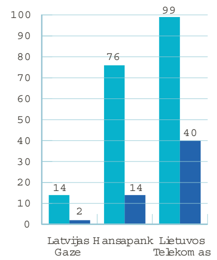
INVESTOR RISK FOR CERTAIN STOCKS OF BALTIC ISSUERS, %



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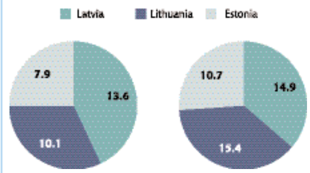
FOREIGN TRADE WITH GERMANY, JAN-APR 2004, % OF TOTAL



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Our magazine's main audience is that of business leaders and managers. Recent developments both within the EU lines and that of the national governments have shown a good deal of actions affecting to a certain degree the leaders' activity and decision-making. These are, first of all, articles in the BC's Transport & Logistics and Regional Development sections, as well as two articles on the EU.

Recent months have seen great changes both in the EU institutional development and in legislation. First, the new elections to the European Parliament; as a result, the latter has become the biggest multi-national parliament in the world with 732 MEPs from 25 member states. Second, adoption by the heads of state and government of the 25 EU member states in June 2004 of the new Treaty establishing the Constitution for Europe, which is still to be ratified by all EU member states in 2005. To a certain degree the first event was rather depressing due to unexpectedly low turnout in the EP elections, in particular in the ten new EU member states (See our article in this issue with the EP election results). The other event — adoption of the new Constitution for Europe — was an extremely positive one. For the first time in the European history the 25 member states have had a real opportunity to create a kind of basic law governing main aspects of economic, political and cultural life in a region of about half a billion people!

Then, as the result of the latest developments, we have in the EU three new Presidents, i.e. one for the European Parliament, **Josep Borrell**; another one for the new Commission, **Jose Manuel Barroso**, and the third one (for the second half of the year), the new European Council Presidency to be held by the Dutch Prime Minister **Jan Peter Balkenende**. The latter has promised a good climate for business activity in the old and new EU member states.

In this issue of the magazine you will also find our analysis of the EU attempts to create a unified climate for business undertakings in the EU. It seems that almost 30 years of the EU efforts will end late this year with the adoption of the Charter for European Company.

Finally, there are many articles on the most acute issues in the Baltic region, i.e. on oil, real estate and investments, possible co-operation efforts among three Baltic States.

We hope you'll find our issue thought-provoking, both in local and international dimension.

Eugene Eteris, BC's International Editor

EPA/A.F.I.

R.FINCH: PPP is used in various spheres.

LORD MAYOR OF LONDON VISITS RIGA AND VILNIUS

Lord Mayor of the City of London, **Robert Finch**, came to Riga and Vilnius shortly after the visit by Latvian President **Vaira Vike-Freiberga** to the UK this May. Foggy Albion's guests shared with the Latvians and Lithuanians their experience in implementing the so-called Public-Private Partnership, or PPP, schemes and methods. The PPP scheme is used widely around the world and has been most successful in the UK. In London alone over 600 PPP projects for a total of GBP 56 billion have been carried out.

"We use PPP in most diverse spheres: education, social issues, construction, also for improving the city infrastructure", the Lord Mayor of London said at the meeting with Baltic business representatives.

Latvian Investment and Development Agency director **Juris Kanels** said that incomplete legislation was the main implementation obstacle. "In order to change the situation, we plan this year to provide amendments to several legislative acts, in particular the law on concessions as the key document", he said. In addition, the Latvian Ministry of Economy is working on some basic frame-laws for PPP that will facilitate public-private co-operation in Latvia".

LITHUANIA: ELECTIONS OF THE "BUSINESS-AS-USUAL" TYPE

The turnout in the European Parliament (EP) elections this June was record-low. Only 44.6% of the EU citizens eligible to vote took part in elections in the 25 EU member states. The voters' activity in the "old" 15 EU member states was 47.7% as compared to just 28.8% voters in the ten EU newcomers.

In Lithuania, where the EP elections were organised on the same day as the presidential elections, 48.2% of population went to polling stations. The Labour Party won five mandates, the Lithuanian Social Democratic Party, the opposition Conservative Party and the Liberal and Centre Union two mandates each, the Farmers and New Democracy Party Union, the Liberal Democratic Party, the coalition of the Electoral Action of the Lithuanian Poles and the Lithuanian Russians Union one mandate each. In the presidential elections, none of the candidates got more than 50% votes in the first round. In the second round, ex-president **Valdas Adamkus** scored victory over his rival **Kazimiera Prunskiene**.

In Latvia the turnout in the EP elections was 41.2%, and opposition parties won by a wide margin. Right-wing nationalist opposition party Fatherland and Freedom (FF)/LNNK has got four seats in the EP and the right-wing opposition New Time party two seats. The left-wing opposition bloc For Human Rights in a United Latvia (FHRUL), Latvijas Cels (Latvia's Way) party and the ruling People's Party got one seat each. Thus, the current ruling coalition in Latvia will have only one representative on the European Parliament.

E.Rudzitis, A.F.I.

EUROPEAN PARLIAMENT ELECTIONS: Ruling parties failed to win voters' trust.

In Estonia, 26.9% of the electorate participated in the EP elections. The Social Democratic Party won three mandates, but Centre Party, Reform Party and Pro Patria Union one mandate each. Ruling parties Res Publica and the People's Union will not be represented in the European Parliament.

ADMIRATION FOR ZIL&FERRUS TRUCKS

Representatives of the Latvian company *Ferrus* and the Russian car manufacturer *ZIL* this May signed a protocol continuing a joint project for production of a new truck model, i.e. ZIL&Ferrus 4362. Moscow Mayor **Yuri Luzhkov** and Riga Mayor **Gundars Bojars** attended the first truck model presentation and after a test ride in the new vehicle Luzhkov admitted that this car was a kind of "love at the first sight" model.

B.Kolesnikov, A.F.I.

Y.LUZHKOV: Moscow promised financial assistance.

He promised that Moscow City Council will provide financial support for the organisation of production in Jelgava, one of Latvian cities. Riga city mayor also approved the new truck production. After the presentation, Mr. G.Bojars said that the project was a test-proof for *Ferrus* and *ZIL* co-operation, and the one between Riga and Moscow, which would provide recognition of two municipal leaders' intention in implementing the project.

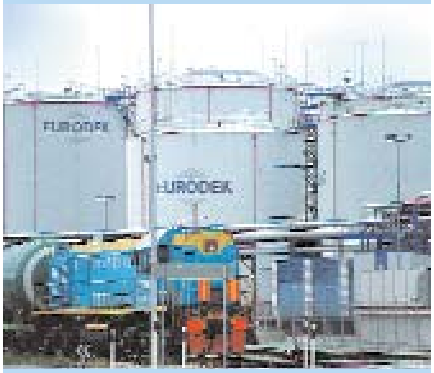
EUROPEAN BANKS ENTER BALTICS

Baltic financial market supervision authorities in May received notifications from the corresponding supervising financial authorities in eight EU member states, announcing plans to start offering financial services in Latvia, Lithuania and Estonia without opening their local branches.

Austria's *Raiffeisen Zentralbank*, Britain's *HSBC Bank Plc* and *Saxo Bank* from the Netherlands as well as British insurance companies *Lloyd's, Converium Insurance Limited* and *Great Lakes Reinsurance Plc,* Luxembourgian *Arisa Assurances S.A* and Austrian investment company *Trans Europe Financial Vermogenberatungs-, Vermittlungs- und Verwaltungs GmbH,* etc. expressed their intentions to provide financial services in the Baltic States.

Starting from May 1, financial institutions from the EU member states have the right to offer their services on the whole EU territory and no special permission is required for international financial services.

DEEP-WATER WHARF AT MUUGA PORT



O.Fesko

EURODEK: The Muuga oil terminal.

Danish company *Eurodek* this May put into commission a new deep-water wharf at the Muuga port near Tallinn, Estonian capital. Specifically for serving the new wharf, *Eurodek* has also built an oil terminal. The two facilities have been officially opened on the same day.

The company plans in the near future to start building at the Muuga port another oil terminal, which is to be completed in 2008. Other plans by the Danish company include extension of the oil reloading complex and railway infrastructure improvements. By 2008 *Eurodek* reloading capacity is expected to increase to 16-18 million tons of oil and oil products a year. Total holding capacity of the company's storage reservoirs is 420,000 cubic meters.

GOOD INITIATIVE BY EU MEMBER

Across Europe, economists, politicians and businessmen are calling for support of lower taxation rates. In Austria this effort has found a practical outcome: effective from the 1st of January 2005, Austria's corporate tax rate drops from 34% to 25% which will be the second lowest in the Eurozone after Ireland.

In addition to that, foreign subsidiaries' losses are deductible under more favourable group taxation rules that also include unique in Europe provisions, i.e. allowing group formation with a mere 50% plus one share.

Research facilities would benefit most from attractive incentives, such as allowances ranging from the standard 25% up to 35% for over-and-above expenditures that can be translated into economic growth.

KLAIPEDA SEZ EXPECTS INVESTMENTS

Klaipeda Special Economic Zone (SEZ) in Lithuania will most probably attract at least six new investors this year that would bring total investments in excess of 400 million litas.

"We are negotiating with seven potential partners, we are analysing business conditions in the SEZ; that gives us every reason to believe that at least few investment projects will be launched by the end of this year," **Eimantas Kiudulas**, director general of the company running the Klaipeda SEZ, told *BNS*.

In the first quarter of this year Klaipeda SEZ signed contracts with two investors. *Vakaru Nafta* company which represents Russian chemical concern *Khimtrast* intends to invest 15 million litas into a plant for making disposable dishes and packaging materials. And *Baltijos Nekilnojamojo Turto Pletra* company is going to invest 10 million litas in construction of a business centre.

An agreement on business terms has been reached with the Thai concern *Indorama*, which intends to invest 280 million litas into the plastic raw materials plant.

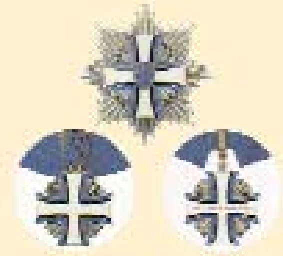
A letter of intent has been signed with *Polyplex* company from India, which plans to build a new plant for polymeric products production for industrial packaging needs.

Last year Klaipeda SEZ signed contracts with Irish-and-Danish-owned company *Klaipedos Verslo Parkas* which is in the final stage of building a 12 million litas worth business complex and with the Lithuanian company *Veritas Stili*, which is investing approximately 32 million litas into the PET packaging plant.

SY Wiring Technologies, a subsidiary of German-Japanese concern *Siemens-Yazaki*, and a fish processing plant of the Danish company *A. Espersen* are already working in the Klaipeda SEZ territory which occupies about 205 hectares.

All companies working in the Klaipeda SEZ, which was opened in September 2002, enjoy various tax allowances which continue in effect also after Lithuania's accession to the EU. *Baltic Fund Investments* investment fund and **Pierre Everaert**, chairman of leading global brewer *Interbrew*, jointly control about 67% in Klaipeda SEZ.

KNIGHTS OF THE "LAND OF HOLY VIRGIN MARY" ORDER


The BC archives

ORDER: The BC's friends received decorations.

On the eve of the 86th anniversary of the Republic of Estonia, nearly 200 Estonian citizens and foreign nationals received the "Land of Holy Virgin Mary" Order, or the so-called Maarjamaa Cross. The decorations were presented by Estonian President, **Arnold Ruutel**. The BC's editorial board member, Swedish financial markets expert Mr. **Bo Krag** was decorated by the Maarjamaa Cross Grade-IV "for efforts to strengthen Estonian banking system". The BC's Russian colleague and sociologist **Renald Simonyan**, the author of the book "Russia and the Baltic states", received the Maarjamaa Cross Grade-IV, as well.

The Estonian national decoration was bestowed onto foreigners, who had helped the country to achieve its two most remarkable goals, i.e. EU and NATO membership. Among the bearers of the Estonian order are such prominent figures as the former US Secretary of State **Madeleine Albright** (the Maarjamaa Cross Grade-I), Russian theatre director **Boris Pokrovsky** (the Maarjamaa Cross, Grade-III), Russian TV journalist **Eugenie Kiselev** (the Maarjamaa Cross, Grade-IV), and other dignitaries.

WIND GENERATORS IN LITHUANIA

Wind power plants in western Lithuania will be built by Kaunas-based company *Veju Spektras*, which was established last autumn especially for the wind generator project. The company has won a tender organised by the power transmission company *Lietuvos energija*. *Veju Spektras* will build wind power stations with the combined capacity of 30 MW in the so-called third (seaside) zone and link them to the power transmission line Klaipeda-Palanga-Sventoji.

The company's experience includes construction of wind generators in Denmark and Germany. *Veju spektras* CEO is **Alvydas Naujekas**, the owner of *Ekofondas* company and a former leader of *Kauno Alus* brewery. He said *Veju spektras* intended to expand its business up to the limits permitted by the Lithuanian government.

T.Strakhova

A.S.WATSON: The amount of the deal is confidential.

HONG KONG COMPANY BUYS RETAIL CHAIN *DROGAS*

Drogas, the largest Baltic retail chain of household goods and cosmetics, has been bought by the commerce and production group *A. S. Watson*, owned by *Hutchison Whampoa Limited* from Hong Kong. The amount of the deal was not disclosed.

Drogas, founded in 1993, presently has 59 stores in Latvia and 24 in Lithuania. With the opening of three more stores in June, the chain will consist of 86 sales outlets. Last year *Drogas* profit increased 12 times to 1.39 million lats and turnover grew 14% to 22.7 million lats. The company employs 480 people.

ECOMETAL ENTERS EU MARKET

After Estonia's accession to the EU, the Sillamae-based *Ecometal*, the only lead-acid battery recycling plant in the Baltic states, which became operational at the end of 2003, has just started to receive supplies from various EU member states. The first container with raw materials from France arrived at Sillamae in May, negotiations are under way with the Netherlands, and plans have been made for signing contracts with suppliers from Russia's North Western region.

The plant can recycle 15,000 tons of old batteries a year and produce about 10,000 tons of lead ingots. It also neutralises acid components. The remaining 7-8% of hazardous waste is removed to Vaivara waste dump site built according to the EU requirements for storage of hazardous waste. *Ecometal's* board chairman and director **Margus Puustusmaa** said the company was looking with much hope at the possible construction of the free economic zone in the Sillamae port.

LATVIA'S *LAUMA* PASSES INTO ESTONIAN OWNERSHIP

Foreign investors led by Estonian investment company *Alta Capital* have acquired 76.4% in Latvia's leading underwear and textile producer *Lauma*. They bought 34.68% shares from *Lauma's* long-standing president **Zigrida Rusina**, 34.31% from vice-president **Viktors Aispurs** and 7.45% from several small shareholders.

B.Kolesnikov, A.F.I.

Z.RUSINA: It's time to do something else.

"I have spent 35 years with *Lauma*, including the last two decades as the company president, and I can tell that the time has come to do something else", Mrs. Z. Rusina told *BNS*, commenting on the sale of the company. She added that she would be still advising the new management.

Alta Capital partner **Indrek Rahumaa** said the new owners wanted "to develop the company, strengthen *Lauma's* brand and market positions, using the company's current platform and co-operation with Western and Eastern markets".

MARIJAMPOLE'S TURKEY FOR EXPORT

The Marijampole-based *Arvi Kalakutai*, the largest turkey farm and turkey meat processor in the Baltic states, sells its products not only in Lithuania but also in major supermarkets in Latvia and Estonia, reported the *Lietuvos Rytas* daily. The company has also started negotiations with meat processing firms and intermediaries in other EU member states.

The facility which combines a turkey farm, a slaughterhouse and a meat processing plant opened just several months ago. Total investments reached about 50 million litas with one-third of the required funding provided by the EU SAPARD funds. The complex, which covers the area of 20 hectares, employs some 200 people.

Apart from the turkey complex, the *Arvi* group owns also *Marijampoles Pasarai* fodder plant, *Arvi Cukrus* sugar mill and *Noringe* company, which operates a pizza house and a hotel in Marijampole.

GENERAL ELECTRIC BUYS LEASING BUSINESS IN LATVIA

GE Consumer Finance, a consumer lending unit of the international company *General Electric (GE)*, has signed an agreement concerning an acquisition of 100% percent in Latvian leasing company *RD Lizinga Grupa*.

"This is an important development in *GE Consumer Finance's* acquisition strategy as it marks our first entry into Latvian market and a greater Baltic region," *GE Consumer Finance* executive director for Nordic and Baltic states **Niels Aall** told *BNS*.

The council chairman of *RD Lizinga Grupa* **Vitalijs Gotlibs**, before the transaction, expressing wishes of the former shareholders, said that the *RD Lizinga Grupa's* future development strategy had run into contradiction with the amount of funding that *RD Grupa* was able to provide for the company.

T.Strakhova

GE Enters Latvian market.

RD Lizinga Grupa is specialising in consumer lending; it was established in 1997 to support the activities of *RD Electronics*. Today the company enjoys one of the leading positions in consumer lending market in Latvia. In 2003 its turnover was 3.4 million lats and net profit – 1.3 million lats. At the end of March this year the company's accounts recievable reached 11.3 million lats. *RD Lizinga Grupa* has 29 branches, 13 of which are located in the Latvian capital Riga.

TALLINN — THE MOST EXPENSIVE CAPITAL IN THE BALTICS

Estonia's Tallinn has retained the title of the most expensive Baltic capital for the third year in a row, according to a survey by the *Verslo zinios* newspaper. During last year, Lithuanian capital Vilnius moved ahead of Latvia's Riga by the cost of living. During last two years consumer prices in Vilnius have been climbing steeply. While Vilnius and Tallinn showed price growth on a year-by-year basis in almost all categories of products and services, prices in Riga remained unchanged for quite many products and services.

Can stock risks be calculated?

S.Tyulenev, Chas

THERE COULD BE A RISK...

by Oleg Bozhko

North European stock exchange operator OMHEX, after acquisition of 80% of the Lithuanian Stock Exchange, has created an integrated regional market encompassing Sweden, Finland, Norway, Denmark, Iceland and the Baltic states. The new market will become operational after all members adopt the SAXESS trading system requirements, presumably towards the end of the year. (Our magazine already mentioned this event in our winter 2004 issue, p.6, – BC's Editor). But are Baltic investors, in particular individual investors, ready for integration into the European market?

So far the so-called Baltic Index functioned mostly "virtually" but very soon it will include stocks quoted in Latvia, Lithuania and Estonia from the official lists of national stock exchanges. A whole "Baltic package", having a serious price advantage over North European stocks, will become available to investors.

Experts hope that all the above-mentioned steps, as well as the Baltic states' membership in the EU, creation of pension funds and pegging of the Latvian lat to euro will help to revive local stock market. Contrary to other Baltic states, Latvian residents prefer to place their portfolio investments abroad, showing distrust to the local market.

This trend is justified to a certain degree by unpredictability of the stock market "goods", especially for amateur investors (and they prevail on the world stock market trade). Description of stock risks by local experts is usually limited by the so-called quality characteristics, e.g. such as "the given financial instrument carries greater risk than others".

At best these people would add that the stock in question has a 30% risk which implies certain quotation fluctuations over a certain period. For a professional broker this information would provide some orientation in trade, but for laymen all that could be just terra incognita.

Traditionally risk relates to the occurrence probability of an unfavourable event. In fact, the above-mentioned figure does not mean a 30-percent risk; it only shows the float range of stock quotations. The possibility of assessing the risk from the probability perspective makes it easier to understand the situation.

Until recently, financial analysts did not use probability theory methods. The process started with works by M.F.M.Osborne in the 1960s where he used the theory of "random movements" for analysis of stock market

QUOTATION STATISTICS FOR THE BALTIC INDEX STOCKS FOR 12 MONTHS (AS OF APRIL 15, 2004), IN EUR

Company name	Current quotation	Share in BI turnover, %	'High' quotation	'Low' quotation
Baltic Index	379.00	100.00	379.00	182.20
Eesti Telekom	7.90	6.30	7.90	5.40
Harju Elekter	8.20	2.20	8.30	3.70
Hansapank	25.90	46.30	25.90	15.50
Merko Ehitus	14.60	1.00	14.60	5.15
Norma	7.20	3.80	7.20	4.30
Tallinna Kaubamaja	6.60	0.10	6.60	3.40
Latvijas Gaze	8.40	0.25	9.70	8.00
Latvijas Kugniecība	0.75	0.40	0.75	0.40
Ventspils Nafta	2.50	0.09	2.53	1.20
Ekranas	2.45	0.10	2.45	1.35
Lietuvos Telekomas	0.70	5.90	0.70	0.29
Pieno Zvaigzdes	1.40	1.20	1.45	0.35
Rokiskio Suris	20.90	9.10	22.50	6.30
Snaige	76.90	17.20	76.90	34.20
Vilniaus Vingis	2.70	5.60	2.90	1.70

Source: Baltic stock exchanges' information.

dynamics. Today the probability approach is among the tools of investment decision-taking procedures.

According to one of Osborne's assumptions, the logarithmic derivatives of variables within several financial indicators' characteristics (stock quotations, earnings per share, dividends, etc.) correspond to a set of regular distribution elements. Whereas percentage figures, e.g. yield of government bonds, return on equity or assets, etc.), to a certain extent, subject to absolute values' correlations, correspond to the normal distribution rule directly; in the sense that they do not need any logarithmic adjustments.

