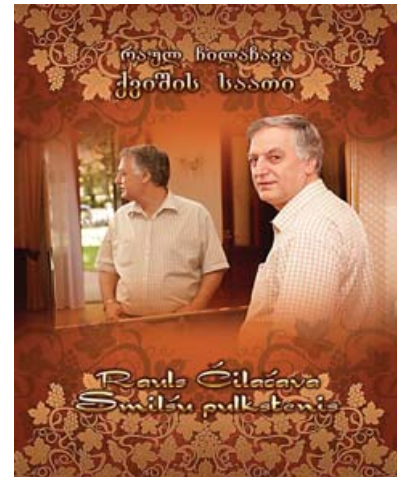
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“I sometimes perceive life as a role”

The book's author has an unusual destiny. He was born and grew up in Georgia but then since his 'teens his life was tied to Ukraine. He became a popular poet, then scientist and politician. **Raul Chilachava** represents two literatures, two cultures, two spiritual worlds. He has a perfect command of Ukrainian and even writes his poetry in two languages — Georgian and Ukrainian.

In February 2006 Raul Chilachava arrived in Latvia as the Ukrainian Ambassador to Latvia. Yet another of his poetry books, “The Sand Clock” was published in the Latvian capital Riga last December. This book is quite unusual because it contains original poems in Georgian and Ukrainian languages with the corresponding translations into Russian, Latvian and English. The *BC* offers its readers some of the poems from this elegant edition.



QUATRAINS

1

Another winter... Trees are standing bare.
The skyline lost its sullen days' burnt flare.
I'll forget the past when I'm able to,
But to forget the future? No! Never!

2

"From time to time there are fords even in fire!"
Used to tell me a grey-bearded grandsire.
All my life through fire I went off fords
Receiving bruises as replacement of rewards.

3

All of us live from a date to date,
There's nothing here to subtract or add.
Years fly to the untimeliness warm parts
Not to come back again — which is sad.

4

Fathers, moustacheless sons bid farewell
To the cruel world in glooms fathomless dell.
Eternal city once was rescued by its geese,
At us disastrous blows by ours are dealt.

5

Such actions' clues are beyond
one's comprehension,
Allegedly pernicious for longevity protection.
Minor villains serve their terms in prisons,
With big scoundrels their hunters
drink with pleasure.

6

He, whose house is the world, needs home?
But what for?
He, whose liquor love is, venom needs?
What for?
Oh, youth, do not be longing for the moon!
If sunny it's at night, a moonshine is what for?

7

I felt it long: our affairs turning bad
And shout I: "Let us say a word,

Since hawks turned into pure hens,
And our nightingales are simply crow-birds."

8

For the city and the bridges they have fought
To cover up the traces, cold and hot.
The Saviours crucified — thus instead of him
To preach to us you have got a thought.

9

I sometimes perceive life as a role,
In which I am supreme, I'm the king of all.
And suddenly all sorrows fly away
With the sounds of celestial barcaroles.

10

Once here lived the glorious Dadianies*-
Named Jupiters, named Venuses, Dianas,
Here even beasts were expressively polite
With sublime God-granted gentle manners.

11

I never stand in a feigned pose,
I don't yield to a routine grey prose,
When I'm laughing - all behold me laughing,
When crying — I behold my own tears' flows.

12

A cock song is the sign of evening for you,
Of gratitude is rage with threatens,
curses spewed.
If the fools had ever got a headache,
Because of it you would grow mute.

13

Why is your mother noticeably sad?
Why did your father grow pale at that?
While planting own orchard didn't they know:
They'll quit their fruit when it is ripe and red?

14

Hard transformations in my soul will take place,

To victory I'm putting on my pace,
I'm the anvil in a planetary forge
Unable to get used to hammer's striking stress.

15

Oh, wind of changes, you fiercely don't whine!
Neither peace nor war; sick is the heart of mine.
Insane soldiers sink their gloom in vodka
Not knowing, alas, of the truth in wine.

16

Impressionable, frail,
in my memory you're living.
When I'm to close eyes — a gay downpour
is dripping
Of those memories, where we're as if together:
Left-portrayed, I am losing sight,
right-portrayed, you are winking

17

In a serene sunshine,
when night is coming round,
Slender girls' bodies show off without gowns...
So, let's have a drink to making our eyes
More brightly shine in sun
as they are shining now.

18

We don't see at night in dreams the
Canaries, Bahamas,
Don't pray to alien gods — the own suit
and charm us,
Own world we build with them,
be it not very worldly,
But for our best delights Bohemia is famous.

19

The visions are so strange: neither fixed
nor runing...
I sink as well as drown — as though
I'm in nirvana,
And above me like the gazelles in desert
Deluding caravans dash led by caravaners.