Average quadratic deviation (aqd) can be used to define stock quotations' variations. The assessment will be more accurate, if instead of many current quotations one would use only two figures, i.e. "high" evaluation for the highest quotation and "low" for the lowest quotation of the given stock during a specific period.

IT'S NICE TO BE A SHAREHOLDER IN AN ESTONIAN BANK!

The table below shows the Baltic Index stocks' statistics for the last 12 months (until April 2004 inclusive). The choice of the period was determined by the fact that late April quotation of Estonian *Hansapank*, which accounts for up to 50% of the Baltic Index turnover, suddenly shrank fourfold. This was due the decision of shareholders about premium issue of 3 new shares per each existing share.

Hansapank shareholders (the bank is owned by Sweden's *Swedbank*) also managed to get dividends for the last year's period as well. The project (labelled *Hansapank*) is one of the biggest successes in the former Soviet Union territory during last decade. Until "diluted" in April, the bank's stocks were appreciated at 26 euros upon share face value of 0.64 euros; its value had increased 40 times over 10 years!

It cannot be ruled out that *Hansapank* shareholders were somehow forced into such a generosity. It is known that the share of a single issuer on the new pan-Baltic share-list cannot exceed 10%, and in order to meet these requirements the bank had to reduce the value of the stock or stock market turnover (or do both at the same time).

HIGH AND LOW QUOTATIONS DETERMINE RISK'S VALUE

Based on Estonia's *Hansapank* "high" and "low" quotations, the bank and two other companies annual aqds were calculated, i.e. Latvian gas company *Latvijas Gaze* and Lithuanian telecommunications company *Lietuvos Telekomas* (only one company has been chosen for each Baltic state). The results were the following: for April 2004 the figures for these companies were, correspondingly, 35.7%, 8.9% and 68.7%. After that standard probability tables were used to determine investment risks, i.e., probabilities of stock quotations falling against the current quotation during the next month and year (see the graph).

This probability does not guarantee the occurrence of the expected events at the end of the period; the quotations may go down also at the beginning of the calculated period and even show growth towards the end of it. Nevertheless, it is a significant step ahead as compared to what information analysts currently "feed" the investors. In the same way probabilities of favourable investment events (i.e., growth of quotations during a set period) can be determined too.

All this allows to formalise the procedure of preparing investment decisions concerning the need to keep certain stocks in the portfolio or get rid of them, or, in case of buying stocks, which stocks have minimum risk or maximum probability of growth.

In addition, such probability approach makes easier development and understanding of fixed-term financial instruments' mechanisms, such as options which are regarded in financial circles as high maths. In this respect the Baltic stock market (with exception of Estonia) is seriously lagging behind the European and world level.

One does not have to be deluded by this fact. Probability model can be adequate only as long as events develop "as they used to be" because the method is based on statistics and is unable to predict surprises like the split of *Hansapank* stocks. So to say, the method can only be used as an auxiliary means when making investment decisions. ■

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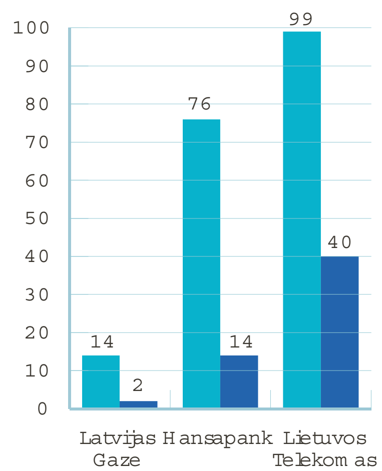


Source: Baltic stock exchanges' information.


RIMI Latvia

Warehouse market paradoxes in Latvia

by Tatyana Andreyeva

Latvian warehouse situation seems quite paradoxical. Demand and supply sides are rather balanced, i.e. there are 10 warehouses per 10 lessees. The problem is that the facilities do not meet technical and sanitary requirements of potential users. Therefore out of 10 warehouses available, 4-5 at best are bought or rented out. Large retail businesses choose to build modern distribution centres.

CLASSIFICATION AND LOCATION

Somehow, Latvia has remained without classification identifying warehouse types. Mr. **Arnis Purcens**, commercial space expert of *Latio* realtors, offered to the BC his version of the situation: "Roughly, available warehouses can be divided into three categories: basements and semi-basements in old buildings in Riga centre; brick industrial buildings of the Soviet era; and hangars, metallic structures built a decade ago."

Only Category 1 warehouses can be found in the centre of the Latvian capital. As a rule, these warehouses are located in unfavourable neighbourhood (drug addicts, hooligans and drunks). This refers to Stabu, Turgeneva, Avotu streets. It should be said right away that such facilities are quite few.

Outside the city centre, the picture is different. Kengarags, Teika, Sarkandaugava suburbs – they all used to house large industrial plants which are no longer used for production purposes and instead are offered to clients as storage spaces.

Clusters of hangars are most frequently found in Zolitude and Ilguciems areas as well as outside the city borders along highways passing through Rumbula and Marupe districts.

WHO ARE THE OWNERS OR LESSEES?

These are either tradesmen or manufacturers. The first group would include wholesalers and firms selling bulky goods, such as construction materials, often in combination with a retail store. Manufacturers are represented by small companies making bread and pastry products. If tradesmen have warehouses in excess of 10,000 sq.m, manufacturers are content with smaller space, e.g. 200-300 sq.m. But there are quite many of them.

New companies, which entered the market recently and do not have enough capital or confidence about staying for good, prefer rented warehouses. Those, who have decided to stay, prefer to build their own storage facilities. And it is not only because it is cheaper, the situation on the market is paradoxical. Demand and supply are rather balanced with 10 warehouses per 10 lessees. The problem is that the warehouses do not meet requirements of potential buyers: they lack ventilation, utilities or other important details. Therefore out of 10 warehouses available, 4-5 at best are bought or rented out.

Prices vary depending on the technical condition and location of a warehouse. A more or less recently built facility can be bought for 300-500 euros per sq.m. But one can also find storage space, e.g. at a former meat processing plant for 250 euros per sq.m. As to rented space, it would cost 1.5-2.5 lats per sq.m. The size of the warehouse also matters, and the principle is very simple: the bigger, the cheaper.

TRENDS AND FORECASTS

Mr. A.Purcens mentioned several trends in warehouses' recent development. First, warehouses are being moved outside the city limits. That way businesses save time which, as it's well known, costs money.

Second, most of new warehouses are going to be constructed in the Pardaugava area as there are still vacant plots and prices are cheaper.

Third, owners of basements and semi-basements will face big problems in selling or letting their property. Considering the specific features of this kind of space, they are suited for storage of specific goods like dentistry materials, electronic equipment and machinery.

Fourth, number of warehouses will grow mostly in line with Latvian industrial growth patterns. For example, new storage facilities will be built along main roads just outside the city limits.

LARGE RETAIL CHAINS AND WAREHOUSES

The tradesman's business is to serve the client, not to put goods in storage rooms. "We are not so rich as to freeze working capital", businessmen usually say. Nevertheless, retailers must keep some stocks of food or manufactured goods at hand right at the store. Today almost all retail stores have on-site storage rooms. True, they take up only a small fraction of the total area and are meant for short-term storage. Stocks in on-site storage rooms are replenished by suppliers when necessary. Management and optimisation of deliveries and spare stocks in warehouses play a great role for both suppliers and retail chains.

Direct deliveries from producers to stores are no longer regarded as satisfactory arrangement, and here's why. "Three years ago we studied the situation in our retail chain," – Mr. **Dzintars Reksnis**, the delivery chain management of *Rimi Latvia*, told the BC. "Some stores were taking up to 150 direct deliveries from suppliers daily. This meant unnecessary administrative costs, queues, waste of time and human resources on both sides — the store and the supplier".


T.Strakhova

A.PURCENS: The bigger the warehouse, the cheaper running it.

Fierce competition among retailers made them look for ways to improve accessibility of goods, efficiency of deliveries and, at the same time, ensure strict control over quality and freshness of delivered products. "We want stores to focus on serving clients instead of accepting goods at the reloading ramp", — tradesmen declared. And they started building distribution centres.

Scandinavian-owned *Rimi* retail chain pioneered the trend in Latvia, having invested 13 million lats in a distribution centre which opened in May 2003; thus they have laid the trail for others to follow.

This centre has a total area of 28,000 sq.m. divided in four units by groups of products, i.e. dry, cooled, frozen, and fruit and vegetables. Store-rooms are adjusted to storage for products at the temperature ranging from -22 C to +30 C degrees. All suppliers bring their goods there, and shipments to each specific shop are also put together in the same place. The management said that about 45% of all products' turnover now passed through the central warehouse, or rather a distribution centre, and by the end of summer the rate is likely to go up to 85%.

Lithuanians followed the suit of Scandinavian investors, and *VP Market* retail chain opened its distribution centre in Riga in autumn 2003. So far the facility handles only dry goods.

"European experience shows that many large retail chains choose centralised delivery model, using distribution centres for the purpose. In Europe even products with three-day shelf life pass through the central warehouse, no matter what sceptics say about the delays. Therefore the future belongs to distribution centres", said Mr. D.Reksnis.

In Europe, for example, there are two distribution levels; at first, these are specialised warehouses by the profile of goods. Then from these specialised warehouses goods are taken to regional centres and only afterwards they are delivered further on to retail outlets. This practice would hardly take roots in either of the Baltic states, although it might be useful in the Baltic territory. ■

Bonded warehouses in Europe face problems

by Tatyana Andreyeva

Mikhail Fridman, Vice-president of the Latvian national association of freight forwarders, Vice-president of the International Federation of Warehousing Logistics Associations (IFWLA), President of *Atlas* manufacturing and commerce company, talks to the BC's correspondent about the new situation concerning bonded warehouses' activity.

T.Strakhova

MIKHAIL FRIDMAN: The moment of truth for bonded warehouses will come in June and July.

Mr. Fridman said: "So far we do not know how many of the 200 bonded warehouses in Latvia have kept their status. About a dozen warehouses throughout Latvia's territory failed to re-register. But May is not a very good month for such a reference because we were finishing off what was left from deliveries in April and warehouses were packed up as everybody tried to make full use of capacities on the eve of May 1st.

Latvian bonded warehouses were already prepared to work according to the EU legislation. Therefore the general types of warehouses, e.g. A, B, C, D, E and F remained the same, and we have had no problems here. Registration was done almost in time. Even though warehouses have not yet received their licenses in printed form, they have acquired the new registration numbers, and all warehouses are functioning well.

As to June and July, these months will mark the moment of truth for many bonded warehouses. For now cargo-flow through the warehouses has reduced by some 50%. Most shipments from the EU go around the bonded warehouses.

EURO-WAREHOUSES AND OTHERS

As to warehouses' technical condition, we have two groups of companies here. One group consists of beneficiaries of Western investors that build new and modern facilities meeting the EU requirements (there are about a dozen of them). Another group of warehouses inherited from the Soviet times, are run by local businesses. These warehouses are in bad technical condition and investments are required to make them competitive.

A modern warehouse is not just a facility made of good quality and up-to-date materials. It will have advanced and cost-efficient ventilation and heating systems, automated warehouse-stacking equipment have to be installed. Everything's run by computers, bar codes are part of the procedure, and every loader has a radio link to the central computer. Basic running costs of such warehouse operations are much lower than at the warehouses built during the Soviet era. Construction of a modern warehouse with the area of 2,000 sq.m would cost at least one million euros, without the cost of the land.

EU DOESN'T LOBBY FOR EVERYONE

Warehousing industry is extremely important for the Baltic states, and I do not understand why we did not insist that the EU should list it among priority branches of the Baltic economy with due support from the EU funds. Obviously it seems that the EU is not interested in developing transit business in the Baltics. The reason is simple: the EU does not want to create additional competition for Finland. In fact the EU is turning Finland into a market monopolist, although such approach could hardly be justified. And it does not actually fit with the anti-monopoly principles in commerce declared by the EU.

Now, as we are trying to receive support in line with the EU structural funds, it becomes apparent that large European businesses are getting even greater advantages over local companies. This is one of the negative problems we see clearly today. So far there is no way out of this situation for the simple reason that the "fledgling" Baltic states have not yet learned to lobby their interests in the EU and stand in awe of Eurobureaucrats whatever they say in Brussels.

TRANSIT VIA LATVIA BECOMES MORE EXPENSIVE

In May we had rather big troubles with the new customs procedures, and we are not quite through with it yet. Other EU countries, e.g. France, Italy and Germany also had and still have similar problems because now a new procedure applies to goods to be sent to Latvia or Estonia. In this regard our transitional period into the EU has not ended.

Before joining the EU, a bonded warehouse in Latvia functioned as a storage area exempt not only from customs dues but also from excise tax and value-added tax (VAT). Everything was concentrated there. We received transit from European countries. Goods were either cleared through the customs, if they were to remain in Latvia, or forwarded to the CIS countries. Everything went through the customs territory which was not regarded as Latvian territory. Therefore no Latvian laws about excise tax or VAT applied to the warehouses. Such arrangements were quite reasonable, good for clients and did not obstruct transit facilities.

Nothing has changed today in respect to shipments from third countries: a cargo is brought to the bonded warehouse, cleared by the customs and sent to Latvia or other EU member states. When it comes to European goods which make up about 50% of all transit shipments through Latvia, all that is needed is an ordinary warehouse or

WAREHOUSE-BUSINESS' SOCIAL COSTS

There were 186 bonded warehouses in Latvia before May 1, 2004, each employing on average 30 people, or about 5,500 people employed totally. Each of them paid social and income taxes; everyone received salary, taking care of their families and bringing up kids.

VAT-exempt warehouse. These opportunities, for some strange reason, have not been thought of by local officials, and the latter chose not to have any VAT-exempt warehouses in Latvia, thus restricting business opportunities in the region.

Therefore it would be rather more feasible today to talk about product distribution centers than about bonded warehouses. These centers are complex facilities with three major warehousing capacities, i.e. partly bonded, partly with excise tax-exemption opportunities or functioning as ordinary warehouses. Depending on the country of origin and the category of goods, they are sent to the appropriate warehouse distribution unit. There is a multitude of regulations, a variety of departments laying down the rules for work with different groups of goods. Heaps of papers and reports need to be approved by several departments all at once. The amount of work in documenting the cargo flow has increased tremendously. If previously only one report had to go to the customs authorities, at present there shall be reports to be sent to the tax authorities about the VAT and to the Excise Board about the excise tax, too. There are fewer cargoes but a lot more paperwork instead.

What does it mean? The answer is simple — transit of goods through Latvia has become much more expensive, and we are losing competitive ability in comparison with other EU member states. But probably it's good for Latvian authorities, as they have some extra work to do which the existing staff cannot handle and more civil servants have to be hired urgently. So in that way we are doing the worst thing — sawing off a branch on which we ourselves sit on.

CONCLUSION

In order to remain in the market, business people in logistics and warehouse business must first of all strive for liberalization of Latvian laws which presently only make work procedures on the domestic market complicated. The number of reports to be filed on transit goods passing through our country must be cut down, and reports themselves must be made as simple as possible. In addition, our government must provide much broader access for local transit business to the EU structural funds so that they could renovate and upgrade their existing facilities. Then, having created own Latvian business environment, those companies will stand a chance to survive in the fierce competition battle.

The present situation is not totally hopeless, and we are still functioning. We get assistance from progressive members of the government, who listen to practitioners' opinion and try to find constructive solutions together with people from business circles. Under the auspices of the Transport Ministry, a task force has been created composed of members of logistics business associations, e.g. forwarders, stevedores, customs brokers, truckers, workers in railways and ports. Together we are working on proposals to the government for normalizing the situation. The sooner these proposals are put into practice, the better are the chances for Latvian business survival.

Our time is not up yet. We have next to us a huge and growing Russian market, the CIS and Asian countries. There will be work for all of us in Estonia, Latvia and Lithuania to do. ■

Euro-type warehouse as a safe investment

by Tatyana Komorskaya
Lithuania, special report for the BC

Two new trends have become obvious on the Lithuanian warehouse market. One is geographical – bonded warehouses are being built along the new EU border. The other is technical – there is a great, so far unsatisfied demand for euro-type warehouses.

T.Strakhova

The warehousing industry is coming back to life. The old warehouse market is rather balanced, and it's no longer true that the supply is far greater than the demand, as it used to be several years ago.

It is not too hard to sell or to buy a warehouse unless the client has in mind specific parameters, geography or other special requirements. Realtors say that the best-selling size is 800-2,500 sq.m but orders can also be very much different, for example, a retailer could ask for 15,000 sq.m of storage space. The demand is there, and tends to grow. The price depends on quality of goods.

NEW WAREHOUSING GEOGRAPHY

Main Lithuanian warehouse market trends are that of the geographical nature, i.e. bonded warehouses are being built along the new EU border (this factor has a practical notion, e.g. to take business away from current transit service providers), and of the technical one – there is still a great demand for euro-type warehouses. Those, who decide to invest in this sector, would be on the winning side. And there are more and more such investors.

The situation with warehousing business at Lithuanian ports is somewhat different. The warehouse boom at ports started long before other sectors where only few "test items" have been put on the market so far. Port warehousing business grows at an enviably steady pace. Investments in bonded warehouses soared already in late 2003 in anticipation of the Lithuanian-Belarus border acquiring the status of the EU external border, and the companies do not spare money for such development projects.

Developers are not scared of the new business, hoping that Lithuania would become a country for sorting cargoes sent from the EU to the CIS countries, as it is being done on the Polish-German border. In addition, the cargo flow in that direction is growing as the CIS countries' living standards are rising.

There were 127 bonded warehouses and 25 import-export terminals (for temporary storage purposes) about a year ago in Lithuania. Part of the out-dated facilities have been closed down. Nevertheless, the latest figures show 143 warehouses and 25 terminals. Expected shipments of EU goods are the best incentive for investments. According to the Customs Department, 15 permits for organisation and construction of bonded warehouses have been issued in the first quarter of 2004 alone.

Vinges terminalas, the owner of several bonded warehouses, has invested about 12 million litas in this business. Investments are planned by *Paneriu terminalas* too, and *Vilniaus tranzitas* is building a new warehouse. They are driven by hope that suppliers will pick for re-sorting of goods warehouses in one of the border nations with good relations with the EU. Why not, considering that warehouse service prices in Lithuania are almost three times lower than in Finland which receives nearly 66% of all cargoes destined for Russia. Now everybody waits to see whether Lithuanian investments in warehouses will pay back. Some forecasts suggest that upon increased cargo flow warehouse owners could raise prices for their services. Lately the monthly rent at bonded warehouses has been around 10-15 litas per sq.m.

MORE WAREHOUSES WILL BE BUILT

This is what construction companies say. Mr. **Igor Frizen**, the head of *Litana* company specialising in designing and construction of warehouses installations from light metal components, said that they have built shopping centres, industrial plants, sports halls in Lithuania, Kaliningrad, Latvia. But recently about one-third of the company's total turnover comes from building a variety of warehouses for agricultural purposes, light industry and food industry (dry cargo storage).

Depending on the type of products to be kept in the would-be warehouse, their owners make all kinds of demands, like


The BC archives

IGOR FRIZEN: Every third warehouse built by *Litana* is a freezer.

keeping temperature steady. Requirements to floors are high: in addition to its main function, the floor must not attract dust and has to be resistant to water, chemical and physical factors.

A year-and-a-half ago *Bega Litana* built in the Klaipeda port a mobile warehouse that is very convenient for bulk cargoes. It was designed with 4 large hatches in the roof for loading, as specifically requested by the client. For Lithuania's leading beer maker *Svyturys* a warehouse with the area of 3,500 sq.m was built.

Allocation of subsidies to agriculture, their disbursement through SAPARD funds and during preparations for the EU membership, all that have had positive effect on renewal of warehousing industry. Mr. Frizen said that every third warehouse built by *Litana* is a freezer. Earlier the company built a modern plant for *Rovisa* meat packer and now has added a refrigerated warehouse with area of 300 sq.m and pneumatic product conveyors.

A technological park is under development in the Klaipeda free economic zone. Some warehouses are being built and rented out on Irish orders. The first stage covered an area of some 3-4 thousand sq.m. At present negotiations are under way with participation of *Litana* about building the second stage involving about 500 sq.m of warehouse and office space.

PORT WAREHOUSES ARE STILL HALF-EMPTY

It is the impression of experts working for *KLASCO*, the largest operator in the Klaipeda port, that the demand for warehouses currently exceeds capacity of cargo owners; clients are very actively inquiring about storage of the most diverse cargoes but the actual flow of general cargoes is not that large. Warehouses are half-empty at the moment. Most of the goods in storage are bulk cargoes: grain, sugar, minerals. All *KLASCO* warehouses have the status of bonded warehouses – the general A-type, or the long-term storage E-type.

Despite clients having adopted a waiting stance, market trends and forecasts allow to presume that the demand for specialised general cargo warehouses will be growing because, as the joke goes among warehousing experts, "the entire Europe is like a huge store". Therefore storage space for cargoes is being prepared in advance.

Enclosed warehouses at the cargo terminal owned by *KLASCO* take up a total area of 56,865 sq.m. Out of 11 warehouses, 5 are modern facilities, one of them designed for frozen products. During the last five years since privatisation of *KLASCO,* three enclosed warehouses have been built, designs are being worked out for another enclosed general cargo warehouse at the container terminal and some small specialised warehouses at the cargo terminal.

The bulk cargo facility has reservoirs for liquid fertilisers with capacity of 87,000 tons, triple-storied warehouses for grain (bulk food products) with capacity of 60,000 tons. The biggest terminal in the port, able to hold 120,000 tons, was put into commission at the bulk mineral products terminal on July 9, 2004. The container terminal has outdoor storage area of 70,000 sq.m as well as an enclosed warehouse with the area of 2,400 sq.m and one more will be built for storage of packaging and other needs.

LOGISTICS PLUS DISTRIBUTION

"Since our company invests only in top quality structures, our requirements are accordingly high", said Ms. **Dita Purlene**, deputy marketing director of *Ranga IV* company. "Warehouses must have good access roads and be located not too far from the city centre, that is, not only logistics but also distribution has to be convenient".

She added that European standards mean secure territory, convenient ramps, ventilated rooms, warm temperature in winter (to be more precise, the possibility of adjusting air temperature inside the room). Warehouses should have office spaces too. Lithuania still feels shortage of modern warehouses therefore we found lessees very quickly while the construction was still underway. The demand was so great that we sold the whole project (buildings and lease agreements) to another investor. The same happened also with our warehouse near Riga in Latvia, she concluded.

The logistics centres with area of 22,000 sq.m built by *Ranga IV* in Vilnius was bought by *Baltic Property Trust Secura,* a Danish real estate investment fund which invests in premium commercial property in the Baltics. The deal was financed by the Vilnius branch of German bank *Vereins und Westbank*. International realty advisors *Koba* acted as the intermediary on the deal. It was one of the largest sales and lease transactions made in Lithuania.

Ranga IV is about to complete another project with great prospects: a warehouse complex in Riga on a plot of 77,200 sq.m, just 7 kilometres away from the city. The complex will have all the utility supply lines, telephone and computer lines, all modern technical facilities and comfortable offices.

COMMERCE PREFERS LEASES

Lithuania's largest retail chain *Vilniaus prekyba* has warehouses with total area of 100,000 sq.m. Half of them belong to *VP Market* itself, and remaining 50,000 sq.m are rented by the company. All products are put into 15 warehouses which are further split into 30 storage units. These include store-rooms for manufactured goods, clothing, seasonal goods (for school, seasonal holidays), food (cereals, beverages), fruit, vegetables and frozen foods for the company needs. The warehouses are used for supplying goods to 186 sales outlets located in Lithuania, and part of shopping centres operated by this retailer also have some warehousing capacity.

The company keeps expanding therefore warehouses' issue is very important. Most likely, the company will rent additional storage space. Current quality and prices of rented warehouses are perfectly acceptable to this retail giant. Probably the only thing missing is a warehouse with a very large area for storing huge amounts of goods. ■

WAREHOUSE RENT, LTL/SQ.M

Ordinary warehouse	4-6
Newly improved, e.g. built from Ferro-concrete materials	6-8
Renovated warehouses	8-12
New, European-style warehouses	12-18

Compiled by the author.

Only niche business can flourish

by Valentin Zvegintsev
Estonia, special report for the BC

Estonian warehouses' industry went through a lot of changes in the last year-and-a-half. Estonia was told well ahead of its EU membership that all warehouses had to be put into order urgently and brought up to the EU standards. As many as 372 warehouses feverishly set out to this end, but many could not keep up with the requirements and quit the race.

Today Tallinn faces the situation where a huge number of warehouses are being sold or rented out. Potential picture of business-type warehouse usage provides for two main "portraits", i.e. that of the big and medium-sized undertakings. Small companies at the moment try to save money on anything they can.

Warehouses are mostly used for storing essential goods. Those, who have found their niche, flourish. For example, *Tobaccoland* company, the distributor of tobacco products. Alcoholic drinks warehouses also do quite well.

TRADE: DIFFERENT APPROACHES

Large retail chains in Estonia have different approaches to arrangement of warehouses. *Prisma* retailer based in Tallinn decided that it in principle won't have any common warehouse for the whole sales network. When the BC inquired about the company's warehousing requirements, *Prisma's* manager **Riina Usko** said: "We decided that it does not make sense to rent large floor-space only to have a warehouse there. Those would be the extra costs that we try to avoid. If we were renting a warehouse or built one for ourselves, the money for maintenance of the facility would be automatically added to the price of goods and we won't be able to keep prices at the current level".

Actually *Prisma* prices are not that low, but there is some truth in what the manager said because prices in other supermarkets are higher, if only by a small margin.

Ms. R.Usko said that each *Prisma's* shop had its own little store-room for keeping the necessary minimum of products. "If we are running out of any stuff on the shelves, we call suppliers, and when the delivery arrives, we put it in the sales area right away".

Another (much larger) retail business, *AS Kesko Food* that runs *Citymarket, Saastumarket* and *Supernetto* shopping chains, did just the opposite, deciding that they needed a medium-sized warehouse so that goods could be put out in the sales area at any time.

It should be mentioned that the *Kesko* retail company has stores all over Estonia but the warehouse is situated in a Tallinn suburb. The warehouse is not too large and occupies about 15,000 sq.m. It was difficult for our magazine's reporter to find out what actually made the company to decide that it needed a warehouse. The company representatives got scared of our questions. They wouldn't even give their names, thinking that we were making inquiries on behalf of their rivals.

BONDED WAREHOUSES CAN BECOME OBSOLETE

Just a couple of years ago the situation with bonded warehouses was a mess. There were problems with everything. First, Estonian bonded warehouses were used for various fraudulent activities. For example, in situations where part of the shipment was allegedly missing from the warehouse. A more thorough investigation revealed that the value of the goods was inflated; part of them had become obsolete and was written off. Investigators, somehow, did not even complete the case then.

At about the same time Tallinn's bonded warehouses switched to a new, electronic warehouse control system. Since 2002 all warehouses have been using the *ASYCUDA* software. Initially the program caused a lot of confusion; because of glitches in the system, it claimed there was no such

V.Salupuu

goods in the warehouse while in fact they were lying right beside the computer.

Customs Department spokesman **Aivar Pau** assured the BC that things have changed a lot since then. Today the system runs smoothly. Its introduction has made life much easier both for the warehouse personnel and the goods' owners. There are over 100 warehouses in Tallinn alone but they are all linked into one electronic network, making work much simpler.

Regulations applying to storage of goods have also changed with Estonia's accession to the EU. Before May 1 goods were kept at the warehouse without payment of the value-added tax, but now the tax has to be paid because a bonded warehouse presently is considered as an ordinary warehouse where it can store goods and products from the EU countries. At first customs officers thought this would bring about an upsurge of contraband goods flow from third countries but so far there hasn't been much change during the first months of Estonian membership in the European Union.

The customs also expect warehouses to empty soon as most of goods will be carried in transit through Latvia which has managed to negotiate a one-year payment relief from all the duties. According to the customs officials' estimates, just because of that Estonia will lose 70% of transit goods. ■

WAREHOUSES FOR SALE, EEK/SQ.M

Location	Newly-built	Renovated	Depreciated
Tallinn centre	4000-6000	2000-4000	2000-3000
Suburbs	3000-5000	500-2000	500-1000

Compiled by the author.

WAREHOUSES FOR RENT, EEK/SQ.M

Location	Newly-built	Renovated	Depreciated
Tallinn centre	50-70	40-50	20-40
Suburbs	40-50	30-35	15-30

Compiled by the author.

No miracles expected after EU accession

by Mikhail Tuzhikov

Growing oil product prices have caused dismay among users in the Baltic states. The BC tried to look into reasons behind this situation, which originated well ahead of the EU membership.

The BC archives

Gasoline prices didn't jump up on May 1; this happened well before admission of new members to the EU. Latvian Economics Minister **Juris Lujans** told the press about two objective factors behind the price growth. One of the factors is of local origin – the excise tax on fuel has been raised. The other is of global nature – oil price has reached a record-high level on the world market. At the same time, experts believe that some more factors have been involved in the process.

GASOLINE APOCALYPSE

It seems nothing in the world happens without a certain reason behind; the steeply climbing fuel prices follow the same pattern. Western analytical centres already in January published information that the EU enlargement to the Eastern European direction was bound to lead to a gasoline price hike in the new EU member states.

The situation on the oil product market started deteriorating in April this year and aggravated in May, reaching its peak towards the end of the month: on May 17 oil prices hit USD 41.85 per barrel, a new record-high since 1988.

According to *Interfax-AFI*, for last four years crude oil price on the New York Commodity Exchange has been USD 29.17 per barrel as compared to USD 19.84 from 1996 to 2000. Members of the OPEC oil exporting countries have repeatedly declared that the price growth could be justified by inflation and the falling USD rate against the euro. Already back in 2000 a so-called fair price corridor at USD 22-28 per barrel had been envisaged. Nevertheless, crude oil price has stayed above USD 30 per barrel ever since December 3, 2003, with OPEC countries now claiming that the price of USD 34 per barrel was fully adequate to real cost of oil production.

At present it is very profitable to keep oil prices high because the demand is higher than the supply. A new player – China – has entered the world market and beaten all records recently as its oil and oil products consumption were increasing in geometrical progression, elevating it to the second place in the world after the USA. This has influenced the market situation. International experts believe that it is the reason why OPEC members periodically (and some of them constantly) exceed oil production quotas with the Saudi Arabia in the lead. Unstable and explosive situation in the Middle East only facilitates such actions.

The Financial Times in April reported the expert opinion as follows: "The OPEC decision to raise oil production quotas in the nearest future is unlikely to bring the oil price below USD 35 per barrel because this decision will not deal away with the imbalance between the demand and the supply on the market".

Experts believe that the OPEC is exercising strict control over demand-supply ratio to prevent oil consumer countries from accumulating large reserves.

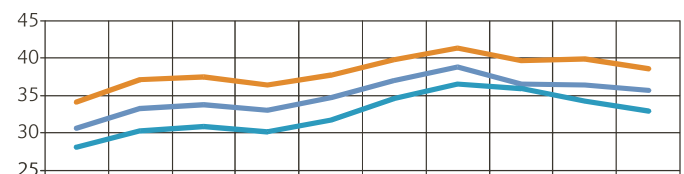
But the main reason behind the gasoline crisis is the depletion of world oil reserves that will be exhausted in 40-50 years, according to *British Petroleum* estimates. The USA has practically used up its resources of crude hydrocarbons, and South America and Africa are heading in that direction too. All hopes now turn towards the Middle East that has used just one-fourth of its resources, and Russia where only half of known deposits have been developed. It becomes obvious why the export duty for Russian oil was raised from USD 35.2 per ton to a record-high USD 41.6 and the duty for export of liquid fuel, propane and butane-gas increased by nearly USD 6 as of June 1, 2004. And this is not the ceiling yet: experts expect Russia to introduce a new oil export duty of USD 55.4 per ton sometime after August 1.

At present the world oil production has almost reached its maximum capacity. Experts think it can grow another 5-10% by 2010 but after that the decline is inevitable. By 2050 oil production will shrink 1.5 times and the price growth to follow will be disastrous.

SPECIFIC BALTIC SITUATION

At the beginning of June in all three Baltic states the most widely used motor gasoline "95 E-type" could be bought most cheaply in Latvia (USD 0.879 per liter). In Estonia the price was USD 0.913, and the Lithuanian price was the highest at USD 0.991. The main players on the Baltic oil product market have been the same for a long time – *Statoil* (Norway), *Neste* (Finland), *LUKOIL* (Russia) in retail business, and Russian-Lithuanian wholesaler *Mazeikiu nafta* (53.7% percent owned by Russia's *YUKOS* with the Lithuanian government holding 40.66% and private investors 5.64%). It would be logical to assume that Lithuania and Estonia would be in a better situation as the former has its own oil refinery and the latter is close to Finland that carries oil products by tankers. But in reality it's the other way

DYNAMICS OF WORLD CRUDE OIL PRICE FLUCTUATIONS (USD/BARREL)



	02.04	09.04	16.04	23.04	30.04	07.05	14.05	21.05	28.05	04.06
Brent (2-M, London's IPE)	30.65	33.34	33.79	33.09	34.73	37.08	38.85	36.60	36.38	35.77
Urals (CIF NEW, spot)	28.07	30.34	30.83	30.16	31.74	34.64	36.53	35.94	34.27	32.91
NYMEX (2M, NY)	34.16	37.14	37.58	36.48	37.72	39.86	41.35	39.70	39.88	38.55

Source: Bloomberg, world economic news, June 05, 2004.

round: prices are the lowest in Latvia and the highest in Lithuania.

This is due to the EU levelling out excise tax on fuel which is EUR 287 per ton in new member states and EUR 359 in old member states. Out of all Baltic states, Lithuania was the first to raise the excise duties and therefore became the region's leader in gasoline prices, even though the EU newcomers have been given transitional period for gradual tax rise: Estonia has to bring the rate up to EUR 359 by January 2010 and Lithuania and Latvia have been given time till January 2011.

Lukoil-Baltija R board chairman **Haim Kogan** said that the Baltic states are in a specific situation regarding their oil products. The oil refinery in Mazeikiai, which uses Russian oil, is their only supplier of gasoline 95 E. Fuel brought by *Neste* in tankers from Scandinavian countries accounts for a small percentage of the total fuel consumption and cannot visibly change the overall picture.

The BC's own research says that it is *LUKOIL* President **Vagit Alekperov's** intention to start production of "gasoline 95 E-European standards" at Nizhny Novgorod Oil Refinery (Russia) by the end of the year. In that case the situation in the Baltic states can improve; although it's too early to say what would happen.

In the EU the price for gasoline 95 E is usually over one euro per liter (EUR 1.31 in the Netherlands and Denmark, EUR 1.15 in Germany, EUR 1.05 in Portugal). The Baltic population will hardly be able to afford such luxury at current wages. On the other hand, the Latvian State Revenue Service said that 226,600 tons of oil products were sold in the country in the first quarter of this year, up 2% from the same period last year. In May this year gasoline sales also increased a little. The price rose but sales grew along with it – just like in the Soviet times when there was a deficit for everything but everybody had their fridges stuffed full with food. It seems as our own specific situation, so to say.

NUMBER OF GAS STATIONS BY LEADING FUEL RETAILERS IN THE BALTIC STATES

	Lithuania	Latvia	Estonia
Lukoil	109	30	37
Neste	29	32	30
Statoil	53	52	52
Hydro Texaco Baltic (UNO-X)	21	5	24
Aris	7	11	5
Others	227	437	250
Total	446	567	398

Source: Companies' data.

CHANGES DUE TO THE EU ACCESSION

The EU membership did not produce any significant changes in our work, said Mr. Kogan. Nevertheless, he added, we had had certain problems affiliated to the EU requirements, such as:

• having a 23-day national strategic reserve fund (the price of work worth USD 1.5 million);

• renovating and upgrading national oil storage facilities to bring them in line with the EU environmental requirements (it's expected to be USD 6 million in renovation costs).

Thus, with all costs added up, the EU accession is valued at *Lukoil-Baltija R* at about USD 7.5 million, he confirmed.

There is a question of risks tied to the establishment of national strategic reserve fund equal to 23-day consumption for the Baltic states, says Mr. Kogan. The problem is that the fuel reserves must be replaced periodically, i.e. old supplies have to be sold and new fuel filled into reservoirs. If today fuel costs, let's say, USD 350 per ton but tomorrow the price drops to USD 200, who will cover the risks? At present only the oil product owners have to bear the losses. The state wouldn't move a finger, even though it is called the "national" reserve. Moreover, no one is going to pay for the fuel storage. So the situation is pretty absurd – you buy fuel, you store it and also take the risk while the state does not give anything at all.

The EU requires that the new member states should have strategic oil reserves to cover at least 60 days' consumption; for old members it's 90 days. The amount of the reserve is determined by the following method: a percentage of annual oil product imports is divided by 365 days and multiplied by 60 days. The Baltic states were given a transition period of several years in order to create the 60-day strategic reserve gradually. During the first phase of the transition period Estonia undertook to create a reserve for 5 days, Lithuania chose 11 days and only Latvia "rushed ahead of the whole world", committing itself to a 23-day reserve right from the start.

From July 1, 2004, all the EU newcomers must have a 30-day national strategic oil product reserve fund, and there's no doubt that fuel prices will again be affected.

"Actually the strategic reserve fund is a stupid idea, said Mr. Kogan. The EU directive allows the owner to keep fuel reserve in any EU member state. Let's presume that a Latvian businessman stores his strategic reserve in Portugal or Malta. What good it would do for Latvia when the real problem appears? The absurd situation has come from the original fact that this directive was adopted at a time of the EU with only 6 members located in the centre of Europe. At that time it was a sort of reasonable decision, but today such a requirement had lost its meaning and only gives headache to business people."

MARKET SETS PRICES...

IN ESTONIA:

The largest fuel companies operating in Estonia announced motor fuel price rise almost simultaneously. *Neste, Statoil, Olerex, Alexela Oil, Hydro Texaco* raised prices per liter by 10-20 cents depending on the gasoline type. Experts noted this simultaneous price increase which suggested an obvious agreement among competing companies. On the other hand one must not forget that the Estonian government had officially acknowledged the idea to bring Estonian motor fuel prices up to the EU level by raising the excise taxes.

When the BC asked *Neste Eesti AS* director general **Indrek Kaju** about ways to combat the price growth, he simply said: "I think that free competition on the market will put all things in their right places and level out the prices. I do not see any other effective means to combat growing prices. One can, of course, protest by refusing to buy some kind of oil products, but I doubt whether consumers would agree to such restrictions. I have not heard about

J.Tamme

INDREK KAJU: Free competition on the market will level out prices.

GASOLINE 95 E PRICE GROWTH DYNAMICS (USD/L)

Country	23.04.04	30.04.04	07.05.04	14.05.04	21.05.04	28.05.04	04.06.04
Lithuania	0,879	0,898	0,937	0,928	0,966	0,986	0,991
Latvia	0,785	0,803	0,842	0,833	0,848	0,868	0,879
Estonia	0,764	0,779	0,878	0,859	0,875	0,894	0,913

Source: BNS, Baltic economic news, June 5, 2004.

any civic protests here, apparently we do not have any, as there is no reason to be annoyed".

Mr. Kaju believes that in future fuel cost in Estonia will be influenced by two fac-

Estonia's largest gas filling station chains belongs to fuel companies *Lukoil Tanklad, Neste Eesti, Statoil Eesti, Hydro Texaco Eesti* and *Aris* which operate also in other Baltic states. There are 235 gas stations owned by various small companies working only in Estonia. The biggest of small operators is *Alexela Oil,* which runs 30 stations. All in all, there are 398 gas filling stations registered in Estonia.

tors, i.e. by the world oil prices and the USD exchange rates against the Estonian kroon. "Everything that has had any connection with the EU had already happened", he said.

IN LATVIA:

Lukoil-Baltija R board chairman Haim Kogan does not see any unexpected factors in the price growth because the fuel trader association representatives have been speaking about it for quite some time, warning that the excise tax would rise, and the national strategic reserve fund had to be formed. Nobody expected oil

T.Strakhova

HAIM KOGAN: The old prices will never be back.

prices to rise so steeply but it is a global factor beyond anyone's influence. "The most interesting thing, Mr. Kogan told the BC, is that nobody paid attention to our warnings. But when the high prices hit them, there followed so much noise, fuss and media coverage. And there would be much more when the excise tax rises again.

Fuel retailers working only in Latvia include *Astarte nafta* (16 stations), *Latvijas nafta* (30 stations), *RusLatNafta* (25 stations), *Virsi-A* (19 stations), *Viada* (22 stations), *Trest* (18 stations), *OVI* (10 stations). Latvia has a total of 567 gas stations licensed to sell oil products.

Today we can hardly put up with the situation, e.g. fuel is a very expensive product and taxes are strangling us. Moreover, depletion of world oil reserves, troubles in the Middle East and high prices for the black gold do not leave room for any happy solutions. We should not console ourselves with false illusions that some day oil prices will again be the same as before. This will never happen.

Sometime in the fall fuel prices may slightly reduce as the world oil prices are expected to reduce, otherwise the economy will overheat. The excise tax will remain the same, the strategic reserves too, and therefore we don't expect miracles on the oil product market, concluded Mr. Kogan.

Mr. **Ojars Karcevskis,** board chairman of the Latvian Association of Fuel Traders thinks that the gasoline price growth will cause an avalanche-like increase of prices for all kind of transportation. First of all, the higher excise tax will push up the bus fares.

IN LITHUANIA:

Baltic mass media have reported the following comments by *Mazeikiu nafta* spokesman **Giedrius Karsokas** on current fuel prices. "So far there has been only a lot of talking about future imports from the East. In fact, nothing is being done while world oil prices keep growing. Therefore presently nothing can be said about lowering the prices".

Paul Nelson English, director general of *Mazeikiu nafta*, the only Baltic oil refinery and also one of the largest in Europe, said: "We have an oil refinery that can supply its products to Baltic states as well as the vast Eastern market. Our terminal in Butinge port has provided huge opportunities of export to the West. In our work we do not confine our business only to Western patterns as the best model for our company would be an approach combining the best experiences accumulated both in the West and the East during the last years".