GROSS DOMESTIC PRODUCT

	Latvia	Lithuania	Estonia
GDP at current prices, mln EUR			
Q3 2006	4116	6307	3322
Q3 2005	3328	5509	2852
GDP at constant prices, % of corresponding period of previous year			
Q3 2006	111.8	106.4	111.3
Q3 2005	111.4	108.3	111.9
GDP per capita at current prices, EUR			
2005	5527	6040	8217
2004	4782	5276	6948

Source: Central Statistical Bureau of Latvia.

WAGES, EUR

Monthly average, Q3 2006	Latvia	Lithuania	Estonia
Gross wages	434.0	479.0	580.0
% to Q3 2005	122.8	119.9	116.5
Min. wages, December 2006	128.0	174.0	192.0
% to October 2005	112.5	109.1	111.5
Old-age pension, monthly average, Q3 2006	137.0	147.0	200.0
% to Q3 2005	118.9	113.8	112.4

Source: Central Statistical Bureau of Latvia.

FOREIGN TRADE, MLN EUR

January-November 2006	Latvia	Lithuania	Estonia
Export (FOB)			
total	4232	10331	6963
to EU-25	3169	6502	4523
% of total	75	63	65
Import (CIF)			
total	8034	13997	9444
from EU-25	6117	8607	6908
% of total	76	62	73
Balance of foreign trade	-3801	-3666	-2481

Source: Central Statistical Bureau of Latvia.

GLOBAL GDP GROWTH, % TO THE PREVIOUS YEAR'S PERIOD

	2005	2006*	2007*
World	4.8	4.9	5.7
USA	3.5	3.4	3.3
Japan	2.7	2.8	2.1
EU	1.8	2.4	2.3
CIS	6.5	6.0	6.1

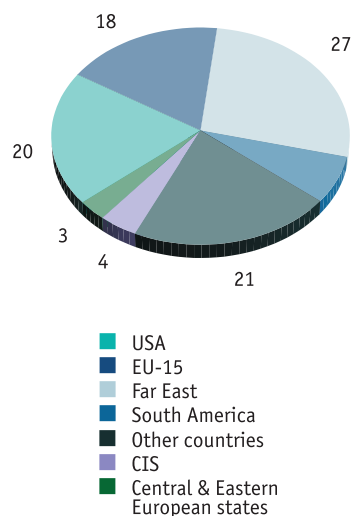
* Forecast.

Source: The World Economic Outlook April 2006.

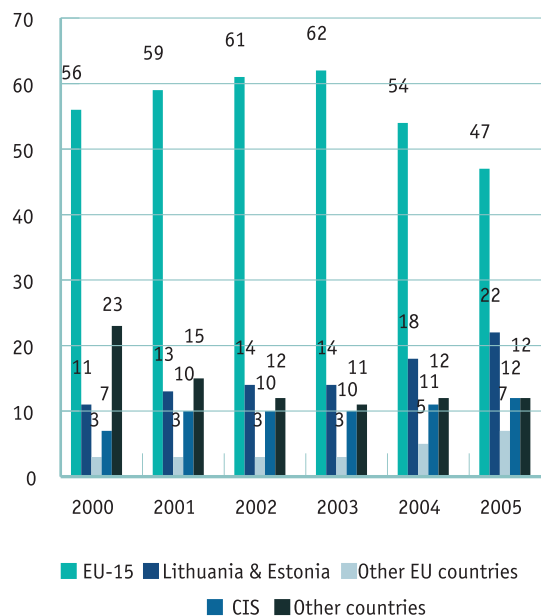
**LATVIAN GDP IN Q1, 2006,
% OF CORRESPONDING PERIOD OF PREVIOUS YEAR**

	Growth rate	Investment growth
Construction	17.5	1.0
Trade, hotels and restaurants	17.3	4.3
Electricity, gas and water supply	10.7	0.4
Manufacturing industry	8.8	1.3
Transport & communication	6.0	1.0
Service sector	4.1	0.2
Public service	2.9	0.5
Other commercial services	17.5	4.4

Source: Central Statistical Bureau of Latvia.

**WORLD GDP GROWTH, BY COUNTRY, 2005,
GDP STRUCTURE TO PPP, %**

Source: The World Economic Outlook September 2005.

LATVIAN EXPORT BY COUNTRIES, %

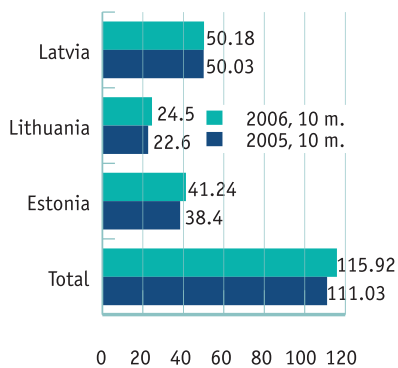
Source: Central Statistical Bureau of Latvia.