Following its strategic plan, *Mazeikiu nafta* concern has handed the sales department functions over to its trading house; the latter has opened representation offices in Latvia and Estonia. These offices are meant to remove excess intermediaries and guarantee product quality to consumers. **Janis Blums**, director of the Latvian representation office *Mazeikiu Nafta Tirdzniecibas Nams (MNTN)*, told the BC that his main task in the current year is to secure that the Lithuanian company keeps its share of the Latvian market at the following level: 70% of gasoline market, 20% of diesel fuel market, and also increases supplies by 5% at the same time.

"Today *Mazeikiu nafta's* new logistics scheme in the Baltic states has been joined by such respectable clients as *Neste, Statoil* and *Lukoil Baltija* which have made partnership agreements with us, Mr. Blums said. The state of things in Estonia and Lithuania, he continues, is more or less normal, but the situation

P.Liliekis

PAUL NELSON ENGLISH: Western way of doing business is not the only solution.

in Latvia is tense. When the transition period granted by the EU expires on January 1, 2010, only 10 out of existing 70 oil storage facilities will meet the European standards.

Lithuania has 446 registered gas filling stations. The following retailers provide only domestic services: *Ventus-Nafta* (37 stations), *Baltic petroleum* (36 stations), *Livena* (17 stations), *Lariteksas* (13 stations), *Garolita* (12 stations), *EMSI* (10 stations), *Degaline* (8 stations).

This occurred because of lack of funds for timely upgrading of the existing reservoirs. In addition, the Latvian government so far has not helped oil product owners to create and put into storage national strategic reserves. The rules for creation and storage of the oil product reserve put Latvian businessmen at a disadvantage as compared to businesses in other EU member states".

As the concluding remarks for his comments to Baltic News Service on gasoline issues, Mr. Karsokas said: "We follow developments on the oil market and act according to a situation. We have not set unreasonable prices for our products; these prices are determined by the market".

The creation of a three-month fuel reserve fund at the size of 165,900 tons will cost Lithuania about 373 million litas, and another 30 million litas will be required for renovation of storage facilities. ■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IT market in the Baltics: in search for efficiency and diffe

by Egle Stasytyte
Prime Investment, Lithuania

Baltic IT companies in search for competitive advantages are looking for further co-operation and differentiation. IT-service companies are more inclined to profound efficiency. We offer the BC readers our new article on the market situation in IT field, telecommunication market and the Internet development.

IT service companies' revenues can be acquired from such activities as software development, programming, system integration and maintenance, software and system implementation, training, consulting services and sales of in-house software products development. These revenues do not include any sales of hardware, resold software, office equipment or other products. Based on the *Eurostat* methodology assessment, value added in the IT group is calculated from gross operating income by adjusting operating subsidies and indirect taxes. Both tables below do not include results of the foreign companies' subsidiaries and affiliated firms.

Following Baltic IT companies' data for 2003, IT service market has been reduced by 0.2% compared to an average increase of 2.9% as for total IT sales. The top three companies – *MicroLink Group, Dati Group* and *Sonex Group*, which together hold 52% of the Baltic IT services market, experienced a drop by 10.4% in revenues generated from IT services and impinged on the tempo of the entire IT services market. Excluding the top three Baltic IT companies, the sales from IT services grew by 14.2% in 2003. At the same time, competition continued to intensify as the top three Baltic IT service companies lost part of their market share to their smaller rivals.

As the companies' ability to compete increasingly depends on the experienced workforce able to continuously produce added value to the companies, we have expanded our review by introducing a new indicator, i.e. value added at a factor cost. Value added per employee is a measure of a company's performance efficiency. Unfortunately, in our first attempt to introduce the Baltic IT companies' efficiency measurement we have not been able to collect data from some companies which, as we believe, would occupy a good place in the ratings.

In 2003 an average employee of a Baltic IT service company created value added of EUR 101 per working day, an increase of 17% compared to EUR 87 in 2002. In 2003 *Helmes* (EE) emerged as the leader in the Baltics in terms of its performance efficiency, which amounted to EUR 169 per employee per working day, followed by *Elva-1* (LV) with EUR 141, trailed by *MicroLink Group* (EE), *HNIT-Baltic GeoInfoServisas* (LT) and *Informacines Technologijos* (LT), which each

BALTIC IT LEADERS BY ADDED VALUE IN 2003, THOUS EUR

	Added value per employee		Change	Added value		Change	Av. number of employees	
	2003	2002	03/02	2003	2002	03/02	2003	2002
Helmes (Estonia)	43	39	12%	2641	1937	36%	61	50
Elva-1 (Latvia)	36	37	-4%	1582	1234	28%	44	33
MicroLink Group (Estonia)	31	24	32%	21000	15200	38%	677	646
HNIT-Baltic GeoInfoServisas (Lithuania)	31	31	-1%	1104	995	11%	36	32
Informacines Technologijos (Lithuania)	31	40	-24%	3719	3424	9%	122	85
Alna Group (Lithuania)**	22	n.a.	n.a.	5445	n.a.	n.a.	251	n.a.
Tilde Group (Latvia)	21	17	22%	1569	992	58%	75	58
IT Alise (Latvia)	21	23	-11%	3066	3025	1%	147	129
Dati Group (Latvia)	19	18	6%	6571	7065	-7%	350	400
Sintagma Group (Lithuania)	18	14	31%	1944	1395	39%	110	103
BCS (Estonia)	13	12	13%	1409	1373	3%	108	119
New Vision (Lithuania)****	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	110	n.a.
Blue Bridge (Lithuania)***	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	66	48
Algoritmu sistemos (Lithuania)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	44	45
Baltic Amadeus (Lithuania)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	110	108
Sonex Group (Lithuania)	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	500	400
Average	26	22	17%	-	-	22%	-	-
Average per working day, EUR	101	87						

Source: Prime Investment.

** Approximate share of IT services revenue in total revenues.*
*** Financial results do not include data on Alna's daughter company UAB Alnos biuro sistemos and its subsidiary UAB Konferenciju ir audiovizualines sistemos, which are engaged in IT office supplies.*
**** Only the parent company.*
***** A member of Varos Group. New Vision was created after structural transformations in Varos Group in 2003, therefore the results for 2002 are not available.*

erentiation

had an employee producing EUR 122 of value added per working day in 2003.

With an intention to concentrate on core business activity which would facilitate further growth and competitiveness in the Baltic and EU markets, the largest IT service companies have been cutting off all extraneous activity lines and reinforcing their IT service teams by establishing partnerships with international industry leaders. *MicroLink* refined its IT solutions and services activity by selling *Delfi*, the Baltics largest Internet portal, in December 2003 and divesting its shares in *SAF Tehnika* in May 2004. *Alna Group* tried to improve their ability to cater to large global IT service contracts by establishing a strategic alliance with *Moksha Technologies*, the IT services leader in India in February 2004. In April 2004 *Alna* and *Sonex Group*, the former competitors, decided to swap their business units, thus asserting greater specialisation in their core business lines and becoming strategic partners. ■

GROWTH OF INTERNET USAGE IN BALTICS LOSES MOMENTUM

Over 2003 the growth of Internet users' rates decreased in all Baltic countries, the research conducted by *TNS Emor* has shown. The growth rate of Internet users in Estonia, for example, decreased from 30% in 2002/2001 to 9% in 2003/2002, while corresponding development in Latvia slowed down from 24% to 10% over the same period. Although Lithuania showed the largest growth of Internet usage among the Baltic countries, reaching 25%, the growth has slowed down compared to 82% achieved over the period of 2002/2001.

ONLINE REACHES 1.4% OF LITHUANIAN AD SPENDING

The rate of Internet audience's growth and ever-extending Internet role in consumers' daily lives were the key driving factors behind the Lithuanian Internet advertising market development in 2003. According to *TNS Gallup* poll, Internet advertising expenditures increased by almost 150%, totalling EUR 1.07 million in 2003 compared to EUR 0.43 million in 2002. Internet advertising share of Lithuanian media advertising budgets has increased from 0.6% to 1.4%. Internet advertising markets in Latvia and Estonia were worth EUR 1.26 million and EUR 1.79 million in 2003, representing 1.9% and 3.0% of all media advertising expenditures, respectively.

LOW LEVEL OF COMPUTER USAGE DETERS LONG-TERM GROWTH PROSPECTS

High PC sales prices compared with the rest of the Baltics reduces IT facilities' home use in Lithuania. According to *eEurope + 2003*, only 22% of Lithuania's households had in 2003 at least one computer at home, while the same indicator in Latvia and Estonia was about 30% and 37%, respectively. Average PC acquisition costs represented 366% of gross monthly household income in Lithuania whereas it was 204% in Latvia and 184% in Estonia.

In an effort to foster IT usage in Lithuania, the government assented to the proposal to introduce tax incentive for people purchasing PC for home use. According to the proposal, Lithuanian residents may deduct the PC acquisition costs including licensed software of up to LTL 4,000 (about EUR 1,158) from their taxable income once in three years. The proposal, which is still subject to parliamentary approval, is expected to facilitate the home use of PCs and reduce the percentage of pirated software.

LEADERS OF BALTIC IT SERVICES SECTOR IN 2003, THOUS EUR

	IT services revenue		Change in IT services rev.	Services as % of total rev.	Total revenue		Change of total rev.
	2003	2002	03/02	2003	2003	2002	03/02
MicroLink Group (Estonia)*	18624	18972	-2%	32%	58200	61200	-5%
Dati Group (Latvia)	10386	13338	-22%	100%	10386	13338	-22%
Sonex Group (Lithuania)	9268	10426	-11%	17%	55317	41995	32%
Alna Group (Lithuania)**	7623	7343	4%	40%	18946	22675	-16%
Informacines Technologijos (Lithuania)	6266	4821	30%	83%	7552	6699	13%
IT Alise (Latvia)	5059	4802	5%	85%	5938	6222	-5%
BCS (Estonia)	2549	2697	-5%	41%	6153	7701	-20%
Tilde Group (Latvia)	2480	1681	48%	83%	3002	2055	46%
Blue Bridge (Lithuania)***	2201	2288	-4%	14%	16045	16958	-5%
Sintagma Group (Lithuania)	1998	1564	28%	30%	6632	4634	43%
Helmes (Estonia)	1879	1612	17%	31%	6091	6605	-8%
New Vision (Lithuania)****	1668	n.a.	n.a.	20%	8515	n.a.	n.a.
Algoritmu sistemos (Lithuania)	1412	1063	33%	92%	1526	1066	43%
HNIT-Baltic GeoInfoServisas (Lithuania)	1403	1011	39%	62%	2273	1863	22%
Baltic Amadeus (Lithuania)	1039	888	17%	12%	8386	8081	4%
Elva-1 (Latvia)	628	481	31%	19%	3355	2758	22%
Compservis (Lithuania)	n.a.	999	n.a.	n.a.	n.a.	5659	n.a.
DataPro (Latvia)	n.a.	827	n.a.	n.a.	n.a.	1410	n.a.
Average	-	-	-0.2%	35%	-	-	2.9%

Source: Prime Investment.

** Approximate share of IT services revenue in total revenues.*
*** Financial results do not include data on Alna's daughter company UAB Alnos biuro sistemos and its subsidiary UAB Konferenciju ir audiovizualines sistemos, which are engaged in IT office supplies.*
**** Only the parent company.*
***** A member of Varos Group. New Vision was created after structural transformations in Varos Group in 2003, therefore the results for 2002 are not available.*

BEBERI'S CONCEPT

Beberi is the first village in Latvia organised in line with the new concept of urbanism as a living environment to the maximum degree acceptable and favourable for people of the 21st century.

Its concept can be formulated as a residential space which is not limited to four walls (or confined to a quadrangular yard at best), but which gives you the sense of safety (for yourself, your beloved and, first of all, children) and freedom (also outside your private territory). A harmonious and ecologically clean place, more sparing and measured rhythm, e.g. more natural than the feverish rush of big cities, faceless alienation of the sleeper suburbs or impenetrable fences which protect "the chosen ones" – all these can be added to the Beberi's concept.

Today Beberi is not just a daring idea in minds of its creators or a theoretical vision in architect's drawings. It is a completely realistic and very palpable opportunity to find a new and attractive home for yourself and your family. If you are thinking of buying a new housing now or in the nearest future, it would make sense to look at Beberi. Then it's up to you to decide whether this offer is really well thought-out, far-sighted and valuable.

ITS ARCHITECTURE

Multi-functional village Beberi is being built according to the main principles of new urbanism. Its architecture is a combination of closely-knit architectural styles (for example, national romanticism and functionalism) and peculiarities of the local mentality, regional architectural traditions of Latvian small towns and people's attitude to individual houses, as well as criteria for chosen construction materials and visual effects.

BEBERI'S DEVELOPMENT

In order to safeguard future development of Beberi village and avoid occurrence of structures and environment not fitting in the Latvian traditional small-town architecture as well as to help potential residents with making their decisions, *Latio* will not sell any land in Beberi for private construction and individual housing projects' development. All houses are being designed and built on orders approved by *Latio* and will be delivered to their new owners only when fully completed.

Beberi is one of the few villages outside Riga that have all "the big city's utilities". Thus, every building is connected to the centralised water supply system and sewerage, as well as that of gas, telecommunications and electric power supplies.

The closest to Beberi settlement in the neighbourhood is Pinki in the district of Babite, and it is planned to link the two by a pedestrian bridge above the Riga-Salaspils ring road. Pinki is likely to be the place where Beberi residents would go to in case they wanted something else. Pinki is the seat of the Babite district council, it has a high school (with a swimming pool), a music school, a kindergarten, a library and an ice-hockey hall.

NATURE PARK

Once you turn off the Riga-Jurmala highway on the way to Babite, you will see along both sides of the road the Beberbeki nature park. It covers 302 hectares of land and is situated between the city of Riga, Beberi, Priezciems, Babite and Riga-Tukums railway line; it is part of the Babite district administrative territory.

The park was founded in 1977 with the purpose of preserving for the local community a territory useful for recreation activity, nature exploration and nature park development.

HOW TO OBTAIN A LOAN

If you would like to get a loan from a Latvian credit institution for buying your own house in Beberi, it is a good time to do it now; the terms of housing loans are indeed very favourable. To find out more about loans for purchase of real estate, ask *Latio* realtors, or your bank.

Hansabanka, Latvijas Krajbanka, Parex banka and *NORD LB/Latvija* bank, they all have already approved the "Beberi village" and have demonstrated their support to the project by offering special custom-made lending terms.

DETACHED HOUSES: SECOND ROUND

The first round of detached houses' construction has already been completed, and all houses have been sold out to their new owners. Inhabitants have already moved into the first eleven houses in the area near the forest.

During the second round, another 16 detached houses will be built; this time around the area adjacent to the Beberbeki nature park. They will become available in November 2004 but potential owners can already see what they could get. A centralised water supply system, sewerage, gas utilities and telecommunications networks have already been installed, as well as roads and pavements in the area. The detached houses will be built by the model design explored already during the construction's first round. But there will be no absolutely identical buildings – the model design can allow for various modifications which would provide each house with an individual style.

TERRACE HOUSES

Let's face a situation – you do not want to live in a detached house or just cannot afford one, but at the same time you feel cramped in an apartment. The solution is a "city house" in Beberi. The term for this kind of housing is not chosen accidentally. These houses are not traditional terrace houses – a sort of a row of quite identical residential "units". To avoid the monotony of serial designs and make sure that the development blends with the general architectural concept of the village, city houses in Beberi have been designed as if they were built at different times. They vary both by style, size and facade finish but nevertheless they are in harmony with each other. This creates an impression of a small-town street – romantic, historic and diverse, at the same time. This feeling is further enhanced by separate buildings' service infrastructure on ground floors of some houses. It could be a bakery, a pastry shop, a household goods' store, or a drugstore. An important highlight of the overall picture is Beberi's central part with an artificial pond, a rivulet, a bridge and a sundial.

A plot of land around 300-400 sq.m is attached to each "city house", and if it's the need, 138-215 sq.m plot can be bought.

BEBERI'S APARTMENTS

An apartment in Beberi would be an economic but at the same time still pretty decent solution. We can say it's economic because, contrary to the city houses, there is no land attached to apartments. In almost all apartments this drawback is compensated by terraces on roofs or balconies. In most cases apartments have their own entrances already from the ground floor and a staircase that can be locked.

Among other advantages offered by Beberi are the communally used territories, i.e. the Beberbeki nature park's infrastructure. All that would be available both to apartments' owners and to other residents of the village.

There is a choice of small studio apartments with an area of 48 sq.m as well as large apartments arranged in two or three levels. ■

Housing prices in Baltic capitals still grow

by Guntars Bernhards
Ober Haus, Latvia

Prices for housing in central districts of large Baltic cities keep growing this year. Foreigners can freely buy and sell residential property in the Baltic states.

Residential property prices in the central parts of big Baltic cities continue to grow this year. During 2003 city centre residential prices grew in Tallinn by 9%, in Riga by 20%. Prices of new apartments in Vilnius city centre almost doubled. The trend is going on in 2004 as well. Due to a limited supply, prices for apartments in standard-design houses in suburbs are on the rise, too.

ALMOST NO OFFERS IN RIGA...

This May was notable for significant growth of residential property prices in the centre of the Latvian capital. Thus, the minimum price per square metre for a single-room apartment in the historic part of Riga soared from USD 1,700 to USD 2,500. There is only one explanation for this: there is hardly any supply of properties on the market, whether renovated or newly built. Properties in the Old Riga district are on sale only in extreme cases: most owners still count on further price growth.

As a result, the prices for renovated and furnished apartments in the most fashionable parts of the city often exceed EUR 3,000 per sq.m. Even half a year ago one could get a similar apartment for EUR 1,000-1,200 per sq.m, said *Ober Haus* realty company's experts.

But the situation is more stable in other parts of the Riga centre, and in late May a renovated apartment could be acquired at EUR 1,400 per sq.m.

Prices for new apartments with grey finish varied from around EUR 600-700 per sq.m (a 10% growth) in Riga to EUR 600-800 per sq.m in Vilnius (a 15-25% growth, compared with the beginning of 2003).

In suburbs residential prices in the Soviet-time buildings in Riga have stabilised or slid back to average EUR 410 per sq. m. (a 25% decrease), but grew about 5% in Tallinn.

Ober Haus company expects further price growth for renovated and non-renovated apartments in the city centre in line with growing foreign interest associated with accession to EU in May 2004, and growing local demand. Expected growth in 2004 in Riga is probably in the range of 20-25%.

Secondary market sellers still quote prices in USD, while new apartment prices are quoted in LVL (Latvian lats).

The rental market (mostly to foreign workers) in Riga can be divided into three price growth segments: the Old Town for 10-12 EUR per sq.m monthly, the so-called "silent centre" for 8-10 EUR per sq.m monthly, and the city centre for 6-8 EUR per sq.m monthly. Top quality apartments are located mostly in renovated pre-war buildings. Rent growth has been observed for quality apartments with appropriate layout and built-in furniture in demanded location.

T.Strakhova

APARTMENT PRICES, JUNE 2004, EUR/SQ.M

	Latvia	Forecast	Lithuania	Forecast	Estonia	Forecast
Apartment / capital city						
Old town	1500-3500	^	1500-2300	^	1200-2300	^
City centre, renovated	1100-2500	^	1200-1700	^	1000-1950	^
City centre, not renovated	850-1400	^	900-1000	^	650-1100	^
Suburbs, newly constructed	600-800	^/=	600-850	^/=	600-900	^/=
Suburbs, Soviet-time	350-600	=/v	450-800	=/v	450-650	=/v
Apartment / big cities						
City centre	300-400	^/=	150-800	^/=	300-600	^/=
Soviet-time	250-350	^/=	100-600	^/=	100-400	^/=

RENTS AND YIELDS, EUR/SQ.M

	Latvia	Forecast	Lithuania	Forecast	Estonia	Forecast
City centre	7-15	^/=	6-15	^/=	6-13	^/=

Source: Ober Haus.

...ESTONIANS PREFER BUYING APARTMENTS OVER RENTING...

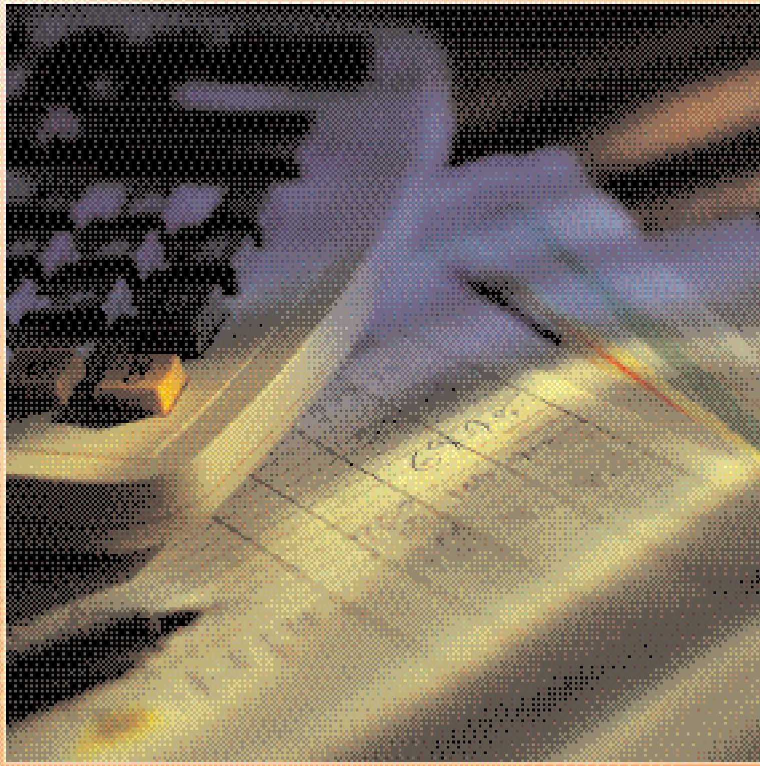
Rent for new apartments in Tallinn city centre (mostly for use by foreigners) are between 11-14 EUR sq.m monthly, a yield of 8-10%. Estonians prefer to buy their own apartments instead of renting. As supply of flats increases, rent should drop 10-15% over a medium term.

...BUT IN VILNIUS RENT GOES DOWN

In Vilnius residential rent to foreign workers dropped 25% last year following the trend in Central Europe, as new supply drives the rent down. The monthly rent for well-furnished 45-65 sq.m apartments in the city centre ranges between EUR 350-600 per sq.m.

The strongest demand is for one and two bedroom apartments, 60-75 sq.m, for EUR 800-1,000 rent a month. Demand for larger units (over 200 sq.m) is decreasing. ■

WELCOME!



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Latvian Investment and Development Agency:

A way to success!

by Juris Kanels
LIDA Director

The objective of the Latvian Investment and Development Agency (LIDA) is to promote business development by facilitating the growth of foreign investments and increasing the competitiveness of Latvian entrepreneurs in domestic and foreign markets.

LIDA

JURIS KANELS: LIDA is the authority managing grants from the EU structural funds.

KNOWLEDGE, EXPERIENCE, COMPETITIVENESS

Having more than 10 years of experience in attracting foreign direct investment to Latvia and foreign trade promotion, the agency has constantly been working towards improvement of business environment and providing services according to business needs. At the same time, LIDA has been evaluating its performance, comparing it with the best world practices and introducing new services and solutions for customers.

LIDA's main priority is to increase entrepreneurs' competitiveness, as well as to promote and increase foreign investments. After Latvia's accession to the EU, the agency was forced to adopt new operational ways and tools, including effective usage of financial resources from the EU structural funds.

Today LIDA offers an integrated solution, i.e. supporting both companies in Latvia trading internationally, and overseas enterprises seeking business partners or location in Latvia. LIDA introduces and manages various state support programs for entrepreneurs, co-financed from EU structural funds.

The ability to follow rapidly changing undertakings' needs and markets in providing new services characterises the agency's own competitiveness based on knowledge and competence of experienced specialists.

ORGANISATIONAL STRUCTURE

LIDA is a state institution under supervision of the Ministry of Economy.

It has been operating since 1993 as the Latvian Development Agency (LDA) and was reorganised into the Latvian Investment and Development Agency in 2003.

LIDA offers assistance throughout the process of setting up operations in Latvia, acting as a first-point-contact and as a "one-stop-shop" in assisting investors and in developing tailored solutions to meet their specific individual needs. The agency has its own regularly updated database of Latvian enterprises to facilitate partners' searches for investment projects and for exporting or subcontracting various business activities.

Since 2004 LIDA is one of the institutions which implement state support programs, advancing grants to entrepreneurs in order to increase their competitiveness, including possible future programs, co-financed from the EU structural funds.

LIDA is also involved in implementation of national programs for promotion of export and innovation and takes part in the EU 5th Framework Program projects; it participates in facilitation of Public Private Partnerships and implementation of the state programs in energy sector development.

Working in close co-operation with the business community (particularly with the Foreign Investors Council in Latvia (FICIL), the National Economic Council and other associations) LIDA facilitates steady improvement of business environment, especially in administrative procedures.

Between 1999 and 2004 LIDA has implemented about 95 out of FICIL's 106 recommendations, and today Latvia ranks among the top ten countries world-wide in terms of business start-up-time with ultimate business registration in just 11 days.

AGENCY'S MANAGEMENT

The agency is managed by Director acting under a management agreement concluded with the Minister of Economy. There are also two deputy directors responsible for the LIDA's main activities, such as attraction of foreign investments, promotion of foreign trade and introduction and administration of the state support programs for entrepreneurs.

The agency's performance is evaluated by the Advisory Council, established by the Minister of Economy.

LIDA'S INTERNATIONAL NETWORK

LIDA functions both on a local level and internationally. A set of foreign representatives and co-operative network with other institutions in Latvia and abroad makes LIDA close to its customers and links them to the main markets, business partners and locations.

LIDA has representative offices in London (UK), Hamburg (Germany), Stockholm (Sweden), Paris (France), Amsterdam (the Netherlands), Almaty (Kazakhstan), and Moscow (Russia); it has developed a network of public representatives in Germany, Israel, Australia, USA, Ukraine and China.

Representative offices in Norway and Denmark will be opened soon, with the aim to have as many as 15 LIDA's offices abroad by 2009.

LIDA works in close co-operation with the Ministry of Foreign Affairs and Latvian diplomatic missions in 75 countries all over the world.

LIDA also co-operates with local municipalities and regional development agencies and in the near future will open its own regional offices in Latvia.

ONE-STOP-SHOP FOR FOREIGN INVESTORS AND BUYERS

To facilitate investments

LIDA assists investments in selecting local enterprises and in implementation of investment projects:

- Provision of all relevant information on business opportunities and investment incentives;
- Identification of the best property options for manufacturing facilities, offices and land;
- Assistance in establishing and developing contacts with Latvian business partners;
- Legal assistance with start-up procedures.

Search for suppliers

LIDA provides assistance in finding appropriate Latvian suppliers and in increasing their competitiveness:

- Provision of information on Latvian exporting companies, export products and services;
- Search of Latvian suppliers according to buyers' requests;
- Distribution of incoming business proposals to Latvian companies directly and through the Internet;
- Organisation of trade seminars and foreign trade missions to Latvia;
- Consulting and foreign market studies for Latvian enterprises;
- Assistance to Latvian companies at various international exhibitions and trade missions, export promotion campaigns and business matchmaking;
- Provision of information on workforce availability and skills' evaluation.

Follow-up services

LIDA provides follow-up and adequate support after the implementation of investments or sub-contracting projects.

State Support Programs

LIDA assists in implementation of a number of state support programs for the development of entrepreneurship, advancing grants for participation in international exhibitions and trade missions, consulting, in modernisation of business-related infrastructure, development of new products and technologies, upgrading of personnel's qualification.

Information on EU common market

The Euro Info Centre (EIC) operates within the LIDA administrative structure, providing information about the European Union policies, legislation, regulations, trade system, and it assists in finding business partners within the EIC network in the EU and 42 countries in the world.

Foreign representatives

LIDA foreign representatives provide information about business opportunities in Latvia, its relevant legislation, the taxation system, the situation in the national economy and external trade. They promote and facilitate co-operation between Latvian companies and businesses in the particular country or region. These representatives assist in the finding co-operation partners, arrange visits of foreign businessmen to Latvia and assist in mission's trips of Latvian companies to these regions. ■

Additional information for your success in Latvia: www.liaa.gov.lv

City destined to grow

PYOTR SAVOSTYANOV AND RITA STRODE

YEVGENY VLADIMIROV AND MARIS ELERTS

BERNADETA GOLOVANA AND IVAN RIBNIKOV

Million

by Olga Pavuk

Daugavpils Council of Business Directors and Entrepreneurs headed by its chairman Pyotr Savostyanov invited business people from Latgale region in Eastern Latvia to a round-table meeting at the end of June to discuss regional export and investment opportunities. The meeting was organised by the Latvian Investment and Development Agency (LIDA), represented by project department manager Maris Elerts, and the BC. Daugavpils Mayor Mrs. Rita Strode also joined the discussion.

The Latgale region and in particular the city of Daugavpils (formerly known as Dvinsk), the second largest city in Latvia, has been renowned for its long-standing industrial traditions. But during the last decade Latgale has constantly been mentioned among depressive Latvian regions. Latvia's capital city Riga also has largely neglected the region, partly due to excessive share of Russian-speaking population. For example, Latvians account for just 16% of population in Daugavpils while 55% are Russians, 15% Poles and 9% Belarus. The city mayor Ms. Strode, who spoke first at the discussion, categorically rejected already acknowledged the so-called "depression thesis".

Rita Strode: Everybody speaks about depressive situation in Daugavpils. It is to a certain degree our own fault, and the city council should take the blame for its indifference to the city's image, lack of definite marketing policy. Our businessmen are too much restricted to local issues; they prefer to work closer to their homes, although they do invest in production and apply for support from the EU structural funds on their own. There are a lot of examples to prove it. I officially declare that we are still Latvia's industrial centre. Thanks to energy, will and wisdom of our businessmen, we have kept almost all our manufacturing plants alive. I will give you just one example: *Rhodia* company with about 150 people employed now makes as much technological thread as the entire chemical fibre plant used to produce with a full staff of 4,000 people. Today it does not make sense to stick to the number of people working. The first thing the employer has to do is to expand production, raise wages, make sure the products are sold instead of laying in warehouses, and that an employee has a decent salary in order to take proper care of his family. This is our main objective. Some companies, especially those, which have had foreign investments during last 5-6 years, are already doing that.

We regret very much that so far we have not been able to find investors from Russia and the CIS countries. The main obstacle to that is the lack of an intergovernmental agreement between Latvia and Russia. Daugavpils has many "sister-cities", such as Narofominsk, Moscow's Central District, St. Petersburg's Vyborg Region and Vitebsk. But presently our co-operation does not go further than cultural exchange, so to say, "singing and dancing". We have been told openly that the political situation is such that the "wall of ambitions" was built by both Latvian and Russian politicians and it's impossible to climb over it.

But still, we keep talking about our advantages, e.g. such as the location of our city; we are indeed a city where in fact "the EU begins and ends", as we are the EU eastern gates. I'm certain that in future we will become a kind of the EU eastern capital. There is no other city like ours: we have a large railway and motor road junction; and the time will come when there simply won't be any vacant strip of land in the city for business activity. Already today all plots of land attractive from business perspective are taken into consideration by undertakings and will be sold out soon.

Our municipality is interested in small manufacturing plants and will give them "green light". It's a pity that so far we can praise only one, i.e. German company (*Ziglera masinbuve*). They pay wages and taxes regularly, and we grant them various tax reliefs in return. But we feel bad that Russian business is not at all active in coming to our region.

Pyotr Savostyanov: I fully agree with Mrs. Strode that we ourselves are solely responsible for the way our city and our region are represented in other countries. Probably we are wrong to think that they know us well. Yes, many civil servants and business people in Moscow are quite aware about us. But no one knows the specific details. Of course, every businessman is making deals and contacts with his partners by himself. But we still think that it would be better if the Council told businessmen about the city, regional potentials and support they can get from the local government. Therefore we have to use all possible means to promote our image.

Yevgeny Vladimirov, *Pallada's* company president (the company is involved in production of strong alcoholic drinks, mineral water and soft drinks; delivery of oil products and oil chemicals): The city of Daugavpils is rich in human resources, we have many experienced engineers. But at present we can not properly use and support these resources. It is true that earlier such firms as *Dauteks* employed much more people with the same outcome. It needs modern technologies to maintain the output with fewer personnel, and great costs are involved. Our companies require large investments to survive in the market. Today we spend money five times faster than we earn it. In order to talk about investments, we need a real concept and program for the city and regional development. With the help of the city council, such program can be used to attract investments. It's difficult for an individual company to come up with money to invest or to apply for the European Union funds. The EU Structural funds do not work yet in our region, and it is not yet known when they would start to arrive. Our companies can survive in future only in good co-operation with politicians.

P.Savostyanov: I know that the city council has already started working on a draft program for the city's social and economic development. The Council of Directors and Entrepreneurs helps to write the economic side of the draft. But we have to work together – the businessmen and the city council.

R. Strode: The draft program will be completed by the end of this year. We have both business people and scientists assisting us. The City Council's architecture department also deals with the plan for social and economic development of the city. But the City Council needs much support and attention from the side of Latvian Investment and Development Agency (LIDA). I have to tell you that several decades would have to pass before the attitude to us as a Russian-speaking city is changed. I'm telling you this as a politician. But what is for sure, it will not help just to cry over that.

Vyacheslav Golubev, president of *KORA* company: I would not say that we do have human resources in abundance. There are two myths around our city's development, i.e. abundance of qualified workforce and high unemployment level. A lot of lawyers, economists and psychologists graduate each year from various institutes in the city; but the network of professional technical schools has completely disintegrated. We experience a great shortage of good engineers, and specialists in service sectors. There is no clear understanding about the quality and quantity of labour needed in our region, while investors first of all need skilled workers.

Svetlana Miluse, director of the Baltic-Russian Institute (BRI) branch in Daugavpils: Shortage of technical experts is evident indeed, and not only in Daugavpils. One can say that the higher education in Latvia has become in general predominantly humanitarian. In a couple of years the BRI intends to start education and training in a number of technical specialities including civil engineering, light industry technologies, motor vehicle and road maintenance engineers. Such specialists will undoubtedly be very useful for economic development in Daugavpils.

In addition, the BRI intends to enrol more foreign students. We already have Russians, Belarus, Ukrainians, Lithuanians, Israelis and Poles among our students. One can say that we, kind of, export education, and Baltic universities' diplomas have always been valued.

Bernadeta Golovana, *Lokomotive* railcar repair plant, financial director: Our plant was founded 138 years ago. Russian clients have always been our major market target because *Lokomotive* used to be supervised by the Soviet Ministry of Transport. Nothing much really changed after restoration of Latvia's independence. We are too big a company by the number of employees to count on support from the EU structural funds. The only way out for us would be to split up; but that's a pity, we have worked for so long as a single, unified company. We do have our development plan, and we hope very much that the municipality would support investors interested in doing business with our company.

Maris Elerts, LIDA: Lots of things depend on us. LIDA's three main functions are the following: to bring foreign investments to Latvia, to help Latvian producers in promoting import and export facilities, and to make preparations and arrangements for implementation of the EU structural funds. We have in LIDA four business supporting and promotion programs.

Speaking about LIDA's relations with Daugavpils, we have to acknowledge that LIDA deserves high credits for the fact that *Ziglera masinbuve* plant (production of agricultural machinery) is now working in the city. The new owner of the company took interest in it at a fair in Hanover with our assistance. It has to be mentioned that the plant's previous director, Mr. Hanzelmann often participated in foreign seminars for potential investors and always presented Daugavpils from its best side. I admit that the city has a problem with labour force but Mr. Hanzelmann spoke highly about labour potential in the Latgale region.

To a certain extent it is also with LIDA's assistance that *Rhodia* (production of technical cord) and *Axon Cable* (production of cables) companies are now working in Daugavpils. Currently together with *Daugavpils Maiznieks* bakery we are looking for export markets in Germany and other EU countries.

Now I would explain our position about economic ties with Russia and the CIS countries, e.g. Ukraine, Belarus and Kazakhstan. Latvian business delegations have several times visited these countries, meeting local business representatives. Meetings with Russian businessmen have also been organised in Latvia, for example, in Liepaja. Regretfully, these initiatives were stopped after the 1998 crisis in Russia. Many events were organised but the overall result for Latvia was not very good. Some Russian companies do work in Latvia but there are too few of them. Of course, this calls for agreements at governmental level, as well as between the cities; but little will come out of it if business people themselves do not show interest. To keep investors in Daugavpils, the positive image of the city has to be promoted.

As for the support of Latvian business from the European funds, LIDA has adopted five state support programs for 2004-2006. These programs include assistance for companies in international fairs' participation, support for development of new products and technologies, upgrading of infrastructures, providing security for risk capital to small and medium-sized companies, further personnel training and education, etc. More detailed information about these programs are available on the LIDA home page: www.liaa.gov.lv

From late July we have started to review applications for financial assistance from the EU structural funds. Apart from this, companies can and should turn to commercial banks and various investments funds. They do have money and are waiting for well-prepared and justified projects.

V.Golubev, Russian urban development expert, who more than once visited Daugavpils, claims that the city has a great potential and it does not matter whether its development plan will be approved or not. The city is bound to grow. Citizens from Riga, who co-operate with us, also have acknowledged that.

Alexander Daderko, *Latgales alus* brewery, president: The so-called "market value" of Daugavpils is growing. One should look for ways to make efficient use of electric power and heat energy. We need, at the same time, equal conditions for all business activities. These are the tasks for the City Council. I do believe that agricultural projects which are good for the region have to be developed in Latgale, too. There is an example: we have built a plant for raps-seed oil production, but it is standing idle because of lack of raw material. And if officials think that we represent a depressive region, then let's make use of this idea to our advantage and raise money for development.

Sergei Gusarov, *TEKS* company, president: We are studying the possibility of switching the electric power grids to some environmentally-friendly fuel, such as wood-processing industry waste. We also work on some co-operation programs with Russia, e.g. we have three preliminary projects drafted with Moscow, including development of transport infrastructure; we have some support in the latter from ministry for ecology and nature protection. We also wish to join the EU structural funds, although we are very sceptical about it, so far.

Nikolai Chalenko, *EuroInfoCentre*: A regional EU information centre started working in Latgale recently. All services provided by the centre are paid for by the European Commission, and companies can receive information about business activities in other countries through the Internet, and it's free of charge. Our address is: www.latgale.lv

Dmitry Nesin, president of the Regional Realty Association: Prices for land in the EU are 10-15 times higher than in Daugavpils. Prices for housing are 4-5 times higher. The value of industrial facilities in the city is growing as well. It is the right time to invest in regional real estate.

Mikhail Savrasov, *Lokomotive Serviss,* director: Currently both production and wages in the city are on the rise. We work with Estonia, Lithuania and Russia. Common interest can always be found, provided that one is willing to look for it. For escalating business development in the region, the following activities have to be built on three levels: first, the companies' level – for those who wish to help themselves and the city; second, the city council's level, and, third, the central government level. If we can create such business-like activities then the results will come soon enough. An investor is neither altruist nor patron. He will turn into one only when he has earned usd 20-30 million. ■

SIA SAIDA:

"If we can not find a strategic investor, we'll manage ourselves"

We've got the story of Daugavpils Industrial Zone (DIZ) in eastern Latvia from *SIA SAIDA* co-owners, Mr. Aleksei Zakrzhevsky, a mechanical engineer, and Mr. Andrei Zakrzhevsky, a chemical engineer, Doctor of Technical Sciences. Through joint efforts they have created a company dealing exclusively with running and expanding the chemical fibre plant.

BACKGROUND

In 2001 after several successful deals, the management of *Rhodia Industrial Yarns* suggested that we could buy out the main part of the Chemical Fibre Plant. At first, we took it as a joke, and the funniest part was the fact that the cadastre value of the whole plant facility was over 3.5 million lats. Second, we knew pretty well the plant's history, e.g. how the chemical industry leader in the Soviet Latvia time with a staff of nearly 8,000 had been completely ruined by hordes of incapable owners.

There was certain hope of creating a new impetus and bringing the giant industrial colossus back to life again in view of changes for the better after the arrival of the French capital represented by *Rhodia Industrial Yarns* and *Axon Cable*. For us it was important that the Daugavpils city council should also show some interest in creating new jobs and getting USD 2.6 million earmarked for the city under the PHARE-2000 program for DIZ's territory development. Regardless of the party affiliation, the municipal authorities have always helped us not only with advice but also with support in communications with banks and European institutions.

NEW HISTORY

In 2001 *SIA SAIDA* acquired from the French-Swiss concern *Rhodia Industrial Yarns* the Chemical Fibre Plant situated in the DIZ, with most of its buildings and installations. The plant's total production area of more then 220,000 sq.m was located within a fenced-in and guarded territory covering 53 hectares.

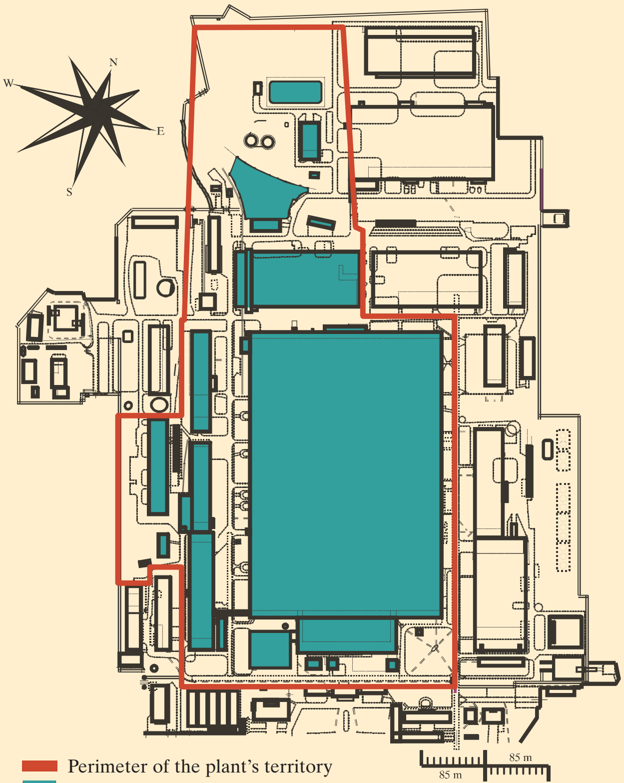
At the time of the acquisition, the main equipment for the factory's chemical synthesis (caprolactane production) was completely destroyed by its previous owners; the whole scene looked like a heap of scrap metal. Not only the remains of the demolished equipment had to be removed, but the utility systems had to be renovated and a new roof put up before any new projects could begin at the plant's premises.