**LATVIAN-BELARUS TRADE,
MLN USD**

	2002	2003	2004	2005	9 m.	
					2005	2006
Trade turnover	556.2	388.5	395.7	413.1	302.5	351.1
Export	520.1	334.2	310.7	322.6	234.9	269.9
Import	36.1	44.3	85.0	90.6	67.4	81.2
Balance	484.0	299.9	225.7	232.0	167.2	188.7

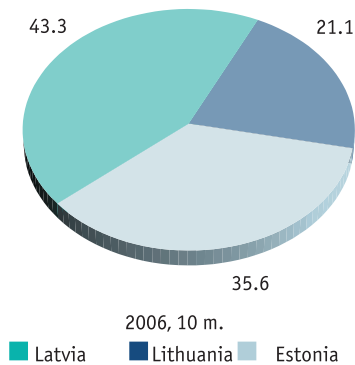
Source: Belarus State Statistic Agency.

CARGO TURNOVER AT BALTIC PORTS, MLN T



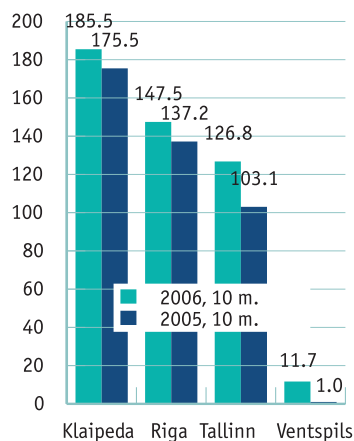
Source: LETA.

BALTIC PORTS' SHARE IN GENERAL TRADE TURNOVER, %



Source: LETA.

CONTAINER CARGO PROCESSING IN THE BALTIC PORTS, TH TEU



Source: LETA.

FOREIGN DIRECT INVESTMENTS

At the end of quarter	Latvia	Lithuania	Estonia
FDI, stock, total, mln EUR			
Q3 2006	5179	7237	11773
Q3 2005	3884	7389	10786
Per capita, EUR			
Q3 2006	2265	2135	8755
Q3 2005	1690	2168	8004
FDI, flows, mln EUR			
Q3 2006	239	205	349
Q3 2005	183	176	275
% of GDP			
Q3 2006	5.8	3.2	10.5
Q3 2005	5.5	3.2	9.6

Source: Central Statistical Bureau of Latvia.

POPULATION, TH

	Latvia		Lithuania		Estonia	
	January-October 2006	January-October 2005	January-October 2006	January-October 2005	January-October 2006	January-October 2005
Births	20260	19835	28837	28203	13737	13159
Deaths	30310	29717	40933	39870	16057	15911
Natural increase	-10050	-9882	-12096	-11667	-2320	-2752

Source: Central Statistical Bureau of Latvia.

GENERAL GOVERNMENT DEBT

At the end of period	Latvia	Lithuania	Estonia
Total, mln EUR			
Q3 2006	1351	2502	246
Q3 2005	1306	2331	267
Per capita, EUR			
Q3 2006	591	738	74
Q3 2005	568	684	94

Source: Central Statistical Bureau of Latvia.

AVERAGE PRICES FOR GOODS AND SERVICES, EUR PER KG

	Latvia		Lithuania		Estonia	
	December		December		December	
	2006	2005	2006	2005	2006	2005
Beef	3.06	2.79	3.37	3.08	2.99	2.87
Pork	2.73	2.63	2.69	2.58	3.52	3.32
Chicken	2.25	2.03	1.83	1.73	2.39	2.41
Butter	3.67	3.49	4.65	4.56	4.13	4.00
Milk, 2.5% of fat, 1l	0.57	0.53	0.51	0.48	0.44	0.44
Eggs, 10 pcs	0.98	0.90	1.00	0.80	0.81	0.77
Rye bread	1.00	0.78	0.87	0.70	0.94	0.85
Wheat bread	1.07	0.94	1.05	0.88	1.05	0.93
Sugar	0.98	0.94	0.89	0.85	0.98	0.96
Potatoes	0.46	0.27	0.46	0.30	0.51	0.32
Vodka 40% alc. vol., 1l	8.34	7.41	7.54	7.24	9.21	8.89
Petrol A-95, 1l	0.78	0.83	0.83	0.85	0.80	0.83
Electricity, per 100 kWh	6.83	6.40	8.98	8.98	7.99	7.86

Source: Central Statistical Bureau of Latvia.

NUMBER OF CAR FIRST REGISTRATION

	Latvia	Lithuania	Estonia
December 2006	8886	15587	6106
December 2005	6165	12829	5190

Source: Central Statistical Bureau of Latvia.