Today the territory which belongs to *SIA SAIDA* has all infrastructure, communications, gas, electric power and water supplies, asphalted roads, rail tracks required for adequate functioning of the industrial production. Vacant areas are gradually being occupied by various manufacturing businesses.

PARTNERS

We are presently in touch with a lot of potential investors and partners interested in renting, buying or shared usage of our industrial and office space.

Big success by *SIA BELMAST* (www.belmast.com) can be mentioned as an example for organisation of industrial production in the *SIA SAIDA's* territory. Even though we had known *SIA BELMAST* managers **Anatoly Precenieks** and **Sergei Kumeisky** for a long time, we had quite lengthy talks and made different preliminary arrangements for setting up a joint venture in our industrial premises. The task of combining efforts by two successful companies is difficult by definition. But *SIA BELMAST's* strivings for development were undermined by shortage of production areas. Moreover, the existing facilities were rented and scattered over several locations. As a result of the re-organisation, *SIA BELMAST* moved production from various workshops with total area of 1,500 sq.m to a building with area of 11,000 sq.m, which was renovated specifically for this purpose.



Perimeter of the plant's territory
Buildings and installations bought by SIA SAIDA from Rhodia IY

PART OF DIZ TERRITORY

This solved a number of tasks:

- A successful business was given a new stimulus for development and increased its turnover several times, becoming a recognised Baltic leader in production of masts, towers, and metal constructions;
- The company has become the owner of a building with market value of more than USD 1 million;
- It became possible to make plans for further production growth and to expand the range of products.
- Instead of a warehouse with a 4-men staff, there is a profitable production facility with jobs for more than 160 people.

The former plant's territory now is a home to a number of successful businesses, including French *Rhodia Industrial Yarns* (production of cord threads) and *Axon Cable* (various cables); *Aurora* (pantyhose, socks), *Gartda* (greenery planting), *AGA* (industrial gases); Danish *Falck* (security, fire station); Ukrainian *GUMATEX Baltija* (production of industrial cord); *SIA BELMAST* (design and production of metal constructions, including masts and towers, construction), a municipal asphalt plant. ■

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- Martin Weigel – Chairman of the Managing Board CEO of GLC Glücksburg Consulting Group, Hamburg; Member of the Supervisory Board DEC, Flensburg

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We are looking forward to meeting you in Riga. Please book well in advance to make sure that you are part of this leading event.

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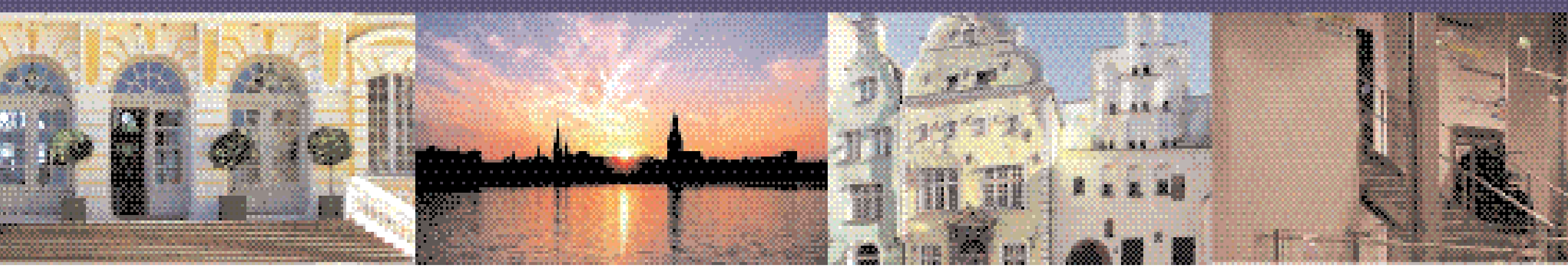

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NORD/LB Latvija — reliable partner for individuals and enterprises

NORD/LB Latvija is one of the most dynamic and, according to surveys, one of the most reliable banks in Latvia. The leading bank in North East Germany _Norddeutsche Landesbank Girozentrale_ (_NORD/LB_) is currently holding more than 99.4 per cent of _NORD/LB Latvija_ share capital, therefore the Latvian subsidiary is able to offer financial services of the highest quality according to _NORD/LB_ quality standards and best German banking traditions.

NORD/LB Latvija represents longterm commitment of its parent company, which clearly shows the importance and potential of North East European market. Being a part of the *NORD/LB* branch and subsidiary network around the Baltic Sea means as well being an ideal partner of cooperation for German or Scandinavian companies who seek to consolidate their position or expand their business activities in North East Europe. It is also a perfect partner for those Latvian companies, which aim to strengthen their positions in the Latvian market or plan to enter the EU market.

The operational results of *NORD/LB Latvija* prove the bank's stable growth within the local banking sector. *NORD/LB Latvija* assets grew by more than 50 per cent in 2003, while the total volume of deposits increased by 47 per cent and loan portfolio increased by 78 per cent during the same period. The average increase of assets within Latvian banking sector was 29 per cent, while the increase in deposits and loan portfolio was 21 per cent and 41 per cent respectively in 2003.

The results of the bank for the first half-year of 2004 are summarized as well, proving the continuous positive tendency. The amount of assets has increased by 32 per cent during the first six months, but the amount of deposits — by 33 per cent. The most dynamic development was to be observed in the loan portfolio of the bank — in 6 months the net increase of loans granted was 40 per cent of the value as of 31.12.2004.

The development of *NORD/LB Latvija* can be explained by the growth of confidence in the bank as well as by its market activities; in particular the offer of competitive loans and other financial products to both corporate customers and individuals.

The increase in the number and volume of transactions executed in 2003, as well as the rapid growth in value of deposits, demonstrates the successful cooperation between *NORD/LB Latvija* and its clients. The number of *NORD/LB Latvija* clients has been increased by 20 per cent in 2003. The number of transactions increased by 25 per cent compared to the previous year. This proves that the increasing number of customers view the bank as a reliable business partner.

NORD/LB Latvija also has ambitious plans to expand its position in the field of leasing finance. Thus a subsidiary company — *SIA NORD/LB Lizings* — was founded in January 2004. The company aims to obtain 7 per cent of the local leasing market by the end of the year, focussing on loans for car purchase, industrial equipment and factoring.

NORD/LB Latvija plans to increase its activities in financing small and medium-sized companies (SME) as well as in assisting them to gain the access to European Union funding.

The key elements of high competitiveness of *NORD/LB Latvija* are the experience of the parent company and the highly professional employees, who have constantly contributed to company's growth delivering individual solutions for each situation. The successful performance of *NORD/LB Latvija* indicates that the strategy of the bank is effective, and the bank intends to occupy an important position in the financial market of Latvia planning to become one of leading banks in retail and corporate banking sectors. ■

NETWORK OF BRANCHES AND SUBSIDIARIES OF NORD/LB AROUND THE BALTIC SEA

Estonia, Latvia and Lithuania – the EU new member states


DIHK

RALF TISCHLER: German businessmen are ready for the Baltic states' investments.

Ralf Tischler
Executive director of the German-Baltic Chamber of Commerce & Industry (DIHK)
Dagmar Boving
DIHK member

The three Baltic republics have a lot in common therefore in Germany they are often perceived as a quite homogeneous market. However, mutual relations between the Baltic states are not unambiguous any way and occasionally colder than one could imagine for countries sharing the word "Baltic" in their description.

Still, language, culture and mentality differences simply call for differentiated market research, in particular for purposes of medium-sized German businesses. It has turned out that the best way for the companies is to focus their interests on one of the three countries first and only later gradually move on into markets of the other two. Admission of the Baltic states to the EU coincided with many German businesses striving to create a strong foothold for successful business-like mediation in one of European economic regions, the Baltics. This is facilitated by geographical position of the three countries on the Baltic Sea coast as well as by their role as the so-called bridge between the East and the West, creating promising preconditions for strategic mediation in favor of foreign businesses.

FURTHER ON AND GROWING

The Baltic states have shown a steady GDP growth. Thanks to growing private consumption, active investments, capable financial institutions and strong export dynamics, Estonia, Latvia and Lithuania saw GDP growth in the range of 4-9% in 2003. It looks like the favorable world economic conjuncture will help to keep up the growth this year, and everything suggests that the Baltic economic growth will be well above the EU average, not in the least due to economic integration with Eastern neighbors. But there may as well be some problems over rather high efficiency deficit, caused first of all by strong demand for import products.

It is expected that about 60% of this deficit will be covered by direct foreign investments. Baltic states are interested to keep their foreign debts under control and also to reduce them in long-term. The Estonian kroon and the Lithuanian litas are pegged to the euro which is very helpful in commercial operations. The Latvian lat will remain pegged to the SDR basket at least until 2005.

GERMANY AS A PREFERENTIAL TRADE PARTNER

Foreign trade with the Baltic states (approx. EUR 4.9 b), which is constantly growing year by year, can well be viewed as successful. Lithuania, being the largest of the three Baltic nations, accounts for nearly half of the total turnover. We can arrive to a conclusion, i.e. Germany has been the most important trade partner for the three countries for quite some time. Besides cars, all kinds of machinery and equipment, chemical products, foods and delicatessen sell well in the Baltics while they export to Germany mostly textiles (clothing), wood and timber, iron and steelwork.

GERMAN INVESTORS ARE STILL CAUTIOUS

Nordic countries which see the Baltic states as strategically important markets have realized their usefulness as natural partners for outsourcing projects. The attraction that the Baltic states hold for foreign investments is also evidenced by the fact that nearly one-fourth of total gross investments in Latvia and Estonia have been made by foreign firms and companies. This is the highest rate in the Central and Eastern Europe. (The figure for Lithuania is around 20%). Meanwhile German companies have been rather reserved with their investments in the Baltics. Estonia, for example, has registered just 300 medium-sized companies with German capital, in Latvia (mostly in Riga) there are about 900 firms, but in Lithuania, considering its geographical position and bigger market, there are as many as 1,200 manufacturing companies and service providers that do business with solid confidence.

In a recent poll among investors, who have chosen the Baltic states for their investments, German respondents said that business was going well and they were willing to make further investments. According to the poll, 90% expect the situation to improve considerably, 57% have already planned their investments and 10% are planning expansion into two other Baltic states. Strong economic growth and steadily rising buying ability of the Baltic population notwithstanding, its so-called quality ingredient is growing as well. So, the geographical position of the Baltic states and their role as a bridge between the East and the West are important preconditions for strategic and, most importantly, well-timed promotion of foreign business.

Foreign trade with the Baltic states (approx. EUR 4.9 b) is constantly growing year by year and can be well viewed as successful. Lithuania, being the largest of the three Baltic nations, accounts for nearly half of the total business turnover. Here is our conclusion: Germany has been the most important trade partner for the three countries for quite some time.

Many respondents in recent polls expressed concern that the liberal markets will become "over-regulated" after the EU accession. Other problem areas typical for transitional economies were also mentioned, like inefficient communications with the public authorities and lack of transparency, along with the experts' migration and all too rapidly rising "income curve".

DIHK HELPS TO ENTER MARKET

The Association of German-Baltic Chamber of Commerce & Industry (DIHK) with its branches in all three Baltic states makes it much easier for German business to enter the market. With the opening of regional offices in Tallinn (Estonia), Riga (Latvia) and Vilnius (Lithuania), German business interests in the region can be represented with greater efficiency. DIHK services are very helpful in getting immediate access to the market of one of the three countries or making a gradual entry to all three markets at the same time.

Of course, these efforts include full information about the markets but first of all it's individual mediation and preparation of business contacts, including direct assistance on-site. All this makes it easier for interested businessmen to take the first steps towards those markets. The German-Baltic Chamber of Commerce & Industry links the three Baltic states together and offers its clients preference service, such as information about fairs, economic reports about situation on various markets, arranging business contacts, legal advice and data about solvency of companies, as well as individual mediation. ■

Additional information on: www.ahk-balt.org

T.Strakhova

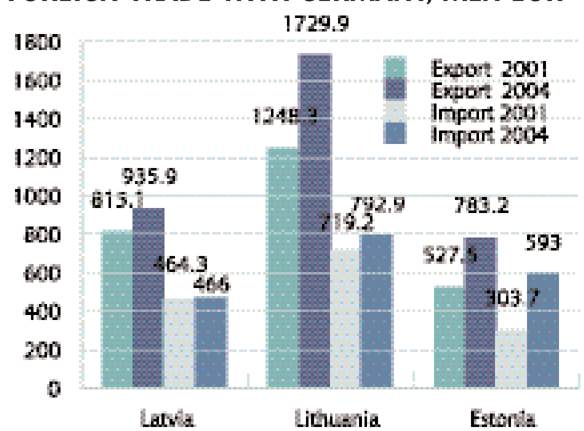
FOREIGN TRADE WITH GERMANY. JAN-APR 2004

	Export		Import	
	Place	% of total	Place	% of total
Latvia	2	13.6	2	14.9
Lithuania	2	10.1	2	15.4
Estonia*	4	7.9	3	10.7

**Data for April 2004.*

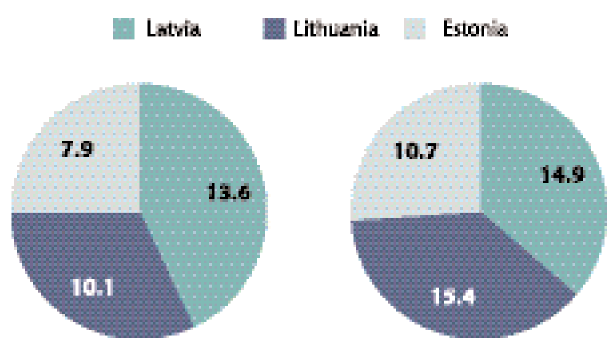
Source: Baltic national statistics offices.

FOREIGN TRADE WITH GERMANY, MLN EUR



Source: DIHK.

FOREIGN TRADE WITH GERMANY, JAN-APR 2004, % OF TOTAL



Source: Baltic national statistics offices.

Routine of terror

by Inna Rogatchi

Eichmann's dream: About 60 years ago Hanna Arendt introduced the term "banality of evil". It occurred in connection with the trial of Hitler's chief-butcher Adolf Eichmann, and for many decades it was an epitome of horror produced when incomprehensible cruelty has been rooted into mass consciousness. The main goal of Arendt's lessons was to examine the origin of the evil's deeds in modern society with an outmost idea to eradicate it from human life. Almost three generations passed since the end of the World War II, and once again it is to be realized that these lessons and ideas have been wasted.

S.Tyulenev, Chas

We seem to have learned nothing. On the contrary, we have been actively learning to accept evil's legacy, incorporating it into our life's fabric as an "unavoidable element". The development of numerous phenomena in most of the countries in Europe and around the world during last three years after terrorists' attack on the US in September 2001 have demonstrated that the Arendt's "banality of evil" was not at all strong enough. It is "routine of terror" that is quickly becoming part of our life. And for some strange, completely wrong and dangerously short-sighted reason, we are going to live with this banal and routine phenomenon. What else could Eichmann dream about?

ABSURD REALITIES

How one would explain that miniature manicure scissors and similar stuff with a ridiculously low chances to cause real harm are strictly forbidden on board of a plane, while large groups of suspicious people, in several repeating episodes openly conducting live training terror attack sessions on board of American flights, are permitted to do so? In one of the recent episodes, a 16-member group of Syrians did cause a full terror-alert with a good reason, grouping together inside the plane and rushing to the toilets with cameras and mobile phones, successfully causing panic among passengers (See: The Washington Times, July 22, 2004). Experts have warned that terrorists may try to assemble a bomb on board of a plane by bringing in its parts by separate individuals. In the most recent episode in Turkey (June this year), a bomb placed in "a forgotten" suitcase went off inside the grounded plane just minutes before the U.S. President Bush's plane took off from the same airfield. These kinds of bombs are not made from manicure-sets; and large groups of self-training potential terrorists are still allowed to board planes freely...

What logic could it be then for the recent Olympic Games in Greece to require about 1.2 billion euros for phantasmagoric security measures, including 70 thousand armed personnel and NATO troops on the Greek territory, with a full-scale military operation which has completely paralysed normal life? Doesn't Greece, one of the poorest countries in the EU, have some more down-to-earth intentions for such lavish funding? How about social security programs for poor and sick people, for children and elderly, for education? How about housing, normal water-supply system and urgent environmental problems? Could it be possible to spend one tenth of that astronomic security budget for the Olympics for each of the above-mentioned issues? The Olympic Games by definition are supposed to be a festival of free spirit, sport competition and leisure. But out of fear for terrorists, Greece authorities simply forbade Athens residents to use their cars for all duration of the Olympics, and imposed many other restrictions just in fear of any terrorist activity. Quite an "Orwellian Olympics", one might say.

Even the Greek minister for public services once admitted that *"maybe, we did not need the Olympics in the first place, certainly not for such a price"*. Either it is done efficiently and without turning citizens and taxpayers' life upside down so that the people are able to have free will sportive festival; or it's not necessary to pour out billions of euros to satisfy vanity of international terrorists who are already having the rest of the world as their hostage, either real or potential.

By succumbing to the terror morally and mentally, governments and societies are already making themselves "semi-hostages". "*In the same way as earlier, when many big Western companies were planning their budgets including quite impressive sums for bribes all over the globe, from Africa to the former Soviet Union, calling it 'consultancies fees and communication expenses', government institutions now in too many countries are planning their budgets with new expenses under vague 'security expenses' idea. By measures taken so far one can define it as expenses '**for** the terror', not '**against** the terror', i.e. to feed the beast, to prevent things they do not know how to prevent, because they've lost the time, and because this fight needs courage to articulate things to be efficient, and we all are suffering because of obvious lack of such courage*", this is how a high-ranking expert on terror from Switzerland, who had predicted September 11th well ahead of the event, described present situation.

Recent printing of 25 million copies of a "what-to-do" in case of a terror attack guide on 20 pages by the British government is one of the latest examples to support this opinion, which has cost 12 million pounds to produce. Experts on terrorism are laughing bitterly over this reading: this kind of guide is too late, it is too general and quite vague, just trying to persuade normally calm Brits "not to overreact" (why, indeed, it is just a terrorist attack, our daily routine), and sometimes it sounds as a bad British joke: "come inside, turn on the radio, and stay there as long as it takes"... Is this the guiding instruction that over

50 million British people need to be able to understand, to be able to confront the worst, and to defend themselves?

MADE IN XXI CENTURY: TOTALITARIAN DEMOCRACY DEFENCE

This is the opinion of one of the leading British experts on terrorism with more than 20 years of experience**:**

"What do you do in the first place when making a security or defence assessment? You identify the threat. You identify its origin and its source. You work on identifying terrorists' motivation and goals. Then, at the next stage, you identify their tactics, mottos, habits, etc. Can we tell our citizens with a good faith that the threat, which we all are facing daily, the threat that is the biggest one by the potential damage in modern history, or may be in the entire human history, has been identified clearly and adequately, and that adequate and clear measures have been taken to confront it? The answer is absolutely negative".

And he adds to that: *"There was only one exception, that of China: the day after September 11th, the Chinese government publicly declared that since that date, due to the public security concern, any Islamic fundamentalist, even without a criminal record, is banned from entering this country. The ban is still valid, during almost three years. As a matter of fact, it has been made far wider than declared because Chinese officials are not suffering from the political correctness syndrome. Did anyone, any Amnesty International, or al-Jazeera and alike made any remarks about such a 'politically incorrect' behaviour? None.*

Nowadays Beijing and Shanghai are the most popular destinations in the world of travel; not just out of the business boom, or historical monuments, or cheap silk, but also because China is one of the safest places in the world now, safely out of the way of international terrorist routes. And the booming business in China has a certain security stability, which helps to sustain its further development."

He says in the conclusion: *"It is shameful and really absurd that totalitarian regimes can fight terror and provide safety net for its inhabitants and visitors from all over the world while at the same time our progressed, democratic and free society is performing so badly and impotently in front of enemy who is threatening the very existence of the Western world and its system".*

It seems that his fair and timely questions are doomed to be left unanswered, at least as long as such public figures as the eccentric Mayor of London, Mr. **Ken Livingstone**, will be allowed to invite as a guest of honour (and make various public appearances together) **Yusuf al Quardam**, one of the most notorious figures in the international terrorism network, infamous militant preacher from Egypt whose main occupation is to bless suicidal murderers. He is under arrest warrant in his own country, and he is on the list of Most Wanted Persons in the US and in several other countries.

As long as top officials from countries forming the pillars of Western democracy behave like the London mayor, it's going to be very hard to find proper answer to students' questions in seminars on international politics: "*Why on Earth haven't Saudis built a single Christian church on their territories for thousands or maybe millions Christian people working to create Saudis' wealth for decades? And why at the same time they have been insisting and being able to carry on openly aggressive expansion of radical Wahhabit branch of Islam by building increasing numbers of mosques all over Europe and the rest of the Christian world. Why on Earth have they demanded compulsory Islamic code-dress even for absolutely autonomic American military female personnel and getting the concession from the US administration on that unfair demand? At the same time the Islamic fundamentalists mushroom with definitely not peaceful purposes all over Europe and in another dominantly Christian places, including Australia and the US, and do not comply with our dressing rules, as they demand us to comply with theirs? It is difficult to recall an international conference on modern Christianity trends in Mecca. But why are we then financing their dangerous activities by literally paying for their welfare packages while they are regularly organizing their convents on terrorist practices as the recent one in June 2004 in London (the European Convention of the World Muslim Brotherhood)".*

GOVERNMENTS AS BANDITS' HOSTAGES

As bloody whirling of chopped heads pours out of our TV screens, bringing a nightmare into ordinary life of the victimized families for generations ahead, in a highly surprising way of an astonishing weakness one government after another has succumbed to the terrorists' demands. This is what professor of international law from highly respected Italian Center for Crises & Defense Studies told our magazine: "*Experts, political analysts and historians will spend a lot of time in the near future getting and placing together all facts surrounding massacre in Madrid in the spring 2004, followed by the election results, replacement of the government, immediate and the very first new left socialistic Spanish government decision to withdraw from Iraq. The question is, did that decision help to halt the terror? The answer screams out – very much on the contrary. Because celebrating such unbelievable victory, the bandits realized that they were able to dictate the governments! And they started to do it, one day after another. While Italy, Bulgaria, Japan and Australia mourn their people murdered in the most terrible way, there are more countries doing otherwise, e.g. Spain, Philippines, Morocco, Jordan, Bangladesh, Indonesia, Norway (no hostage yet, but troops are out anyway). Egypt and others are pulling out as if in a competition which would run out faster. Did it help to save the human lives? Not at all, it makes things much worse, because those animals, whose only desire now is to show to the civilized world that they can control it by most barbarian means, are getting thirsty for revenge. Can one imagine that such an endless feast of blood set on by barbarians would be possible and go on under Thatcher or Reagan governments? Not for a day",* the professor concluded.

Routine of terror has become so much of a "business as usual" type that people naturally have ceased to react to it as they should have to, i.e. with outrage, horror and the will to fight back. Do authorities help us sufficiently in confronting this cancer-like web of terror? Hardly so. Every week, if not more often, at different resorts world-wide, during the most populated summer holiday seasons, strange accidents started to occur, e.g. strange smoke blaze in the fashionable Turkish hotel, and another one in the calmest honey-mooners' paradise at the Maldives, the third one – in the most popular club in Antalya... These three serious accidents with several fatal outcomes and several tens wounded happened in a single week in July. And there are numerous episodes like these with less and less news coverage about it. Nobody wants to sow panic, nobody wants to talk endlessly about terrorism, and nobody wants to bring to the public "a depressive issue". Did such tactics help to stop terror from spreading? On the contrary, we enter airports under security guns and listen to music in concert halls with security dogs walking around, and buy food in super-markets, which are frequently evacuated due to the next bomb threat. Routine, routine...

When by acting or even in thoughts an idea of terror is becoming a routine, it means that a society is deeply sick because the basic instincts of human beings have been perverted. Fear is one of the basic instincts. To be shocked by terror, not to accept it for a moment, or to resist it is a normal human reaction. But to get used to terror and to succumb to it means returning to wild nature, in its literal meaning. Even when governments are unable to articulate the tasks and means for defence of its citizens and taxpayers, a person can still possess the ability to think, to analyse and to make conclusions. We are also able to tell our governments that "the ostrich politics" has never championed in fighting lethal threats. And such threats never disappear regardless of how long an ostrich keeps its head buried in sand... ■

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European Parliament: 2004 election results

by Dr. Eugene Eteris

Both in the old and the new EU member states European voters have already made history during June 2004 European Parliament elections. For the first time citizens in 25 European states voted for a common legislation body, the only directly elected institution in the Union. But despite increasing importance of the Parliament in passing laws that can greatly affect Europeans everyday life, turnout for elections has produced disastrous results. Some results of the new 2004 EP elections are going to be the theme for our discussion.

THE EP'S INVISIBLE ALTHOUGH NOT LESS IMPORTANT PART OF WORK

About 80 per cent of the legislation adopted in the EU for its 25 member states at present needs approval of the European Parliament (EP) and therefore the whole process demands intensive co-operation in decision making procedure. It would not be a great exaggeration to admit that the European Parliament has become more important in certain political and economic spheres then even national parliaments. Those days when the EP was just a consultative body in the Union are gone since the beginning of 1990s. But in most member states the European Union is approached as an external policy institution rather than an integral part of national decision making strategy. The trend still prevails to acknowledge the growing role of national parliaments in legislation, although most of the preparatory EU legislative work is done in Brussels and Strasbourg. But this part of politicians' work and that of the EP national members is often hidden from public attention and therefore less visible although it's not less important. In some member states, e.g. the UK members of the European Parliament are regarded as top politicians, in others, e.g. in Denmark almost the other way around.

EP'S WAY TO STRONGER POWER POSITIONS IN THE UNION

- 1979: first direct elections to the EP; due to its limited consultative functions it was coined as Mickey Mouse Parliament;
- 1986: with the adoption of the Single European Act, the co-operation procedure in decision-making was introduced in which the EP participated in legislation on Internal Market;
- 1991: with the adoption of Maastricht Treaty, for the first time the EP acquired legislative competence (co-decision together with the Council) on certain EU Internal Market issues;
- 1997: with the Amsterdam Treaty the EP enforced its influence in common legislative procedures spreading to about 40 specific spheres of the EU economic policies. The process was further on strengthened in Nice Treaty, 2000;
- 1999: for the first time the EP showed its influence in the EU political life forcing the Jacques Santer Commission to resign;
- June 2004: the EU 25 member states' leaders adopted new "Constitution for Europe" Treaty that provided for the EP legislative role in 81 EU economic spheres (the new treaty is still to be ratified by all 25 EU member states during 2005).

SOME FACTS ABOUT EP AND ELECTIONS

- Ten new flagpoles in front of the EP building in Strasbourg is the Polish government's donation; the Polish gift was accepted as a symbolic gesture as the poles were built at the shipyard in Stettin, the city which was regarded as the forerunner of the Eastern Communist states' crisis; Japan's cherry tries surrounding the EP building is another donation to the EU;
- With the new enlargement, the number of the EU official languages reached 21; very often it is quite difficult to find qualified interpreters from "specific" languages like Estonian or Latvian;
- Danish EP members' salary equals to that of the national MP's, i.e. about 42 thousand DKK, plus about 2 thousand DKK for each travel day; on top of this EP member (MEP) is allowed to hire an assistant for a monthly 92 thousand DKK taxable remuneration;
- The EP elections took place in all the 25 member states in three days from June 10 to 13;
- About 350 million people will take part to vote for 732 MEPs in the EP elections in 25 countries; 14.600 EP candidates have been chosen (35% women);
- In some EU member states the participation in the EP elections is compulsory, i.e. in Belgium, Greece and Luxembourg.

A SURPRISING REACTION FROM THE NEW EU MEMBERS

Recent elections have shown that both participation in the 2004 EP elections and peoples' interest in the Union's politics have been extremely poor. As if politicians have given up their efforts to convince the electorate to take part in "a project" called European cooperation. Peoples' participation in the EU elections was lowest in its electoral history, i.e. it ended up with 45% compared to 49% in previous so far lowest 1999 EP elections. In Denmark it went down to 47% compared to about 50% in 1999. It's the low participation in the new 10 members that produced generally low percentage for the whole EU-25 member states.

The lowest turn-out was, in fact, in Slovakia with 16.7% and Poland with 20.4% citizen's participation. In the ten new EU member states the voters' participation was, in average, the lowest in the whole Union — about 26.7%. In Czech Republic voters' turn-out was 26.9% and in Slovenia — 28.3%. Probably, Lithuanian participation was the highest in all the EU new-ten — 48.2%!

It seems somehow difficult to understand the greatest paradox connected to the EP elections: in the first place, about half a year ago population in the new member states seemed quite optimistic in joining the EU. For example the turn-out in Latvia during accession to the EU's referendum was about 73%. But then — extremely negative show-up in EP elections followed: does that mean that the member states already have received what they wanted, so why bother more!

The greatest "negative" factor influencing the EU new-ten's participation in elections was, probably, Western restrictions imposed on free movement of workers to the EU old-fifteen in the recent months.

How strange it appears on this background the highest turnouts that occurred in Luxembourg — 90%, Belgium — 90.8%, Malta — 82.4% and Italy — 73.5%!

But on top of all this anti-Union parties have acquired quite sufficient share of seats in the new EP. Thus, EU skeptics in Great Britain won about 20 seats out of 78 seats for the country; two seats out of total 14 went to EU skeptics in Denmark. In Poland and Czech Republic a good number of skeptics entered MEPs' ranks.

It seems that the general opinion about the EP 2004 results is such that it produced a serious warning to the Union's politicians about the next round of EU elections concerning a new Union Constitutional Treaty, which can occur quite soon. About seven EU member states have already acknowledged that they would go through a referendum in voting for the Constitution. And the Constitution will be regarded valid only if all 25 member states accepted the new EU basic law.

DANISH 2004 EP ELECTIONS' EXAMPLE

EP elections were organized in the country with about 5.4 million citizens (a little bit more than 4 million were eligible to vote) by the party list — there were 9 parties taking part in the elections, and by individual voting list for future MEPs. The party's list after the elections has acquired the following number of votes:

• Social Democrats	618 409	five MEP seats
• Liberal party (Venstre)	66 734	three
• Conservative People's party	214 902	one
• Anti EU party (JuniBeveagelsen)	171 927	one
• Socialist People's party	150 518	one
• Danish People's part	128 789	one
• Social Liberal party (Det Radicale Venstre)	120 473	one
• Anti EU party (Folkebeveagelsen mod EU)	97 986	one
• Christian Democrats	24 284	none

The MEP's mandates went to 8 Danish parties, except Christian Democrats, e.g. five seats to social democrats (although in opposition to the present liberal governing party), three seats — to the Liberal party, and one to each of the other 6 parties, that is *14 MEPs seats in total*. The unexpected victory in personal votes was gained by the former socialist Prime Minister **Poul Nyrup Rasmussen** — 407,966 votes or about 32.7% of the total votes. It was a sort of political record in European elections in Denmark since first elections in 1979; only conservative **Poul Schluter** received more votes in 1994 elections (247,956).

The "weight" of one mandate according to the votes given to politicians in the six parties was quite different: from 125,436 votes to **Gitte Seeberg** from Conservative People's party, to 75,363 to rather popular anti-Unionist MEP **Jens-Peter Bonde**, to 60,458 votes to social liberal **Anders Samuelsen** and to 34,719 votes to another anti-Unionist **Ole Krarup**.

It's interesting to mention the mandates' distribution within the biggest winning parties: the fourth and fifth mandates in social democrats' party went to MEPs members that got a little bit more than 10.5 thousand "personal" votes. In the Liberal party the first mandate got more than 91 thousand personal votes and the two others about 43 thousand and 44.5 thousand, correspondingly. Another thing to remember is that only about half of the eligible voters in Denmark went to the polls!

THE EP-2004 COMPOSITION: ON THE SAME TRACK

The general trend in the work and the composition of the parties' groups in the European Parliament has not changed much. The main "ruling" groups have retained their positions: about 37.7% of the total EP 732 members still belong to the European conservative parties — EPP-ED group (276 seats), about 27.3% — to the group of European social democratic parties — PES group (201 seats). About 9% of the seats in the new EP belong to the European liberal parties groups (66 seats). European environmentalists, anti-Union and other movements have occupied even less influential positions: GUE-NGL group — 39 seats, Greens-EFA group — 42 seats, UEN group — 27 seats, EDD group — 15 seats and the so-called independent MEPs — 66 seats. The latter MEPs' group is the most dynamic, i.e. they can join any of the major party groups according to the prevailing political trends and inclinations in EP's discussions. But still, generally speaking, the main line of divide in political combat in the EP would be between PES group with 201 members and EPP-ED group with 276 members.

On another side, it has to be admitted that on a pan-European dimension, these party groupings are rather awkwardly arranged. Thus, Christian Democrats, for example, unite British conservative Euroskeptics with German center-right European federalists, who have a diametrically opposite vision of EU integration.

In the new EU Baltic states the party affiliation seats have been distributed in the following way:

- In Estonia out of 6 seats for the country's MEPs one went to conservative group, 3 to social democrats and 2 to a liberal party group;
- In Latvia out of 9 country's MEPs seats four went to the UEN group (Union for Europe of nations), three to conservatives and one to each of the liberal and "green" party groups.
- In Lithuania out of the country's 13 seats 5 went to "independent" group, three to each of the conservatives and liberals, and 2 — to social democrats.

So, in total the three Baltic states have elected to the EP 7 conservative MEPs, 5 social democrats, 1 "green" MEP, 4 UEN members and 5 "independents". There is still room for cooperation among the Baltic MEPs and other European groupings!

THE EP — A FOCAL POINT FOR EUROPEAN BUSINESSMEN'S ACTIVITY

Lobbyists and lawyers long ago understood the EP's importance for business activity and have flooded both Brussels and Strasbourg in order to exert influence on the future EU laws and regulations. In recent years the EP has become increasingly important as a Union institution adopting laws that very often surpass lawmakers' work in national parliaments. During last 5 years in action since 1999 the EP adopted more than 400 laws related to various spheres of EU economic and social life. At one of the last EP sessions the MEPs made about 1,340 amendments to legal drafts about 80% of which ended up in final laws' formulation. The spheres where EP share legislative powers with the European Council of Ministers are: Common Market and environmental issues, EU budget formation, EU science and research activity, consumers' protection, health and education issues, and culture. The main idea behind lobbyists' activities is to provide an additional expert assistance to MEPs that are often not very keen in specific issues under discussion in the EP.

Growing EP's legislative influence makes the Parliament activities an important place for lobbyists' attention. There are already about 15 thousand consultants involved in certain lobbyist activities and 2,600 interest-groups working "around in the EU institutions". In total, there are 4,600 accredited lobbyists in the EP and about a thousand accredited journalists.

The lobbyists are distributed according to the spheres of interest in the following way:

- Employers' associations — 33%;
- Consultants for various firms and companies — 20%;
- European NGO's (environment, health, civil rights, etc.) — 10%;
- National business organizations — about 10%;
- National employees' organizations — about 10%;
- Member states' regional representations — about 5%;
- International organizations — 5%;
- "Think-tanks" groups — about 1%;
- Other organizations and bodies — about 6%.

Lobbyists in Brussels have their own organization — Society of European Affairs Professionals — with its own rules of ethics and behavior (see: www.seapweb.agepnet.com). ■

European company: from myth to reality

by Dr. Eugene Eteris

It was every businessman's dream to be able to function freely within the European Union territory avoiding all the irregularities of separate member states' corporate regulations. For the EU authorities, it was a long way to go. At last, it seems, the dream slowly comes to reality.

EU INDUSTRIAL POLICY DIRECTIONS AND CORPORATE UNIFICATION

The early 1950s founding Communities' treaties regulated mostly attainment of the customs union and actually made no references to industrial policy. "Founding fathers" thought that trade liberalization and competition regulation would almost automatically bring about the structural changes needed for common industrial policy. But this hope did not come true because of various technical obstacles to trade and far from perfect at that time existing competition regulations.

The Maastricht Treaty of 1992 for the first time stated that industrial competitiveness was to become one of the European integration objectives. And a special chapter on industry was introduced into the TEU. Thus, industry performance was tied to business activity.

We can safely assume that due to the absence of the EU structural policy, industrial sector lacked the desired integration. That's still an unsolved issue even in the text of the EU draft constitution which, in fact, almost copied in art. III-180 the wording of the EU consolidated treaty art. 157. More than that, the draft has still put industry's issues within the areas where the Union may take only co-ordinating, complementary or supporting actions.

The main issue of concern for the EU industrial policy is "*...to ensure that the conditions necessary for the competitiveness of the Union's industry exist*" (part 1, art. 157 and art. 180). Based on the Union legislation, we can say that the Union and the member states' "industrial policy actions" are aimed at:

- Speeding up the adjustment of industry to structural changes;
- Providing favourable climate for undertakings' initiative and development in the EU, in particular for the medium-sized companies;
- Providing favourable conditions for cooperation between undertakings;
- Fostering better exploitation of industrial potentials within innovation and research development.

The Treaties form the legal basis for the EU actions in industrial policy, in fact, in order to achieve the above mentioned aims. The following means are used:

- Mutual consultations among the EU member states and, where necessary, the co-ordination of their actions (with the initiative and assistance from the Commission);
- Industrial policy co-ordination with other Union's policies and activities;
- Any specific measures in support of actions taken by the member states, approved by the Council acting unanimously on a proposal from the Commission (the European Parliament and Economic and Social Committee taking active part).

CORPORATE UNIFICATION

Very often the EU corporate unification is called "the EU enterprise policy." Consolidated treaty (art. 180 and 157), as well as the Constitution's draft, state that the EU and member states shall encourage "*an environment favourable to initiative and to the development of undertakings through the Community, particularly small and medium-sized undertakings*." The latter are generally called SMEs, and form the background of the EU enterprise policy. Various approaches to SMEs' definition need some clarification.

Since the end of the 1960s the entire EU policies used an adopted recommendation on the SMEs definition. In general terms, a SME is an undertaking with fewer than 250 employees in not more than one company. With this definition, the 15 EU member states have about 17 million SMEs, providing over 70% of its employment, accounting for 50% of investment and representing 60% of its wealth (See: N. Moussis' Guide to European Policies, 6th edition, 2000, p. 268).

There is a more specific approach to enterprises called a "medium sized" SME which is an undertaking with the number of workers from 50 to 250, an annual turnover under 40 million euros and/or annual balance sheet not exceeding 27 million euros. And a "small firm" SME or a small enterprise must have fewer than 50 employees, an annual turnover not exceeding 7 million euros and/or annual balance sheet total not exceeding 5 million euros. Very often undertakings with fewer than 10 employees are considered in the Union documents as "very small individual or small private enterprises."

Since 1990, there have been several multi-annual programs for unification of SMEs activities in the EU. One of it, i.e. the 3rd multi-annual program (1997-2000) adopted the concept of integrated SMEs and craft sector's development strategy. Three main types of actions had been envisaged:

- Concerted EU and member states' actions concerning better SMEs access to information technologies and new management techniques;
- General increase in the EU aid measures for SMEs;
- Additional measures, e.g. simpler legislation for the internal market (SLIM), loan guarantees for employment (ELISE), support for international co-operation, etc.

SMES VIA RESEARCH AND INNOVATION PROGRAMS

As soon as great attention was paid to the connecting links between SMEs and innovations, the EU launched the 6th Framework Program for Research (FP 6) for 2002-2006. The new concept of European Research Area (ERA) has been introduced with the aim of giving the EU a genuinely common research strategy – to be thought of in the same way as the single market or the common currency. ERA could in theory unify and develop Europe's scientific and technical progress allowing it to compete with the USA and Japan. SMEs are likely to be allocated some 2 billion euros, or 15% of the FP 6 budget, compared to 10% under the previous program.

Further information on the subject can be obtained at: http://sme.cordis.lu/home/index.cfm.

See also: Research and SME Unit, European Commission, Research DG in Brussels; e-mail: research-sme@cec.eu.int.

There is a special body in the European Commission on these issues, i.e. European Research Advisory Board – EURAB. There also are Euro Info Centers and National Contact Points for SMEs assistance in all the EU member states.

LEGAL ASPECTS OF CORPORATE UNIFICATION IN THE EU

Two major items, among some others, are important here, i.e. company/corporate legislation and corporate accounting. These issues are closely connected with such fundamental and basic EU harmonisation efforts as corporate mobility in the Union (creation of a European Company or the European Economic Interest Grouping – EEIG), the stimulation of co-operation between firms across frontiers and facilitation of cross-border mergers, establishments and acquisitions.

FREEDOM OF ESTABLISHMENT AND FORMS OF BUSINESS IN THE EU

Freedom of establishment includes the right to take up and pursue activities as self-employed persons and to set up companies in other EU states under the conditions laid down for its own nationals. The right of residence is certified, for those concerned, by a residence permit for a national of a EU member state issued by the authorities of the country of residence on presentation (by the interested party) of an identity card or a passport.

S. Tyulenev, Chas

There are still plenty of economic and legal problems concerning establishment, as well as conflicts between various national measures in the EU member states. In November 2002, a special expert group, under the direction of the EU Commissioner for internal market **Friits Bolkestein**, produced a report on corporate unification which eventually would lead to certain EU directives with the aim of enhancing business co-operation among EU member states.

a) European Economic Interest Grouping – EEIG. During about 20 years, mostly in the period of 1978 -1998, several EU Council Directions, exploring the ideas and purposes of TEU art. 44.2, have been adopted, trying to pave the way for co-ordination of member states' company laws concerning right of establishment. Adequate co-operation between undertakings from different EU countries was created in 1985 by a Council Regulation 2137/85 on "European Economic Interest Grouping – EEIG". This Regulation contains the EEIG's Statute. In the recently adopted draft for European Constitution (June, 2004), these requirements have been retained in art. III-23.2.

In its essence, the EEIG is a hybrid legal instrument offering flexibility of a contract and some advantages of company status. Each EEIG's member remains entirely autonomous both in economic and legal terms and serves, by virtue of pooled actions, as an instrument of "co-ordinated market integration" among corporate entities. EEIG's European network is run by the Commission – named REGIE**.** About a thousand EEIGs have been created in the EU since 1985, more than 800 in the first eight years.