International exhibitions and conferences in 2007 (February — May) in which BC is planning to participate

Name		Place	Date
MERGERS AND ACQUISITIONS IN THE BALTIC STATES	C	Riga, Latvia	17.02
RAILTEX — International Exhibition of Railway Equipment, Systems and Services	E	London, United Kingdom	20.02 — 22.02
RUSSIAN ALTERNATIVE INVESTMENT FORUM	F, C	London, United Kingdom	20.02 — 22.02
INTERTEXTIL BALTICUM	E	Riga, Latvia	22.02 — 24.02
C-B-R — International Exhibition of Leisure and Travel	E	Munich, Germany	22.02 — 26.02
BALTIC MARITIME AND TRADE SUMMIT	S	Tallinn, Estonia	27.02 — 28.02
CORPORATE IT STRATEGIES IN RUSSIA	C	Moscow, Russia	27.02 — 01.03
BUSINESS ACCOUNTING. AUDIT. BUSINESS-SOFT	E	Minsk, Belarus	28.02 — 02.03
KAZAKHSTAN INVESTMENT SUMMIT	S	London, UK	March
INTERNATIONAL TRADE & PROJECT FINANCE IN RUSSIA	C	Moscow, Russia	01.03 — 02.03
VIVATTUR	E	Vilnius, Lithuania	02.03 — 04.03
LOGISTICS FORUM DUISBURG	F	Duisburg, Germany	07.03 — 08.03
CHINA LOGISTICS SUMMIT	S	Shanghai, China	13.03 — 15.03
GEOFORM — International Industrial Forum	F	Moscow, Russia	13.03 — 16.03
TRADE & PROJECT FINANCE IN RUSSIA	C	Moscow, Russia	19.03 — 22.03
MITT — Moscow International Exhibition "Travel & tourism"	E	Moscow, Russia	21.03 — 24.03
INNOVATIONS	E	Kyiv, Ukraine	24.03 — 27.03
RAILTRANEX	E	Moscow, Russia	27.03 — 30.03
TRANSRUSSIA	E, C	Moscow, Russia	27.03 — 30.03
BALTIC CONTAINER CONFERENCE	C	Gdansk, Poland	28.03 — 29.03
LOGISTICS WORLD	E	Suzhou, China	28.03 — 30.03
NEFTEGASEXPO — Production, Transportation, Storage of Hydrocarbon Resources. Equipments, Technologies, Services	E	St.Petersburg, Russia	10.04 — 12.04
INTERNATIONAL FORUM "RUSSIAN OIL, GAS AND ENERGY"	F	St.Petersburg, Russia	10.04 — 12.04
ALT 2007 — Exhibition for Automobiles, Transportation and Logistics	E	Vilnius, Lithuania	11.04 — 15.04
RIGA AGRO	E	Riga, Latvia	12.04 - 15.04
HANNOVER MESSE	E	Hanover, Germany	16.04 - 20.04
WORLD REGIONAL AIRPORTS CONGRESS	C	London, United Kingdom	17.04 - 18.04
AITF — Azerbaijan International Travel And Tourism Fair	E	Baku, Azerbaijan	18.04 - 20.04
BALTIC IT&T FORUM	F, C	Riga, Latvia	18.04 - 20.04
REAL ESTATE AND CONSTRUCTION IN THE BALTICS	C	Riga, Latvia	20.04
CHINA AUTO SERVICE SUMMIT	S	Shanghai, China	21.04 -22.04
ANNUAL RUSSIAN ECONOMIC FORUM	F	London, United Kingdom	22.04 -24.04
REAL ESTATE INVESTMENT WORLD RUSSIA	C	London, United Kingdom	24.04 -26.04
MARITIME EXHIBITION FOR THE EURASIAN REGION	E	Istanbul, Turkey	25.04 - 29.04
REALTEX. INVESTING. BUILDING. REAL ESTATE	E, C	Moscow, Russia	25.04 - 28.04
KITF — Kazakhstan Investment Summit	S	Almaty, Kazakhstan	26.04 - 28.04
EXPOLOGISTICA — International Industrial and Mechanical Handling exhibition	E	Bologna, Italy	09.05 - 12.05
TRANSESTONIA	C	Tallinn, Estonia	16.05
BELARUSSIAN INDUSTRIAL FORUM	F	Minsk, Belarus	15.05 - 18.05
TRASCASPIAN - International Transport And Logistics Exhibition	E	Baku, Azerbaijan	16.05 - 18.05
CIS & CENTRAL EUROPEAN WALTH MANAGEMENT FORUM	F	Riga, Latvia	17.05 - 18.05

E — exhibition, C — conference, F — forum, S — summit