The EEIG creation was not, in fact, anything new, i.e. the whole idea was emulated from a French version of Groupement europeen d'interet economique – GEIF, the model which can be created by two or more firms with the aim of pooling up resources and know-how. But it should be distinguished from a join venture or a holding company. The EEIG is not subject to taxation as the EEIG members' financial obligations are taxed according to their national jurisdiction.

b) European Company (or European stock company) is another means of corporate unification in the EU. If two EU companies wish to merge, there are two options, e.g. "regular fusion", if the companies are registered in the same country, or creation of a European Company – EC, if they presently represent different EU states. The EC Statute (Council Regulation 2157/2001 and Council Directive 2001/86) will most probably take effect in October 2004, after more then 30 years of elaboration.

Such company's initial capital shall not be, generally, less that 120,000 euros (the Danish national limit for private stock companies is about 17,500 euros). The EC's statute would be provided to undertakings that wish to be represented in the "whole Union as a legal entity". The new Directive's draft (January 2004) as well explores opportunities for the EU companies to merge without establishing an EC.

Due to its initial Latin title, i.e. Societas Europaea – SE, the newly created undertaking has to bear in its name this abbreviation. Such SEs can move "over EU internal borders" without following national corporate rules in the member states. But they have to be duly registered in one of the EU member states.

It is important to note that member states have to adopt the directive and make it a national law. For example, the Danish parliament had such discussion at the end of February 2004. This was done because some countries, e.g. Denmark, Sweden or the United Kingdom have some reservations as to particular instances concerning SEs. Thus, as it concerns initial capital for SE's establishment, it requires 120,000 euros. But for Denmark the required amount was reduced to about 70,000 euros, as is the rule for national public stock companies – PSC. And consequently, SEs registered in Denmark shall follow the rules applicable for such PSC's valid for them in the country of registration.

There are still some controversial issues to be cleared out on the way to "European company", such as employees' participation in the SE's decision-making. At least 25% of SE's workers have to participate in taking decisions if the SE is established as a holding and/or daughter company. But not all the EU member states do accept this requirement

Information on the draft of the European Company legislation can be found at: http://europa.eu.int/eur-lex/da/com/pdf/2003/com2003_0703da01.pdf.

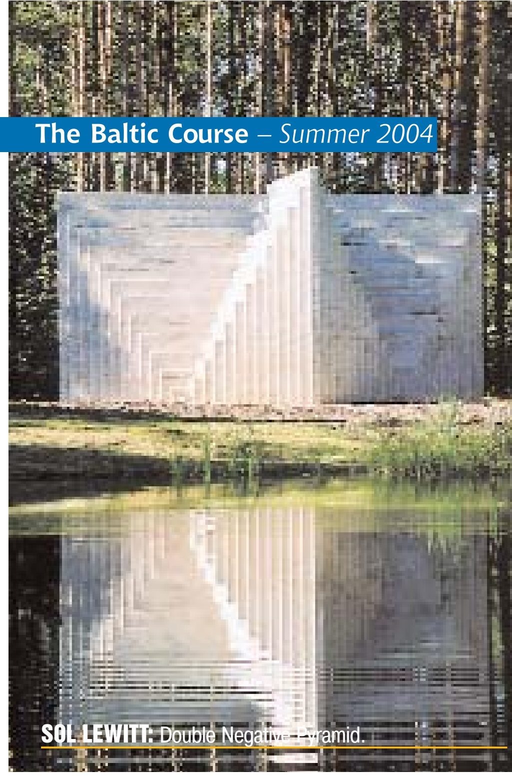
c) Another issue in the EU corporate development is corporate taxation. Situation is such that new member states, as a rule, have lower corporate taxation level then the old EU members.

Level of corporate taxation in the new EU member states from Central and Eastern Europe: Lithuania – 15%; Hungary – 18%; Latvia – 19%; Slovenia and Slovakia – 25%; Estonia – 26%; Poland – 27%.

In comparison to this, the taxation level for corporate entities in the USA is 40%, in Germany – 39.6% and in France – 34.3%, in Denmark – 30% (in fact, the level of taxation in Denmark is even less, practically around 28%).

France and Germany have suggested creating a minimum corporate taxation level in the EU, similar to the threshold of 15% for VAT already adopted in the Union. ■

GINTARAS KAROSAS: LNK Infotree.



SOL LEWITT: Double Negative Pyramid.

See you in the Centre of Europe!

by Laura Saulite

Believe it or not, but it's just twenty-minute's drive from Vilnius downtown to the geographical centre of the European continent. There is no joke about this assertion as both the place and the scientific fact have been recently confirmed by the French National Geographic Institute.

In order to mark the unique location, a park was organised around the place in 1991 on the initiative of Lithuanian sculptor **Gintaras Karosas**. Since then it has become an open-air museum of modern art. About a hundred pieces of art-works made by the most famous sculptors from Armenia, Belarus, France, Canada, Finland, Germany, Mexico, Greece, Moldova, Russia, etc. have been displayed in the park's territory covering 55 hectares.

The feeling that you find yourself just in the very centre of Europe is amplified when you approach a monument holding the same title and in which G.Karosas had written directions and distances from the centre of Europe to almost every European capital.

Each year in July sculptors from various countries gather here for a creative workshop dedicating afterwards their sculptures to "the European park". Artists use for their creative works all possible combinations of stone, plaster, metal, wood and other materials. They have been created by the most renowned modern masters, such as **Sol LeWitt**, **Magadalena Abakanowicz**, **Dennis Oppenheim**, **Makoto Ito** and others; and these sculptures perfectly fit into the surrounding forest's landscape.

Actually it doesn't matter much whether you arrive at this Lithuanian tourist attraction in summer or in winter as the park is interesting to visit at any season. I happened to see it for the first time when snow was all over the place. The giant "Chair-Pool" monument by D.Oppenheim (USA), "Woman Looking at the Moon" by J.Cruz (Mexico), "The Space of an Unknown Growth" by M.Abakanowicz (Poland), and "Snail" by M.Ito (Japan) were all covered by snow. The impression was great! Or take another park's celebrity, i.e. the absurd, 700-meters long labyrinth made of 3,000 TV sets which its author Gintaras Karosas has named "LNK Infotree"! It was included into the Guinness World Records' Book as the biggest sculpture in the world. It is very impressive not only for its sheer size but for the author's grotesque intention as well.

You can reach the park only by car, but it's well worth it. And then you can fully enjoy the exhibition by walking around until late in the evening. You can get a warm lunch after a long walk through snow in winter time at the cosy little restaurant or enjoy your coffee at a summer terrace under apple trees if you come at a warmer time of the year. ■

DENNIS OPPENHEIM: Chair-Pool.

All photos – by the Museum of the European Centre

GINTARAS KAROSAS: Symbol of the European Centre.

EXHIBITION IS DEDICATED TO THE 210th ANNIVERSARY OF ODESSA

THE SIXTH INTERNATIONAL EXHIBITION-SYMPOSIUM ON SHIPPING, SHIPBUILDING, PORTS DEVELOPMENT AND TRADE

ODESSA 210

10th ANNIVERSARY OF THE EXHIBITION

2nd-5th SEPTEMBER, 2004

VANUE : ODESSA, MARINE TERMINAL

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Ministry of the Transport of Ukraine

Euro-Asian Transport Union

Innovation Norway Royal Norwegian Embassy

Black Sea Region Association of Shipbuilders and Shiprepairers

BINSA Black Sea International Shipowners Association

Association of the Shipbuilders of Ukraine

Association of the Ports УКРПОРТ

Association of International Freight Forwarders of Ukraine

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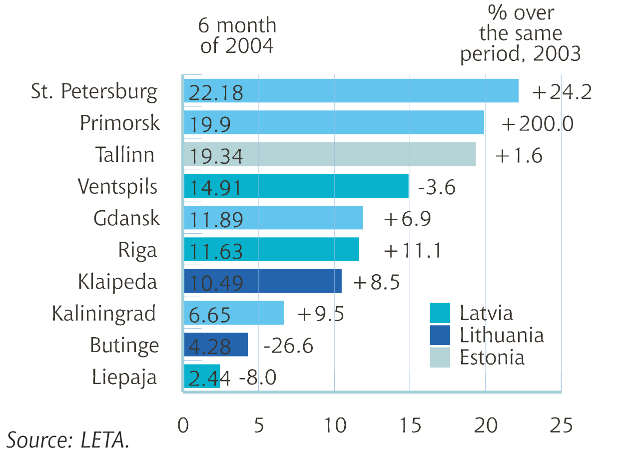
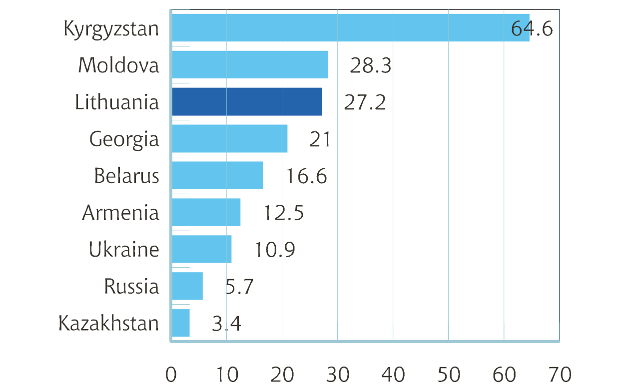
CARGO TURNOVER IN THE BALTIC PORTS, MLN T



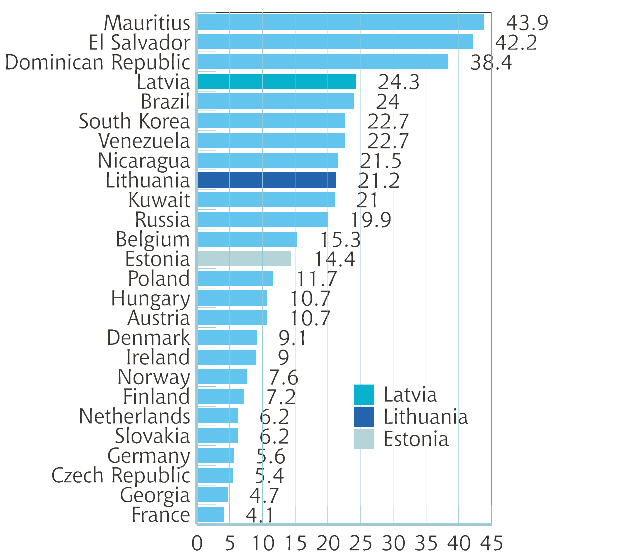
Source: LETA.

SHARE OF RAILWAY CARGO TRANSIT IN TURNOVER BY COUNTRY, JAN-MAY 2004, %



Source: ELTA.

COUNTRIES WITH HIGHEST ROAD ACCIDENT MORTALITY RATES (PER 100,000 CAPITA)



Source: The World Health Organization and the World Bank.

ASSETS OF BALTIC COMMERCIAL BANKS*

	Total	Latvia	Lithuania	Estonia
Q1 2004, b EUR	22.27	9.02	6.64	6.61
% against Dec. 2003	+3.7	+1.8	+5.2	+4.9
% of total assets, Q1 2004		40.5	29.8	29.7

** Latvia has 22 commercial banks and one foreign bank branch, Lithuania 10 banks and 2 foreign bank branches and Estonia six banks and one foreign bank branch.*

Source: Latvijas Unibanka.

FOREIGN DIRECT INVESTMENTS (FDI)

	Latvia	Lithuania	Estonia
Accumulated FDI:			
Total, mln EUR			
Q4 2003	2665.0	3968.0	5130.0
Q4 2002	2679.0	3818.0	4035.0
per capita, EUR			
Q4 2003	1149.0	1151.0	3783.0
Q4 2002	1149.0	1103.0	2964.0
Received over the period, mln EUR			
mln EUR			
Q4 2003	77.0	97.0	109.0
Q4 2002	41.0	188.0	67.0
% against GDP			
Q4 2003	2.9	2.2	5.6
Q4 2002	1.6	4.7	3.6

Source: Latvian Central Statistics Office.

FOREIGN TRADE, Q1 2004, MLN EUR

	Latvia	Lithuania	Estonia
Export (FOB):			
Total	680.0	1599.0	1074.0
To the EU	413.0	686.0	731.0
% of total	61.0	43.0	68.0
Import (CIF):			
Total	1178.0	2112.0	1456.0
From the EU	572.0	864.0	749.0
% of total	49	41.0	52.0
Foreign trade balance	-498.0	-513.0	-382.0

Source: Latvian Central Statistics Office.

PRICES FOR FOOD AND SERVICES, APRIL 2004, EUR PER KG

	Latvia	Lithuania	Estonia
Beef	2.45	2.20	2.58
Pork	2.57	2.43	3.21
Chicken	1.98	1.58	2.39
Butter	2.92	3.40	3.36
Milk 2.5% fat	0.46	0.47	0.45
Eggs (10)	0.93	0.76	0.91
Brown bread	0.67	0.62	0.80
White bread	0.82	0.81	0.91
Sugar	1.00	0.94	0.46
Potatoes	0.21	0.19	0.34
Vodka 40° (per litre)	7.98	6.96	8.36
Gasoline A-95 (per litre)	0.64	0.73	0.62
Electricity (per 100 kWh)	6.85	8.40	7.00

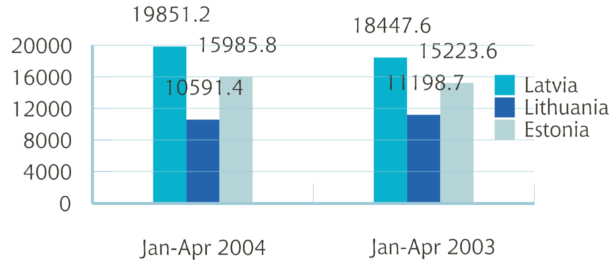
Source: Latvian Central Statistics Office.

WAGES, EUR

	Latvia	Lithuania	Estonia
Monthly average, Q1 2004			
Net	208.0	241.3	336.0
Gross	292.0	331.9	431.0
% against Q1 2003	110.8	101.8	106.5
Minimum wage, April 2004	**122.0**	**130.3**	**158.5**
% against April 2003	114.3	104.7	114.8
Old age pension, monthly average, Q4 2003	**102.0**	**100.0**	**131.0**
% against Q4 2002	104.9	106.1	111.5

Source: Latvian Central Statistics Office.

INCOMING AND OUTGOING CARGO SENT THROUGH BALTIC PORTS, THOUS T



Source: Latvian Central Statistics Office.

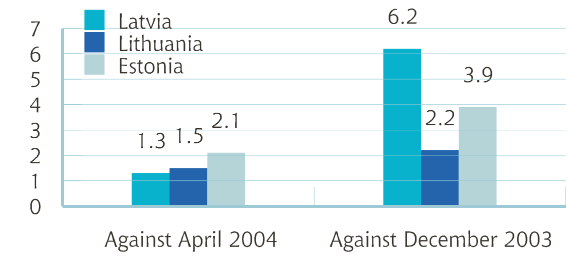
DEMOCRATIC MATURITY RATINGS OF POST-COMMUNIST COUNTRIES

№	Country	Rating*	№	Country	Rating*
	Consolidated democracy			Transitional government or hybrid regime	
1	Poland	1.75			
2	Slovenia	1.75	14	Macedonia	4.00
3	Estonia	1.92	15	Albania	4.13
4	Hungary	1.96	16	Bosnia	4.29
5	Slovakia	2.08	17	Georgia	4.83
6	Lithuania	2.13	18	Ukraine	4.88
7	Latvia	2.17	19	Moldova	4.88
8	Czech Republic	2.33		Semi-cons. author. regime	
	Semi-consolidated democracy		20	Armenia	5.00
9	Bulgaria	3.25	21	Russia	5.25
10	Romania	3.58	22	Kosovo	5.50
11	Croatia	3.83	23	Azerbaijan	5.63
12	Montenegro	3.83	24	Kyrgyzstan	5.67
13	Serbia	3.83	25	Tajikistan	5.71
	Consolidated authoritarian regime				
26	Kazakhstan	6.25	28	Belarus	6.54
27	Uzbekistan	6.46	29	Turkmenistan	6.88

* *1 point – highest mark, 7 points - lowest mark.*

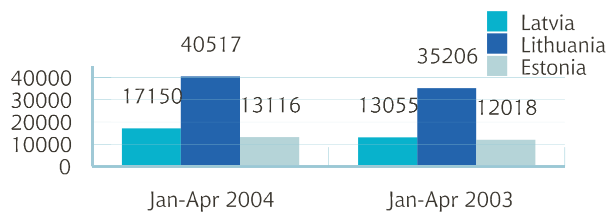
Source: Freedom House.

INFLATION, MAY 2004, %



Source: LETA.

NUMBER OF PASSENGER CARS REGISTERED FOR THE FIRST TIME



Source: Latvian Central Statistics Office.

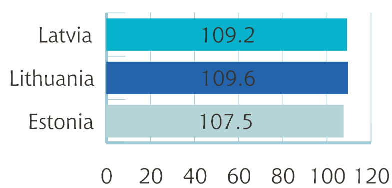
LITHUANIAN MOBILE COMMUNICATIONS MARKET

Number of subscribers	Total, mln	Omnitel	Tele 2	Bite GSM	Eurocom, Laracijos teelkomunikacijos, Teledema, AKN*
As of Jan. 1, 2004	2.169	48.51%	27.38%	23.38%	0.82%
End of March 2004	2.505	-	-	-	-
May 2004	-	1.12 mln.	(est.) over 700,000	over 700,000	-

* *All companies offer their services in Bite GSM network.*

Source: BNS, LETA.

TOTAL INDUSTRIAL OUTPUT (IN CONSTANT PRICES), Q1 2004



Source: Latvian Central Statistics Office.

LATVIAN MOBILE AND FIXED-LINE TELECOMMUNICATIONS MARKET

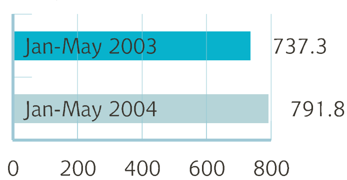
Number of subscribers	Total, fixed-line	Lattelekom	Total, mobile	LMT	Tele 2
As of Jan. 1,2004	662,000*	653,853	1.217 mln**	609,011	-
Market share	-	-	100%	31%	33.5%

* *Number of subscribers down 5.6% from last year.*

** *Number of subscribers increased 32.7% from last year.*

Source: LETA.

RAILWAY CARGO TRANSIT THROUGH THE BALTIC STATES AND CIS, MLN T



Source: ELTA.

International exhibitions and conferences in 2004
in which БК/BC is supposed to participate

Name		Place	Date
ODESSA 210: Ship Navigation, Shipbuilding, Port Development and Commerce	E	Odessa, Ukraine	02.09 – 05.09
Baltic Textile and Leather 2004	E	Vilnius, Lithuania	08.09 – 10.09
BALTEXPO 2004: International Maritime Exhibition	E	Gdansk, Poland	07.09 – 10.09
6th Baltic Sea Region Communications Forum	F	Riga, Latvia	20.09 – 21.09
60th International Motor Show Commercial Vehicles	E	Hannover, Germany	23.09 – 30.09
International Investors Fair	E	Dusseldorf, Germany	23.09 – 25.09
OIL & GAS 2004: 9th Exhibition for the Oil and Gas Production	E, C	Warsaw, Poland	22.09 – 24.09
Transport & Logistics 2004	E	Kiev, Ukraine	05.10 – 08.10
KIOGE 2004: Oil & Gas	E, C	Almaty, Kazakhstan	05.10 – 08.10
EXPO REAL 2004	E	Munich, Germany	04.10 – 06.10
CITY. REAL ESTATE. INVESTMENTS 2004	E	Vilnius, Lithuania	07.10 – 09.10
5th International Conference "The Future of the Baltic Ports"	F	Saint Petersburg, Russia	11.10 – 12.10
Transtec-2004: 7th Transport Exhibition and Conference	E, C	Saint Petersburg, Russia	12.10 – 15.10
WAREHOUSE. TRANSPORT. LOGISTIC.	E	Moscow, Russia	18.10 – 22.10
The Future of Construction: quality, safety, ecology	C	Riga, Latvia	22.10
10th Banking and Finance in the Baltics 2004	E, C	Riga, Latvia	25.10 – 26.10
European Banking & Insurance Fair 2004	E, C	Frankfurt, Germany	25.10 – 27.10
INFOBALT 2004	E	Vilnius, Lithuania	27.10 – 30.10
DKM 2004: International Trade Fair for Finance and Insurance Companies	F	Dortmund, Germany	26.10 – 28.10
POWER KAZAKHSTAN 2004	E, C	Almaty, Kazakhstan	03.11 – 05.11
To Brand or not to Brand in Europe	C	Riga, Latvia	15.11 – 16.11
Intermodal Transport & Logistics 2004	E, C	Rotterdam, Netherlands	November
"Российские железные дороги" на рынке транспортных услуг: взаимодействие и партнерство	C	Saint Petersburg, Russia	14.11
EXPONET 2004: International Trade Fair and Convention for Networking Technology, Enterprise Computing, Internet and Telecommunication	E	Koeln, Germany	16.11 – 18.11
Baltic Industry 2004	E	Riga, Latvia	03.11 – 06.11
Maritima 2004: Maritime exhibition for professionals of transport business	E	Paris, France	08.12 – 11.12
NewCome 2004: Trade fair and congress for young companies, enterprise establishments, franchising and freelancers	E	Stuttgart, Germany	03.12 – 04.12
Audit, Taxes & Accounting 2004	C	Riga, Latvia	10.12

E – exhibition, C – conference, F – forum